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THIS REPORT WILL BE MADE PUBLIC AND PUBLISHED ON THE  
CALIFORNIA DEPARTMENT OF INSURANCE (CDI) WEBSITE]**

**WEBSITE PUBLISHED REPORT OF THE MARKET CONDUCT  
EXAMINATION OF THE CLAIMS PRACTICES OF**

**PHYSICIANS LIFE INSURANCE COMPANY  
NAIC # 72125 CDI # 2043-8**

**AS OF JANUARY 31, 2013**

**ADOPTED JANUARY 23, 2014**

**STATE OF CALIFORNIA**



**CALIFORNIA DEPARTMENT OF INSURANCE  
MARKET CONDUCT DIVISION  
FIELD CLAIMS BUREAU**

## NOTICE

**The provisions of Section 735.5(a) (b) and (c) of the California Insurance Code (CIC) describe the Commissioner's authority and exercise of discretion in the use and/or publication of any final or preliminary examination report or other associated documents. The following examination report is a report that is made public pursuant to California Insurance Code Section 12938(b)(1) which requires the publication of every adopted report on an examination of unfair or deceptive practices in the business of insurance as defined in Section 790.03 that is adopted as filed, or as modified or corrected, by the Commissioner pursuant to Section 734.1.**

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**DEPARTMENT OF INSURANCE**

Consumer Services and Market Conduct Branch  
Field Claims Bureau, 11th Floor  
300 South Spring Street  
Los Angeles, CA 90013



January 23, 2014

The Honorable Dave Jones  
Insurance Commissioner  
State of California  
300 Capitol Mall  
Sacramento, California 95814

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims handling practices and procedures in California of:

**Physicians Life Insurance Company  
NAIC # 72125**

Hereinafter, the Company listed above also will be referred to as the Company,

This report is made available for public inspection and is published on the California Department of Insurance website ([www.insurance.ca.gov](http://www.insurance.ca.gov)) pursuant to California Insurance Code section 12938(b)(1).

## FOREWORD

The examination covered the claims handling practices of the aforementioned Company on Life and Individual Medicare Supplement claims closed during the period from February 1, 2012 through January 31, 2013. The examination was made to discover, in general, if these and other operating procedures of the Company conform to the contractual obligations in the policy forms, the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law. This report contains all alleged violations of laws that were identified during the course of the examination.

The report is written in a “report by exception” format. The report does not present a comprehensive overview of the subject insurer’s practices. The report contains a summary of pertinent information about the lines of business examined, details of the non-compliant or problematic activities that were discovered during the course of the examination and the insurer’s proposals for correcting the deficiencies. When a violation that reflects an underpayment to the claimant is discovered and the insurer corrects the underpayment, the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered. Failure to identify, comment upon or criticize non-compliant practices in this state or other jurisdictions does not constitute acceptance of such practices.

Alleged violations identified in this report, any criticisms of practices and the Company responses, if any, have not undergone a formal administrative or judicial process.

## **SCOPE OF THE EXAMINATION**

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of the California Insurance Code, Fair Claims Settlement Practices Regulations, and other related statutes, regulations and case law used by the Company to ensure fair claims settlement practices.

2. A review of the application of such guidelines, procedures, and forms, by means of an examination of a sample of individual claims files and related records.

3. A review of the California Department of Insurance's (CDI) market analysis results; a review of consumer complaints and inquiries about the Company closed by the CDI during the period February 1, 2012 through January 31, 2013; a review of previous CDI market conduct claim examination reports on the Company; and a review of prior CDI enforcement actions.

The review of the sample of individual claims files was conducted at the offices of the California Department of Insurance in San Francisco, California.

## **EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED**

The Life and Medicare Supplement claims reviewed were closed from February 1, 2012 through January 31, 2013, referred to as the “review period”. The examiner randomly selected 110 claims files for examination. The examiner cited 21 alleged claims handling violations of the California Insurance Code and the California Code of Regulations from this sample file review.

Findings of this examination included required language missing from denial letters, failure to send denial letters to members and providers, and failure to certify claim training.

## **RESULTS OF REVIEWS OF MARKET ANALYSIS, CONSUMER COMPLAINTS AND INQUIRIES, PREVIOUS EXAMINATIONS, AND PRIOR ENFORCEMENT ACTIONS**

Except as noted below, market analysis did not identify any specific issues of concern.

The Company was the subject of two California consumer complaints and inquiries closed from February 1, 2012 through January 31, 2013, in regard to the lines of business reviewed in this examination. The CDI alleged 2 violations of law including one instance of failure to provide forms and instructions within 15 calendar days and one instance of failure to provide assistance to an executor. Of the complaints and inquiries, the CDI determined the two complaints were justified. The examiner focused on these issues during the course of the file review.

The previous claims examination reviewed a period from July 1, 2007 through June 30, 2008. The most significant noncompliance issues identified in the previous examination report were that settlement options were not disclosed to beneficiaries on the life products and the failure to have a principal of the Company execute a certification of claims training. The settlement option disclosure was not identified as problematic in the current examination, but the certification of claim training was.

There have been no enforcement actions taken upon this Company.

## DETAILS OF THE CURRENT EXAMINATION

Further details with respect to the examination and alleged violations are provided in the following tables and summaries:

<b>PHYSICIANS LIFE INSURANCE COMPANY SAMPLE FILES REVIEW</b>			
<b>LINE OF BUSINESS / CATEGORY</b>	<b>CLAIMS IN REVIEW PERIOD</b>	<b>SAMPLE FILES REVIEWED</b>	<b>NUMBER OF ALLEGED CITATIONS</b>
Life /Individual/Paid	2026	34	0
Life /Individual/Denied	6	5	5
Life /Individual/Rescission	1	1	0
Medicare Supplement/Individual/Paid	8,712	46	0
Medicare Supplement/Individual/Denied	24	18	16
Medicare Supplement/Individual/Closed without Payment	7	6	0
<b>TOTALS</b>	10,776	110	211

## TABLE OF TOTAL CITATIONS

Citation	Description of Allegation	Physicians Life Insurance Company Number of Alleged Citations
CIC §10123.13(a) *[CIC §790.03(h)(13)]	The Company failed to notify in writing, within 30 working days after receipt of the claim, both the insured and the provider that the claim was denied.	14
CCR §2695.7(b)(3) *[CIC §790.03(h)(3)]	The Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.	5
CCR §2695.6(b)(3) *[CIC §790.03(h)(3)]	The Company failed to annually certify in a declaration executed under penalty of perjury that thorough and adequate training regarding these regulations was provided to all its claims agents.	2
<b>Total Number of Citations</b>		<b>21</b>

### \*DESCRIPTORS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

CIC §790.03(h)(3)      The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies.

CIC §790.03(h)(13)      The Company failed to provide promptly a reasonable explanation of the basis relied upon in the insurance policy, in relation to the facts or applicable law, for the denial of a claim or for the offer of a compromise settlement.

**TABLE OF CITATIONS BY LINE OF BUSINESS**

<b>ACCIDENT AND DISABILITY/MEDICARE SUPPLEMENT</b> 2012 Written Premium: \$745,905	<b>NUMBER OF CITATIONS</b>
CIC §10123.13(a) [CIC §790.03(h)(13)]	14
CCR §2695.6(b)(3) [CIC §790.03(h)(3)]	2
<b>SUBTOTAL</b>	<b>16</b>

<b>LIFE</b> 2012 Written Premium: \$13,406,118	<b>NUMBER OF CITATIONS</b>
CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	5
<b>SUBTOTAL</b>	<b>5</b>

<b>TOTAL</b>	<b>21</b>
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## SUMMARY OF EXAMINATION RESULTS

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report.

In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. The Company is obligated to ensure that compliance is achieved.

Any noncompliant practices identified in this report may extend to other jurisdictions. The Company was asked if it intends to take appropriate corrective action in all jurisdictions where applicable. The Company intends to implement corrective actions in all jurisdictions.

There were no recoveries discovered within the scope of this report.

### **LIFE**

1. **In five instances, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.** The Department alleges these acts are in violation of CCR §2695.7(b)(3) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees and the required CDI language was added on July 29, 2013.

### **MEDICARE SUPPLEMENT**

2. **In 14 instances, the Company failed to notify in writing, within 30 working days after receipt of the claim, both the insured and the provider that the claim was denied.** In 12 instances, denial letters were not sent to the members when coverage was no longer in force. In the remaining two instances, denial letters were not sent to providers when benefits were not assigned to the provider of service. The Department alleges these acts are in violation of CIC §10123.13(a) and are unfair practices under CIC §790.03(h)(13).

**Summary of the Company Response:** For the 12 instances, it is the Company's current policy to send denial letters to insureds who have cancelled or lapsed their coverage on the first claim incurred after their coverage has terminated. On subsequent claims, denial letters are not sent to the insured. However, the Company will comply with the Department's interpretation of CIC §10123.13 with respect to sending denial letters to insureds on terminated contracts. This change will be implemented no later than October 1, 2013.

For the remaining two instances, the Company agrees and letters will be sent. This entails some system enhancements planned to be in place by the end of March 2014.

**3. In two instances, the Company failed to annually certify in a declaration executed under penalty of perjury that thorough and adequate training regarding these regulations was provided to all its claims agents.** This examination encompasses two certification periods, September 1, 2011 through September 1, 2012, and September 1, 2012 through September 1, 2013. For both periods, the Company failed to execute the required certification. The failure to annually certify training was identified in the 2008 market conduct examination. As a remedial measure, the Company stated in 2009 a document was developed for future certification. The remedial measure provided in 2009 was not put in place. The Department alleges these acts are in violation of CCR §2695.6(b)(3) and is an unfair practices under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company states that it conducted the required training. However, the attestation was not completed. This has been discussed with Claims management, and they are aware of the requirement and will comply in the future.