MARKET CONDUCT EXAMINATION REPORT

HUMANADENTAL INSURANCE COMPANY
NAIC # 70580
1100 Employers Boulevard
DePere, WI 54115

ETS # KS057-M14

As of

December 31, 2012

KANSAS INSURANCE DEPARTMENT

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The Honorable Sandy Praeger
Insurance Commissioner
Kansas Insurance Department
420 SW Ninth Street
Topeka, KS 66612

Dear Commissioner Praeger:

In accordance with your respective authorization, and pursuant to K.S.A. 40-222, a market conduct examination has been conducted on the business affairs of:

HumanaDental Insurance Company
NAIC # 70580
1100 Employers Boulevard
DePere, WI 54115

hereafter referred to as "HumanaDental" or the "Company", the following report of such examination is respectfully submitted,

Stacy Rinehart, FLMI, MCM, CIE, AIRC, AIC
Market Conduct Manager
Examiner-in-Charge

PURPOSE AND SCOPE OF REVIEW

A targeted market conduct examination of HumanaDental Insurance Company, also referred to as the "Company", was conducted pursuant to, but not limited to K.S.A. 40-222.

There were concerns regarding the number of complaints on the Company's dental policies, thus the Kansas Insurance Department (KID) examiners performed a review of certain business processes. The review was performed at KID on electronic files provided by the Company and was conducted according to the guidelines and procedures recommended in the 2013 NAIC Market Regulation Handbook (MRH). The exam team utilized the standards and tests recommended in the Handbook which allows for an error tolerance of 7% on claim handling and 10% on all other categories. Silence on any NAIC standard or Company practice does not imply KID acceptance or endorsement of such practices. Applicable statutes and regulations cited throughout the report may be found in the Appendix.

The examination included a review of complaint and claim files the company processed during the exam period of January 1, 2010 through December 31, 2012. Interrogatories were submitted to the Company prior to the file review segment of the examination, and written responses were provided. The examination also included, but was not limited to, company operations and management, history and profile, prior market conduct examination reports, fines and penalties, Certificate of Authority, internal audit procedures, and policy forms.

EXECUTIVE SUMMARY

A targeted market conduct examination of HumanaDental Insurance Company, also referred to as the "Company", was conducted pursuant to, but not limited to K.S.A. 40-222. The examination period was from January 1, 2010 through December 31, 2012. The exam focused on dental business, with a review of complaint and claims handling, operations and management, and underwriting and rating as it relates to the issuance of policies.

There were two Standards failed, one involving untimely responses on claim-related complaints, and the other on policies filed as "group" products but being sold exclusively to individuals. Regardless of error ratios, the exam team has made several recommendations based on the issues revealed during the examination.

Recommendations

OPERATIONS AND MANAGEMENT

1. When receiving communications from the Kansas Insurance Department (KID), timely responses from the Company are expected. If additional time is needed, the Company shall contact KID (prior to the deadline) to request an extension.

COMPLAINT HANDLING

1. The Company shall ensure a reply is sent on claims related communications within the ten working day requirement of K.A.R. 40-1-34, Section 6(c).

CLAIM HANDLING

1. The Company shall ensure procedures are in place to process claims timely.

2. The Company shall ensure proper documentation is retained in order to accurately reconstruct a claim file.

UNDERWRITING AND RATING

1. The Company must cease selling the Dental Value (HI215) policy to individuals and work with the Kansas Insurance Department Accident & Health Division to file appropriate individual policy forms and rates.

2. The Company must cease the issuance of new Preventive Plus (PPO) certificates under the People's Benefit Alliance group policy. If the Company wishes to use a different association to market the Preventative Plus (PPO), they should have this reviewed by the Kansas Insurance Department prior to policy issuance. If the Company continues to market directly to individuals, appropriate individual forms and rates must be filed and approved.

3. The Company must cease collecting multiple association dues and provide refunds to individuals who paid the extra amount due to having multiple types of insurance. The Company must submit proof of such refunds to the Department within 45 days of the final exam report.

DESK EXAMINATION

OPERATIONS AND MANAGEMENT

I. History and Profile

[Based on Company response to interrogatories:]
HumanaDental Insurance Company ("HDIC") is a Wisconsin insurance corporation incorporated on January 1, 1908 as Wisconsin National Life Insurance Company (WNLIC). WNLIC was acquired from Protective Life Insurance Company by HumanaDental, Inc. on May 10, 2000, and simultaneously with the acquisition changed its name to HumanaDental Insurance Company. HDIC commenced business on October 12, 1908. HDIC is a wholly owned subsidiary of HumanaDental, Inc., a Delaware general business corporation. HumanaDental, Inc. is a wholly owned subsidiary of Humana Inc., the ultimate parent company in the holding company system. HDIC is licensed as an insurance company in 49 states and the District of Columbia. It is also licensed as a third party administrator in Kentucky and Louisiana.

As referenced in the claims section of our report, Humana, Inc. purchased CompBenefits Corp. in 2007.

II. Prior Market Conduct Examination Reports

The KID examination team requested all market conduct exams completed within the last three years. There was a market conduct examination performed by the state of California. No issues were noted that require additional review beyond the scope of the Kansas targeted examination.

III. Fines and/or Penalties

The KID examination team reviewed the actions from other states regarding fines and penalties for the last five years and found nothing that warranted additional inspection beyond the scope of this targeted examination.

Tests for Company Operations and Management

Standard 1
The regulated entity has an up-to-date, valid internal or external audit program.

The Company provided a document outlining their Internal Audit process related to claims as well as numerous detailed reports created during the exam period. There are no items of concern.

Recommendation: None

Standard 7
Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

The Company maintained adequate records as required and provided items to the exam team as requested with a few exceptions.

Recommendation: None

Standard 8
The regulated entity is licensed for the lines of business that are being written.

The Kansas Certificate of Authority was reviewed and was found to be in compliance with Kansas law.

Recommendation: None

Standard 9
The regulated entity cooperates on a timely basis with examiners performing the examinations.

There were several instances of late responses to both inquiries and violations during the examination by the Company.

Recommendation: When receiving communications from the Kansas Insurance Department (KID), timely responses from the Company are expected. If additional time is needed, the Company shall contact KID (prior to the deadline) to request an extension.

COMPLAINT HANDLING

The examiners reviewed the Company's procedures for handling various types of complaints. Also, the examiners reviewed 52 total complaint files for the exam period which consisted of 15 complaints submitted to the Company from the Kansas Insurance Department and 37 files submitted directly to the Company. The "Number of Errors" included in the samples below are defined as the total number of complaints in the sample which contained errors.

Standard 1
All complaints are recorded in the required format on the regulated entity's complaint register.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Complaints	52	0	100%

Result: Pass

Recommendation: None

Standard 2
The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Complaints	52	0	100%

Result: Pass

Recommendation: None

Standard 3
The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Complaints	52	0	100%

Result: Pass

Recommendation: None

Standard 4
The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Complaints	52	30	42%

Some of the complaints received directly by the company were regarding the dissatisfaction on a claim, and considered appeals by the Company. Of these, 30 of the files did not have any type of acknowledgement or response to the insured within ten working days as required by K.A.R. 40-1-34, Section 6(c). The Company indicated to the examiners that their business practice is to provide a response within 30-60 days, depending on type of appeal. Per the recommendation of the examiners, the Company has agreed to update their processes accordingly to provide a reply or acknowledgement when the appeal response is not determined within ten working days.

Result: Fail

Recommendation: The Company shall ensure a reply is sent on claims related communications within the ten working day requirement of K.A.R. 40-1-34, Section 6(c).

CLAIM HANDLING

The examiners reviewed the Company's claims procedures in addition to a review of actual claim files. The file review initially consisted of 109 claim files, but it was discovered after receiving the data from the Company that CompBenefit claims had mistakenly been included in the data population. The sample size was reduced by the CompBenefit claims to focus on the HumanaDental policies, resulting in a sample size of 82 claims processed during the exam period. The "Number of Errors" included in the samples below are defined as the total number of claims in the sample which contained errors.

General Claim Standards

Standard 1
The initial contact by the regulated entity with the claimant is within the required time frame.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	0	100%

Result: Pass

Recommendation: None

Standard 2
Timely investigations are conducted.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	0	100%

Result: Pass

Recommendation: None

Standard 3
Claims are resolved in a timely manner.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	5	94%

Five claim files did not pay, deny, or request additional information within 30 days of receipt as required by K.S.A. 40-2442(a).

Result: Pass

Recommendation: The Company shall ensure procedures are in place to process claims timely.

Standard 4
The regulated entity responds to claim correspondence in a timely manner.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	0	100%

Result: Pass

Recommendation: None

Standard 5
Claim files are adequately documented.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	2	98%

Two claim files lacked documentation, thus the justification for claim denial could not be reconstructed. This is a violation of K.A.R. 40-1-34, Section 4.

Result: Pass

Recommendation: The Company shall ensure proper documentation is retained in order to accurately reconstruct a claim file.

Standard 6
Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPAA), rules and regulations.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	1	99%

One claim file was not paid in full, but written notice was not provided indicating each reason for denial. This is a violation of K.S.A. 40-2442(a).

Result: Pass

Recommendation: None

Standard 9

Denied and closed without payment claims are handled in accordance with policy provisions and state law.

Sample Type	Sample Size	Number of Errors	Percent Compliance
Claims	82	0	100%

Result: Pass

Recommendation: None

UNDERWRITING AND RATING

Standard 6

Policies, riders and endorsements are issued or renewed accurately, timely and completely.

The Company was issuing group dental policies to individuals. The Dental Value (HI215) policy is filed with our Department as a group product, though being marketed and sold directly to individuals. During the exam period the Company indicated there were 2,030 policies issued to individuals. There are several requirements that would have been required on the individual policy forms that were omitted. These include: renewal provisions required by K.A.R. 40-4-3, "Important Notice" as required by K.A.R. 40-4-12, the "Free Look" period as required by K.A.R. 40-4-22, as well as general provisions required by K.S.A. 40-2203(A) of time limit on certain defenses, reinstatement, and cancellation by insured.

The Company also issued 3,791 Preventive Plus (PPO) plans to individuals during the examination period. This policy was filed with our Department as a group filing, and the Company indicated it was issued to an association, People's Benefit Alliance (PBA). The Company was marketing this product on it's website to individuals, with the requirement that they join the association with the dues being collected with their premiums. The evidence presented from Humana and PBA does not suggest there were other members actively joining without purchasing insurance coverage from Humana. Humana was performing the marketing function for PBA and there was no mechanism in place for an individual to join the association directly without the purchase of insurance. As this is an improper association for the purposes of selling group insurance coverage, this is a violation of K.S.A. 40-2209(f)(5).

An additional issue with the Preventive Plus (PPO) policy is that the company had been collecting association fees twice when a person purchased both dental and vision coverage (sold through Humana Insurance Company), as it was built into the premium. When brought to their attention by the examiners, the company indicated this was in error and began processing refunds. As the premium rates charged were unreasonable in relation to the benefits provided, this is a violation of K.S.A. 40-2215(d)(1).

Result: Fail

Recommendation: The Company must cease selling the Dental Value (HI215) policy to individuals and work with the Kansas Insurance Department Accident & Health Division to file appropriate individual policy forms and rates.

Recommendation: The Company must cease the issuance of new Preventive Plus (PPO) certificates under the People's Benefit Alliance group policy. If the Company wishes to use a different association to market the Preventative Plus (PPO), they should have this reviewed by the Kansas Insurance Department prior to policy issuance. If the Company continues to market directly to individuals, appropriate individual forms and rates must be filed and approved.

Recommendation: The Company must cease collecting multiple association dues and provide refunds to individuals who paid the extra amount due to having multiple types of insurance. The Company must submit proof of such refunds to the Department within 45 days of the final exam report.

CONCLUSION

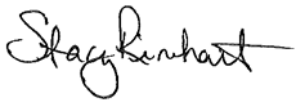
The following examiners from the Office of the Commissioner of Insurance in the State of Kansas participated in the review:

Market Conduct Division

Stacy Rinehart Market Conduct Manager	Tate Flott Market Conduct Examiner	Claudia Perney Market Conduct Examiner

Nicole Boyd
Market Conduct Examiner

Respectfully submitted,



Stacy Rinehart, FLMI, MCM, CIE, AIRC, ACS
Market Conduct Manager
Examiner-In-Charge

APPENDIX

Related Kansas Insurance Statutes and Administrative Regulations

K.S.A. 40-222. Examinations

(a) Whenever the commissioner of insurance deems it necessary but at least once every five years, the commissioner may make, or direct to be made, a financial examination of any insurance company in the process of organization, or applying for admission or doing business in this state. In addition, at the commissioner's discretion the commissioner may make, or direct to be made, a market regulation examination of any insurance company doing business in this state.

…

(c) For the purpose of such examination, the commissioner of insurance or the persons appointed by the commissioner, for the purpose of making such examination shall have free access to the books and papers of any such company that relate to its business and to the books and papers kept by any of its agents and may examine under oath, which the commissioner or the persons appointed by the commissioner are empowered to administer, the directors, officers, agents or employees of any such company in relation to its affairs, transactions and condition.

…

(g) The refusal of any company, by its officers, directors, employees or agents, to submit to examination or to comply with any reasonable written request of the examiners shall be grounds for suspension or refusal of, or nonrenewal of any license or authority held by the company to engage in an insurance or other business subject to the commissioner's jurisdiction. Any such proceedings for suspension, revocation or refusal of any license or authority shall be conducted in accordance with the provisions of the Kansas administrative procedures act.

…

…

K.S.A. 40-2203 Uniform Policy Provisions

(A) *Required provisions.* Except as provided in paragraph (C) of this section every such policy delivered or issued for delivery to any person in this state shall contain the provisions specified in this subsection in the words in which the same appear in this section, but the insurer, at its option, may substitute for one or more of such provisions corresponding provisions of different wording approved by the commissioner of insurance which are in each instance not less favorable in any respect to the insured or the beneficiary. Such provisions shall be preceded individually by the caption appearing in this subsection or at the option of the insurer, by such

appropriate individual or group captions or subcaptions as the commissioner of insurance may approve.

K.S.A. 40-2209 Uniform Policy Provisions

(f) Group accident and health insurance may be offered to a group under the following basis:

5) A policy issued to an association which has been organized and is maintained for the purposes other than that of obtaining insurance, insuring at least 25 members, employees, or employees of members of the association for the benefit of persons other than the association or its officers. The term "employees" shall include retired employees. The premiums for the policies shall be paid by the policyholder, either wholly from association funds, or funds contributed by the members of such association or by employees of such members or any combination thereof.

K.S.A. 40-2215 Uniform Policy Provisions

. . .

(d) (1) Any risk classifications, premium rates, rating formulae, and all modifications thereof applicable to Kansas residents shall not establish an unreasonable, excessive or unfairly discriminatory rate or, with respect to group or blanket sickness and accident policies providing hospital, medical or surgical expense benefits issued pursuant to K.S.A. 40-2209 or 40-2210, and amendments thereto, discriminate against any individuals eligible for participation in a group, or establish rating classifications within a group that are based on medical conditions. In no event shall the rates charged to any group to which this subsection applies increase by more than 75% during any annual period unless the insurer can clearly document a material and significant change in the risk characteristics of the group.

. . .

K.A.R. 40-1-9 Insurance companies; insurance contracts; premiums defined.

(a) (1) The following charges made by insurance companies or their representatives, in connection with the issuance or servicing of policies of their insureds, shall be considered ``premiums'':

(A) Membership fees;

(B) policy fees;

(C) service charges; and

(D) charges made by title insurance companies or their agents for the assumption of the risk created by issuance of the title insurance policy.

(2) ``Premiums'' shall be subject to each applicable fee and tax, shall be authorized by the applicable rate filings of the company required by chapter 40, Kansas Statutes Annotated, and shall be subject to any other applicable statutes.

(b) This regulation shall not apply to interest permitted or required by K.S.A. 40-282 and 40-283.

K.A.R. 40-1-34. Unfair Claims Practices Act

Section 4. File and Record Documentation

The insurer's claim files shall be subject to examination by the (Commissioner) or by his duly appointed designees. Such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed.

Section 6. Failure to Acknowledge Pertinent Communications

…

(c) An appropriate reply shall be made within ten working days on all other pertinent communications from a claimant which reasonably suggest that a response is expected.

…

K.A.R. 40-4-3 Accident and health insurance policies; renewal and cancellation conditions; description required; cross-reference of renewal and cancellation provisions.

(a) When an individual or family policy does not contain either a brief description or separate statement printed on the first page and on the filing back referring to the policy's renewal conditions, a separately captioned provision shall appear on the first page of the policy setting forth the conditions under which the policy may be renewed. The following captions shall be acceptable descriptions of the applicable renewal provisions:

Renewable At Option of Company
Guaranteed Renewable to Age 65 or Eligibility
for Medicare - Premium rates may be
changed on a class basis
Non-cancellable and Guaranteed Renewable
to Age 65

or
Eligibility for Medicare

Non-cancellable and Guaranteed Renewable to Age ( ) or - while actively or regularly employed to age ( ) * Guaranteed Renewable to Age ( ) or - while actively or regularly employed to age ( ) - Premium rates may be changed on a class basis *

K.A.R. 40-4-12 Accident and health policies; application as part of the policy; notice required.

(a) Each individual policy of accident, sickness, or hospitalization insurance shall not be delivered in this state unless the following notice is attached to the policy:

IMPORTANT NOTICE

Please read the copy of the application attached to this policy. Carefully check the application and write to (Company), (Address), within 10 days, if any information shown on it is not correct and complete, or if any past medical history has been left out of the application. This application is a part of the policy and the policy was issued on the basis that answers to all questions and the information shown on the application are correct and complete.

(b) The statement, preferably in the form of a sticker to be placed on the policy, shall be printed in a prominent manner on paper or in ink of a contrasting color. The insurer may, with the approval of the commissioner, substitute similar wording. This rule shall not apply if the application for insurance is not attached to and made a part of the contract.

K.A.R. 40-4-22 Accident and health insurance policies; right to return policy.

Each individual accident and health policy, except travel accident policies or policies of a similar type, issued for delivery in this state, shall have printed on, or attached to the first page of the policy, a notice stating that the person to whom the policy is issued shall be permitted to return the policy or contract within at least 10 days of its delivery to the purchaser and to have the premium paid refunded if purchaser dissatisfaction exists. The notice shall be printed in not less than 10 point type and shall be printed in bold face type or in some other manner that distinguishes it from the print otherwise appearing in the policy. When a policyholder or purchaser, pursuant to the notice, returns the policy to the company or association at its home or branch office or to the agent through whom it was purchased, the policy shall be void from the beginning and the parties shall be in the same position as if no policy or contract had been issued.