

SEP 30 1994

STATE OF ARIZONA
DEPARTMENT OF INSURANCE DEPARTMENT OF INSURANCE
By

1
2
3 In the Matter of:)
4 **CELTIC LIFE INSURANCE**)
5 **COMPANY**)
6 Respondent.)

Docket No.: 8566
CONSENT ORDER

7 A market conduct examination was made of Celtic Life
8 Insurance Company (hereinafter "Respondent") by a Market Conduct
9 Examiner for the Arizona Department of Insurance (hereinafter
10 "the Department"). Said market conduct examination covered the
11 time period of January 1, 1989, through September 30, 1992.
12 Based upon the examination results, the Department is prepared
13 to issue a Notice of Hearing alleging that Respondent has
14 violated certain provisions of Title 20, Arizona Revised
15 Statutes (hereinafter "A.R.S.") and the Arizona Administrative
16 Code (hereinafter "A.A.C.") as set forth below in the Findings
17 of Fact and Conclusions of Law. Respondent wishes to resolve
18 this matter without formal adjudicative proceedings and hereby
19 agrees to a Consent Order.

20 The Director of Insurance of the State of Arizona
21 "hereinafter "the Director") enters the following Findings of
22 Fact and Conclusions of Law, which are neither admitted nor
23 denied by Respondent, and issues the following Order:

24 FINDINGS OF FACT

- 25 1. Respondent is authorized to transact life and
26 disability insurance in the State of Arizona pursuant to a
27 Certificate of Authority issued by the Director.

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1 2. The Examiner was authorized by the Director to
2 conduct a market conduct examination of Respondent and has
3 prepared a report entitled Report of Examination of the Market
4 Conduct Affairs of Celtic Life Insurance Company (hereinafter
5 "the Report"). The period covered by the on-site examination
6 was January 1, 1989, through September 30, 1992.

7 3. The Examiner reviewed 20 complaints filed with
8 the Department against Respondent. Of the complaints reviewed
9 by the Examiner, Respondent had failed to respond to the
10 Department within 15 working days of receiving the complaint
11 from the Department in four (20%) of the files.

12 4. The Examiner reviewed 13 application forms used
13 by Respondent in the sale of its products in the State of
14 Arizona. All 13 application forms reviewed by the Examiner
15 failed to contain a notice of insurance information practices.

16 5. The Examiner reviewed 85 of the 1,025 Arizona
17 application files for small group policies issued by
18 Respondent. All of the 85 applications reviewed by the Examiner
19 failed to contain a notice of insurance information practices.

20 6. Of the 85 Arizona applications for issued
21 policies reviewed by the Examiner, seven (8%) failed to notify
22 the insured of the reasons the coverage was issued on a modified
23 basis.

24 7. The Examiner reviewed 21 of the 133 Arizona
25 application files for small group policies denied by
26 Respondent. None of the 21 applications reviewed contained the
27 notice of insurance information practices.

28

1 8. Of the 21 Arizona applications for denied
2 policies reviewed by the Examiner, 14 (67%) of the applicants
3 had been offered coverage on a modified basis, but the
4 applicants declined the modified coverage. None of the 14 files
5 indicated the applicant had been notified of the adverse
6 underwriting decision that resulted in the coverage being
7 offered only on a modified basis.

8 9. Of the 8,692 Arizona claims paid by Respondent
9 during the subject time period, the Examiner reviewed 315 (4%)
10 of the claim files. As to the 315 paid claims reviewed,
11 Respondent:

12 a. failed to include all workpapers and notes
13 pertaining to eight claim files;

14 b. failed to acknowledge receipt of notification of
15 claim within ten (10) working days in 71 claim files;

16 c. failed to complete the investigation of the claim
17 within 30 calendar days after notification of the
18 claim in 35 claim files;

19 d. failed to notify the claimant of the acceptance
20 or denial of the claim within 15 working days after
21 receiving the proof of loss in 53 claim files;

22 e. failed to notify the claimant of the need for
23 additional investigation of the claim within 15
24 working days after receiving the proof of loss in 51
25 claim files; and

26 f. failed to pay interest on claims paid more than
27 30 days after the receipt of proof of loss from
28 first-party claimants in 38 claim files.

1 10. Of the 6,215 Arizona claims denied by Respondent
2 during the subject time period, the Examiner reviewed 179 (3%)
3 of the claim files. As to the 179 denied claims reviewed,
4 Respondent:

5 a. failed to include all workpapers and notes
6 pertaining to two claim files;

7 b. failed to acknowledge receipt of notification of
8 claim within ten (10) working days in 47 claim files;

9 c. failed to complete the investigation of the claim
10 within 30 calendar days after notification of the
11 claim in 15 claim files;

12 d. failed to notify the claimant of the acceptance
13 or denial of the claim within 15 working days after
14 receiving the proof of loss in 25 claim files; and

15 e. failed to notify the claimant of the need for
16 additional investigation of the claim within 15
17 working days after receiving the proof of loss in 22
18 claim files.

19 11. Respondent failed to acknowledge receipt of the
20 claim and/or other pertinent communications from the claimant
21 within ten working days in 118, or 23.9 percent, of the 494 paid
22 and denied disability claims reviewed by the Examiner.

23 12. Respondent failed to accept or deny first-party
24 claims within 15 working days after receipt of properly executed
25 proofs of loss in 78, or 15.8%, of the 494 paid and denied
26 disability claims reviewed by the Examiner.

27 13. Respondent failed to notify claimants of the need
28 to further investigate the claims within 15 working days after

1 receipt of properly executed proofs of loss in 73, or 14.8%, of
2 the 494 paid and denied disability claims reviewed by the
3 Examiner.

4 14. Respondent failed to investigate the claim within
5 a reasonable time after receipt of properly executed proofs of
6 loss in 50, or 10.1%, of the 494 paid and denied claims reviewed
7 by the Examiner.

8
9 CONCLUSIONS OF LAW

10 1. The Director has jurisdiction in this matter.

11 2. The failure of Respondent to respond within 15
12 working days of a receipt of a complaint from the Department
13 violates A.A.C. R4-14- 801(E)(2).

14 3. The failure by Respondent to provide a notice to
15 all applicants of insurance information practice violates A.R.S.
16 Section 20-2104(A).

17 4. The failure by Respondent to provide a notice to
18 all applicants where coverage is offered on a modified basis of
19 the reasons for such underwriting decision violates A.R.S.
20 Section 20-2110(A).

21 5. The failure by Respondent to maintain all notes
22 and workpapers pertaining to a claim in the claim files
23 constitutes ten (10) violations of A.A.C. R4-14-801(C).

24 6. The failure by Respondent to acknowledge receipt
25 of notification of a claim within ten (10) working days of
26 receipt of said notification unless the claim is paid within
27 that time period constitutes 118 violations of
28 A.A.C. R4-14-801(E)(1).

1 7. The failure by Respondent to complete the
2 investigation of claims within 30 calendar days after
3 notification of the claim constitutes 50 violations of
4 A.A.C. R4-14-801(F).

5 8. The failure by Respondent to notify the claimant
6 of acceptance or denial of the claim within 15 working days
7 after receiving the proof of loss constitutes 78 violations of
8 A.A.C. R4-14-801(F).

9 9. The failure by Respondent to notify the claimant
10 of the need for additional investigation of the claim within 15
11 working days after receiving the proof of loss constitutes 73
12 violations of A.A.C. R4-14-801(G)(1)(b).

13 10. The above-described conduct by Respondent
14 constitutes a general business practice of failure to
15 acknowledge and act reasonably and promptly upon communication
16 with respect to claims arising under an insurance policy within
17 the meaning of A.R.S. Section 20-461(A)(2).

18 11. The above-described conduct by Respondent
19 constitutes a general business practice of failure to
20 investigate claims within a reasonable time after receipt of the
21 proof of loss within the meaning of A.R.S. Section 20-461(A)(3).

22 12. The above-described conduct by Respondent
23 constitutes a general business practice of failure to accept or
24 deny first-party claims within 15 working days after receipt of
25 a properly executed proof of loss within the meaning of A.R.S.
26 Section 20-461(A)(5).

27 13. The above-described conduct by Respondent
28 constitutes a general business practice of failure to attempt in

1 good faith to effectuate prompt, fair and equitable settlement
2 of claims in which liability has become reasonably clear within
3 the meaning of A.R.S. Section 20-461(A)(6).

4 14. The failure by Respondent to pay interest to a
5 first-party claimant where the subject claim was not paid within
6 30 days after receipt of the proof of loss constitutes 38
7 violations of A.R.S. Section 20-462(A).

8 15. Grounds exist for the entry of all other
9 provisions of the following Order.

10 ORDER

11 Respondent having admitted the jurisdiction of the
12 Director to enter the Order set forth herein, having waived the
13 Notice of Hearing and the Hearing, having waived any and all
14 rights to appeal this Order, and having consented to the entry
15 of the Order set forth hereinafter, and there being no just
16 reason for delay:

17 **IT IS HEREBY ORDERED THAT:**

18 1. Respondent shall cease and desist from failing to
19 respond to the Department within 15 working days of receipt of a
20 consumer complaint; from using application forms which fail to
21 provide notice of insurance information practices; from failing
22 to provide notice to the insured or prospective insured of the
23 reasons for any adverse underwriting decision, including but not
24 limited to, issuance of the coverage on a modified basis; from
25 failing to maintain all notes and workpapers pertaining to a
26 claim in the claim files; from failing to acknowledge receipt of
27 notification of a claim within ten (10) working days of receipt
28 of said notification unless the claim is paid within that time;

1 from failing to complete the investigation of claims within 30
2 calendar days after notification of the claim; from failing to
3 notify the claimant of acceptance or denial of the claim within
4 15 working days after receiving a satisfactory proof of loss;
5 from failing to notify the claimant of the need for additional
6 investigation of the claim within 15 working days after
7 receiving a satisfactory proof of loss; and from failing to pay
8 interest to a first-party claimant where the subject claim was
9 not paid within 30 days after receipt of the proof of loss.

10 2. Respondent shall develop a written action plan
11 acceptable to the Department to monitor and ensure strict
12 compliance with the claims processing requirements of A.R.S.
13 Sections 20-461 and 20-462, and A.A.C. R4-14-801.

14 3. Respondent has paid to the claimants listed in
15 Exhibit VI of the Report interest on the amount of their claims
16 unpaid on the 30th day after Respondent's receipt of proofs of
17 loss containing all information necessary for claims
18 adjudication. Interest has been paid at the rate of ten percent
19 (10%) per annum calculated from the date the claim was received
20 by the Respondent to the date of payment. These payments have
21 been accompanied by a letter to the insured acceptable to the
22 Director. A list of payments, giving the name and address of
23 the insured, policy number, claim number, the base amount, the
24 amount of interest paid or credited, and the date of the payment
25 has been provided to the ADOI.

26 4. The Department shall be permitted, through an
27 authorized representative, to verify that Respondent has
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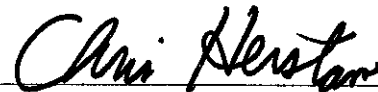
1 complied with all provisions of this Order, and the Director may
2 separately order Respondent to comply.

3 5. Respondent shall pay a civil penalty of FIFTEEN
4 THOUSAND DOLLARS (\$15,000) to the Director for remission to the
5 State Treasurer for deposit to the State General Fund in
6 accordance with A.R.S. Section 20-220(B). Said civil penalty
7 shall be provided to the Administrative Law Division of the
8 Department on or before September 26, 1994.

9 6. The Report of Market Conduct Examination as of
10 September 30, 1992, to include Respondent's December 30, 1993,
11 response to the Report, shall be filed with the Department as of
12 the effective date of this Order.

13 DATED at Phoenix, Arizona, this 30th day of

14 September, 1994.

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17 CHRIS HERSTAM
18 Director of Insurance
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CONSENT TO ORDER

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2 1. Respondent, CELTIC LIFE INSURANCE COMPANY, has
3 reviewed the foregoing Order.

4 2. Respondent is aware of its right to a hearing in
5 this matter at which hearing Respondent may be represented by
6 counsel, present evidence and cross-examine witnesses.
7 Respondent has irrevocably waived its right to such public
8 hearing and to any court appeals relating thereto.

9 3. Respondent admits the jurisdiction of the
10 Director of Insurance, State of Arizona, and consents to the
11 entry of this Order.

12 4. Respondent states that no promise of any kind or
13 nature whatsoever was made to induce it to enter into this Order
14 and that it has entered into this Order voluntarily.

15 5. Respondent acknowledges that the acceptance of
16 this Order by the Director of Insurance, State of Arizona, is
17 solely for the purpose of settling this litigation against it
18 and does not preclude any other agency or office of this State
19 or any subdivision thereof from instituting other civil or
20 criminal proceedings as may be appropriate now or in the future.

21 6. Kara S. Navarro represents that as the
22 Assistant Vice President of Respondent, CELTIC LIFE
23 INSURANCE COMPANY that he/she has been authorized by Respondent
24 to enter into this Order for and on its behalf.

25 CELTIC LIFE INSURANCE COMPANY

26 09/26/94
27 _____
28 Date

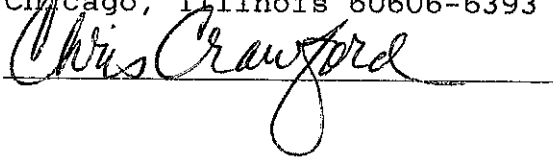
Signature/Title

1 COPY of the foregoing mailed/delivered
2 this 30th day of September , 1994, to:

3 Gay Ann Williams
4 Deputy Director
5 Gregory Y. Harris
6 Chief Administrative Law Judge
7 Erin Klüg
8 Manager
9 Market Conduct Examinations Division
10 Saul Saulson
11 Supervisor
12 Examinations Section
13 Shirley Polzin
14 Supervisor
15 Life and Disability Section
16 Deloris E. Williamson
17 Assistant Director
18 Rates & Regulations Division
19 Gary Torticill
20 Assistant Director and Chief Financial Examiner
21 Corporate & Financial Affairs Division
22 Cathy O'Neil
23 Assistant Director
24 Consumer Services and Investigations
25 Mary Butterfield (L&D Orders only)
26 Manager
27 Health Policy Division
28

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