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NEWS From Insurance Commissioner Matthew Denn

For Immediate Release: Wednesday, October 10, 2007

MEGA Life & Health Fined \$500,000 **For Numerous Violations**

Largest Fine In Department Memory Levied Against Health Insurance Company

Dover – A Texas-based health insurance company must pay up to \$500,000 if it does not fix multiple violations of Delaware law, including steering consumers into individual rather than group health insurance policies, failing to provide state-required coverages, engaging in deceptive and improper marketing, mishandling consumer complaints and failing to institute adequate management controls, Insurance Commissioner Matt Denn announced Wednesday.

MEGA Life & Health Insurance Company can reduce the fine to \$100,000 if it complies in a timely manner with 18 pages worth of remedial measures intended to address serious problems discovered in an examination of the company's practices between January 2002 and June 2004. The exam was completed earlier this year.

"My first priority is to require the company to promptly make whole every Delawarean who it wronged. Therefore, I have given the company the opportunity to have its fine reduced to \$100,000 if it shows that it has compensated each Delawarean whom it harmed within strict deadlines I have set," Commissioner Denn said. "If the company misses the deadlines, its fine will be half a million dollars,

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and it will still need to compensate the policyholders.”

In Delaware, state law requires that small employers with 1 to 50 employees be offered the chance to enroll in any small-employer group health insurance plan offered by a health insurance company, regardless of health status or claim history. However, MEGA did not issue a single small-employer group health policy during the 2½ year exam period, instead steering applicants to individual, fully underwritten health insurance plans. As a result, the company is not exposed to risks assumed by other insurers who offer health care coverage in the Small Employer market without regard to health status.

As a result of enrolling customers in individual plans rather than comprehensive group plans, much of the health coverage was provided through “riders” to the main policy, including riders for doctor’s office visits, outpatient accident coverage, ambulatory care, chemotherapy and emergency helicopter transport. Each rider also had separate benefit levels and separate deductibles, instead of the overall annual deductible in a more standard health insurance plan.

In addition, the examination found:

- MEGA failed to provide mental health coverage and immunization coverage as required by federal and Delaware law.
- The names of plans MEGA used in marketing did not match the various health insurance plans filed with the Department of Insurance, making it impossible for policyholders to match the product issued by MEGA with the product they applied for.
- MEGA’s training for its insurance agents did not accurately inform agents of the products available for sale to small employers. The focus of the agent training material was the sale of individual coverage and not small employer coverage and agent training manuals were insufficient.
- MEGA had insufficient procedures for taking, tracking and responding to complaints. In fact, the company could only produce only nine Delaware consumer complaints arising during the 2 ½ year period examined. This failure was due in part, to the company’s policy of discouraging consumers from submitting complaints in writing, coupled with its policy of only tracking and responding to written complaints. In addition, consumers were not properly advised of their rights when making a complaint.
- MEGA had very few written procedures or management controls in place to assure consistent operation and activities compliant with applicable statutes, rules and regulations.

To correct these practices and lower its fine from \$500,000 to \$100,000, MEGA must comply with dozens of remedial measures listed in an order signed by Commissioner Denn and the company this week. Those include offering retroactive Small Employer group policies to all current Delaware policyholders and to all applicants who had coverage denied or terminated, creating new disclosure forms and new procedures, properly training its agents, and conducting required audits. The Department of Insurance will test the company's compliance with the consent order through a series of follow-up examinations.

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The Commissioner's order imposing the fine and setting conditions for the company to meet can be found [here](#)

The complete market conduct examination report can be found [here](#)

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