REPORT OF
MARKET CONDUCT EXAMINATION
OF

MEDAMERICA INSURANCE COMPANY
Pittsburgh, Pennsylvania

AS OF
September 22, 2008

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: October 23, 2008

MEDAMERICA INSURANCE COMPANY

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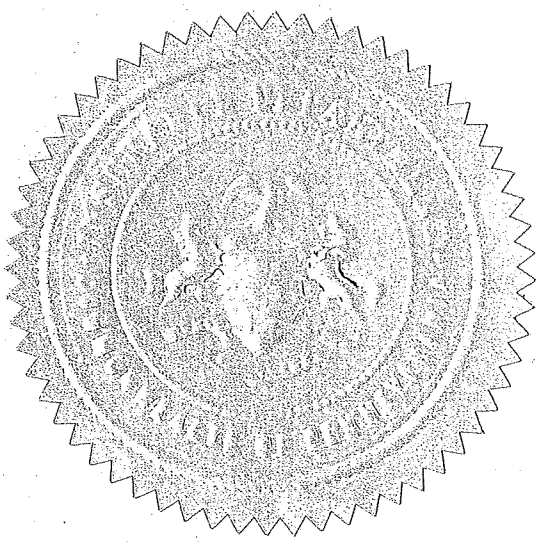
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Joel S. Ario
Insurance Commissioner

MedAmerica Insurance Company
Market Conduct Examination as of the
close of business on May 9, 2008

Docket No.
MC08-10-020

ORDER

A market conduct examination of MedAmerica Insurance Company (referred to herein as "Respondent") was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, et seq., for the period July 1, 2006 through June 30, 2007. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.

2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with the recommendation contained in the attached Report.

4. Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth
of Pennsylvania

(23 OCT, 2008)
Ronald A. Gallagher
Deputy Insurance Commissioner

I. INTRODUCTION

The Market Conduct Examination was conducted on MedAmerica Insurance Company; hereafter referred to as "Company," at the Company's office located in Rochester, New York, April 15, 2008, through May 9, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

The undersigned participated in the Examination and in the preparation of this Report.

Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief

Frank W. Kyazze, AIE, FLMI, ALHC
Market Conduct Examiner

Verification

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

Frank W. Kyazze, AIE, ALHC, FLMI
[Examiner in Charge]

Sworn to and Subscribed Before me

This 4 Day of September, 2008

Theresa M. Seneca
Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2006, through June 30, 2007, unless otherwise noted. The purpose of the examination was to ensure compliance primarily in the Long Term Care (LTC) market.

The examination focused on the Company's operation in areas such as: Advertising, Consumer Complaints, Forms, Underwriting Practices and Procedures and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

In 1995, Blue Cross Blue Shield of the Rochester Area (BCBSRA) purchased Trans General Life Insurance Company (a common stock company incorporated in 1966 in the state of Maryland) as a way to facilitate its expansion into the long-term care insurance market nationwide. The Company's name was changed to MedAmerica Insurance Company at the time of the sale. The Company was later re-domesticated to Pennsylvania in 1998.

As part of the sale, BCBSRA acquired the long-term care insurance policies written and also any approved product by Trans General Life Insurance Company. The book of business purchased consisted of 440 policies written in 4 states, with approved policy forms in 7 additional states. All Certificates of Authority allowing the Company to act as an insurer in the issuing state were carried over in the sale.

To date, MedAmerica is licensed in 48 states and the District of Columbia and has approved products in each. The Company has a sister Company authorized as an insurer in the state of New York, and a subsidiary authorized in the state of Florida.

As of December 31, 2006, the Company had in place 39,146 policies nationwide, resulting in $51,621,248, in direct premiums. The Company also reinsures business for over 40 different carriers, contributing $59,580,419, more in premiums from 50,471 policies.

As of the Company's December 31, 2006, annual statement for Pennsylvania, MedAmerica Insurance Company reported long term care insurance premium considerations in the amount of $2,041,532.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that "Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department." The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide a copy of the advertising certificate of compliance as required by Title 31, Pennsylvania Code, Section 51.5. The following violation was noted:

1 Violation - Insurance Department Title 31, Pennsylvania Code, Section 51.5 Certificate of Compliance

A company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, information and belief the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth.

The Company did not provide the required advertising certificate of compliance.

V. FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law, Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud notice. No violations were noted.

VI. PRODUCER LICENSING

The Company was requested to provide a list of all producers active and terminated during the experience period. Section 671-A (40 P.S. §310.71) of the Insurance Department Act prohibits producers from doing business on behalf of or as a representative of any entity without a written appointment from that entity. Section 641.1-A (40 P.S. §310.41a) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. Section 671.1-A (40 P.S. §310.71a) of the Insurance Department Act requires the Company to report all producer terminations to the Department.

The Company provided a list of 251 active and terminated producers. A random sample of 50 producers was requested, received and reviewed. The sample list was compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on producers identified on applications reviewed in the policy issued sections of the exam.

No violations were noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2003, 2004, 2005 and 2006. The Company did not report any consumer complaints during the experience period. The Company did not provide any of the complaint logs requested because no complaints were filed for 2003, 2004, 2005 and 2006.

Where applicable, the complaint files and the 4 years of complaint logs are reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices.

No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in five (5) general segments.

A. Underwriting Guidelines
B. Group Long Term Care Certificates Issued
C. Individual Long Term Care Policies Issued
D. Individual Long Term Care Policies Terminated
E. Individual Long Term Care Facility Policies Terminated

Each segment was reviewed for compliance with underwriting practices and included forms identification and producer identification. Issues relating to forms or licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines, manuals, bulletins and declination procedures for all individual and group products solicited or sold during the experience period. The Company was also requested to provide a narrative statement explaining internal control methods or systems used to control and assure compliance with underwriting guidelines and proper rating. In addition, the Company was requested to provide an explanation of any self-auditing or membership in any "best practices organizations", such as Insurance Marketplace Standards Association (IMSA). The underwriting guidelines provided were reviewed to ensure that underwriting guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place that could be

considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following documents and guidelines were provided for review:

1. Long Term Care Insurance Agent Underwriting Guide
2. Agent Underwriting Guide
3. Underwriting Bulletins
4. Agent Technical Bulletins
5. Administrative Guide – Administrative Procedures
6. Narrative Statement Explaining Internal Control Methods or Systems
7. Munich American Reassurance Company Underwriting Audit Report

B. Group Long Term Care Certificates Issued

The Company was requested to provide a list of all group long term care certificate holders enrolled during the experience period. The Company provided a list of 6 certificate holders. All 6 certificate holder files were requested, received and reviewed. The files were reviewed to ensure compliance with issuance statues and regulations as well as Title 18, Pennsylvania Consolidated Statutes, Section 4117(k). The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 89a.106

(a) Each insurer offering long-term care insurance shall, as a protection against unintentional lapse, comply with the following conditions:

(1) Notice before lapse or termination. An individual long-term care policy or certificate may not be issued until the insurer has received from the applicant either a written designation of at least one person, in addition to the applicant, who is to receive notice of lapse or termination of the policy or certificate for nonpayment of

premium, or a written waiver dated and signed by the applicant electing not to designate additional persons to receive notice. The applicant has the right to designate at least one person who is to receive the notice of termination, in addition to the insured. Designation may not constitute acceptance of liability on the third party for services provided to the insured. The form used for the written designation must provide space clearly designated for listing at least one person. The designation shall include each person's full name and home address. In the case of an applicant who elects not to designate an additional person, the waiver shall state: "Protection against unintended lapse. I understand that I have the right to designate at least one person other than myself to receive notice of lapse or termination of this long-term care insurance policy for nonpayment of premium. I understand that notice will not be given until 30 days after a premium is due and unpaid. I elect not to designate a person to receive this notice." The insured shall be able to change the written designation at any time. The insurer shall notify the insured of the right to change this written designation, at least once every 2 years.

The protection against unintended lapse section on the application was not completed in the file noted.

C. Individual Long Term Care Policies Issued

The Company identified a universe of 157 individual long term care policies issued during the experience period. A random sample of 25 policy files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

D. Individual Long Term Care Policies Terminated

The Company was requested to identify all individual long term care policies terminated during the experience period. The Company identified 81 policies terminated. A random sample of 25 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and the proper return of any unearned premiums. No violations were noted.

E. Individual Long Term Care Facility Policies Terminated

The Company was requested to identify all individual long term care policies terminated during the experience period. The Company identified 8 individual long term care facility policies terminated. All 8 policy files were requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

IX. LONG TERM CARE ANNUAL REPORTING

The Company was requested to provide copies of their latest annual Long Term Care Reports as required to be submitted to the Pennsylvania Insurance Department. The Company provided copies of the following reports:

1. Replacement/Lapse Report
2. Claims Denied Report
3. Suitability Report

The Reports were reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 89a.114. No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period.

The Company provided the following claim manuals:

1. Policies – The Basis For Payment
2. LTC Claim Narrative
3. Premium Waiver Procedure
4. Claim Payments Over $10,000
5. Authorization For Alternative Care Benefit
6. Flow/Process for Daily Incoming Claim Invoices & Claim Papers
7. Initial Request For Benefits
8. Ongoing Request For Benefits

The claim manuals and procedures were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The claim file review consisted of 2 areas:

A. Long Term Care Claims Denied
B. Long Term Care Claims Paid

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171) and Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

A. Long Term Care Claims Denied

The Company was requested to provide a list of long term care claims denied during the experience period. The Company identified a universe of 30 denied claims. All 30 long term care denied claim files were requested, received and reviewed. The files were reviewed to ensure that the Company's claims adjudication process was adhering to the provisions of the policy contract and complying with pertinent state laws and regulations. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated.

The Company failed to acknowledge the 2 claim files noted within 10 working days.

2 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

The Company failed to provide notice of acceptance or denial within 15 working days in the 2 claim files noted.

B. Long Term Care Claims Paid

The Company was requested to provide a list of long term care claims received during the experience period. The Company identified a universe of 426 claims. A random sample of 44 claim files was requested, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, and Chapter 146. The following violations were noted:

8 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated.

The Company failed to acknowledge the 8 claims noted within 10 working days.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected.

The Company failed to provide a status letter in the claim noted.

3 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

The Company failed to provide notice of acceptance or denial within 15 working days in the 3 claims noted.

XI. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other violations, noted in the Report.

1. The Company must review and revise internal control procedures to ensure compliance with the filing, suitability and disclosure requirements of Title 31, Pennsylvania Code, Chapter 89a. Long-Term Care Model Regulation

2. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

3. The Company must implement procedures to ensure advertising certification requirements of Title 31, Pennsylvania Code, Chapter 51.

XII. COMPANY RESPONSE

MEDAmerica
An Excellus Company

MedAmerica Insurance Company
Home Office: Pittsburgh, PA

MedAmerica Insurance Company of New York
Home Office: Rochester, NY

MedAmerica Insurance Company of Florida
Home Office: Winter Park, FL

October 21, 2008

Mr. Daniel A. Stemcosky, AIE, FLMI, MCM
Market Conduct Division Chief
Commonwealth of Pennsylvania Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, PA, 17120

RE: Examination Warrant: 07-M25-038

Dear Mr. Stemcosky:

I would like to take this opportunity to thank you personally for your cooperation and courtesy, and to compliment your examiner, Frank Kyazze on his professionalism and consideration. As you know, this was MedAmerica Insurance Company's first market conduct examination by your department. We respect your examination process and feel that the review performed by the Pennsylvania Insurance Department (hereinafter "PID") was thorough, informative and valuable to MedAmerica. Please accept the following response to the recommendations to the noted violations in the Final Examination Report.

PID Recommendation. The Bureau of Enforcement recommends the Company review and revise internal control procedures to ensure compliance with the filing, suitability and disclosure requirements of Title 31, Pennsylvania Code, Chapter 89a.106 Long-Term Care Model Regulation.
Response. Agreed. While it is the Company's normal course of business to thoroughly review each application for compliance with all required sections, the Examination did in fact identify to the Company that tighter controls in this area are necessary. To ensure compliance with every applicants' right for protection against unintentional lapse, the Company has developed and implemented a Lapse Designee Notification procedure. This procedure has been incorporated into our Company Policy and Procedures which are monitored and audited regularly.

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PID Recommendation. The Bureau of Enforcement recommends the Company review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
Response. Agreed. The Company is committed to the timely payment of claims. To provide for additional assurance of compliance, the Company has implemented operating system enhancements and a Claims Prompt Pay procedure. This procedure has been incorporated into our Company Policies and Procedures. The Internal Audit and Corporate Compliance departments will monitor and regularly audit this process.

PID Recommendation. The Bureau of Enforcement recommends the Company must implement procedures to ensure advertising certification requirements of Title 31, Pennsylvania Code, Chapter 51.
Response. Agreed. As a result of the Examination, the Company recognizes that a system to verify compliance with state filing requirements for advertising certifications must be put into place. Therefore, the Company has developed and implemented a procedure to be coordinated with our Finance department, to ensure that Advertising Certifications are submitted when required and copies of these submissions are maintained in our files. The Company Compliance department will provide oversight of this process and annual audits will be completed.

I appreciate the opportunity to provide you with our responses. The procedures identified above represent the immediate action taken to address the recommendations contained in the PID's Final Examination Report regarding MedAmerica Insurance Company. If you have any questions, comments or concerns regarding the information contained in this submission, please do not hesitate to contact me.

Respectfully submitted,

Cheryl H. Pratt
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