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Oxford Health Receives Fine Of $3 Million

By REED ABELSON

After completing another phase of its extensive review of Oxford Health Plans, one of the New York region's largest managed-care companies, the New York State Insurance Department released a harsh critique of Oxford's management yesterday and fined the company $3 million for violating state insurance regulations. The department also ordered the company to refund roughly $500,000 to some customers.

While the department did not call on Oxford to take any major new steps to remedy its problems paying doctors and tracking the cost of delivering care to its two million customers, the examination was notable for its critical tone.

The report described ''poor planning and/or inexperienced management'' as the apparent cause of many of Oxford's difficulties and catalogued numerous regulatory infractions by the company, including raising customers' premiums without sufficient notice, issuing contracts without the approval of regulators and using unlicensed insurance agents to sell its products.

The fine is the second largest in the history of the department, following the $5 million levied in 1996 against the Prudential Insurance Company of America, which was accused of ''churning,'' or excessive turnover, of life insurance policies. The latest fine is the largest against a health insurer or a health maintenance organization.

''We've been cooperating with the Insurance Department for the past two years and are happy to get this report behind us, allowing us to move forward in the new year,'' said Stephen F. Wiggins, Oxford's founder and chairman.

Although the department's report contained few surprises, it also did little to suggest that the continuing drama at Oxford is close to an end. The department expects to finish a separate report on the company's financial condition within the next few weeks, and Oxford is expected to announce its own year-end results sometime in February. The report is not a signal that the company is out of the woods, said Gary Frazier, an analyst at Bear, Stearns & Company.

Shares of Oxford, which has been pummeled in the last few months, closed yesterday at $14.625, down 50 cents. The stock had reached an all-time high of $89 in July.

The Insurance Department -- which began its review of Oxford last May as part of an overall examination into H.M.O.'s that had been delaying payments to customers, doctors and hospitals -- has already prompted Oxford to take several steps. The company had already announced that it would strengthen its management team, including bringing in a new chief financial officer, although it has yet to hire one, and improve its systems and controls.

Although Oxford announced earlier this month that it would also increase reserves for medical claims by roughly $200 million, largely at the department's prodding, the department could ask the company to increase those reserves further. Oxford may also have to raise capital to satisfy regulators and investors that it has sufficient resources.

''We will seek to raise all capital necessary to continue our programs, should that be a requirement,'' Mr. Wiggins said, adding that the company had taken the steps it needs to access the capital markets.

Although Mr. Wiggins would not comment on how Oxford would raise money, analysts said that the company would be hard pressed to simply sell more common stock because of the low share price. Instead, the company, which does not currently have any long-term debt, could sell some type of bond or preferred stock. Oxford could also sell a minority stake.

Oxford may also seek to raise its premiums; it would only have to seek prior approval for increases above 10 percent. Oxford has agreed that it will not include the $3 million fine as an expense in any future rate application or rate filing with the department.

Still, the company is likely to seek increases of anywhere from 5 to 10 percent, according to Barry Barnett, a benefits consultant at Kwasha Lipton Group, a division of Coopers & Lybrand.

The department also described its evaluation of Oxford's management as continuing.

The department has asked Oxford to supply a copy of its report to the board and retain an independent accounting firm to perform three years of audits to determine whether it is in compliance with the department's recommendations.

The department also criticized Oxford, which it described as having ''experienced exponential growth,'' for continuing to have problems paying doctors, hospitals and consumers promptly. While the department said that ''there has been some improvement with the respect to the payment of clean claims,'' those claims that were not subject to any dispute, it concluded that ''Oxford's current claims processing cycle time still requires some improvement.''

Oxford said that it ''has implemented certain steps that it believes will alleviate many of the problems,'' according to the report.

The report also presents a company that has a loose grip on the details involved in its business. When late payments caused the company to pay advances or make interest-free loans to doctors and hospitals, now totaling about $209 million, the company did not reconcile those amounts with the amounts it actually owed them. Oxford has now agreed to such a reconciliation, and the company has also said it will report the status of those loans, and the amount it owes, in its filings with the department starting next year.

The department also criticized Oxford for not having sufficient systems in place to prevent and uncover fraud. ''It cost consumers money,'' said John Calagna, a department spokesman. The company, which currently employs five people to investigate fraud, has agreed to hire additional staff.

Oxford was also cited for violating several state regulations. ''Some are serious matters; some are technical matters,'' Mr. Calagna said.

Oxford has already refunded about $212,000 to customers for collecting higher premiums without providing sufficient notice of the increase in rates and filing the new rates with the department. The company has agreed to pay another $41,000 to customers whose rates were improperly increased after Dec. 1.

The company was also criticized for not passing along discounts it received from hospitals and doctors outside of its network under an arrangement with an outside company. Although Oxford discontinued that relationship, the company has agreed to refund customers affected by the discounts as much as $250,000 with interest.