CALIFORNIA DEPARTMENT OF INSURANCE
LEGAL DIVISION – ENFORCEMENT BUREAU
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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

SAN FRANCISCO

In the Matter of the Certificate of Authority of: BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY, Respondent.	CDI File No. OSC-2007-00067 OAH No.: 2008020772 **STIPULATION AND WAIVER**

Respondent, BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY ("BLUE SHIELD LIFE") and the California Department of Insurance ("Department"), stipulate as set forth herein:

1. Respondent, BLUE SHIELD LIFE, holds a Certificate of Authority to transact the business of life and disability insurance in the State of California, pursuant to §700 et seq. of the California Insurance Code;[1] and,

2. Respondent, BLUE SHIELD LIFE, is a California corporation and a wholly-owned subsidiary of Blue Shield of California.

3. On or about August 2005, the Department commenced a Market Conduct examination of BLUE SHIELD LIFE'S claims practices and procedures in California during the period of June 1, 2004 through May 31, 2005. The examination reviewed claims files and related records involving Group and Individual Preferred Provider Organization products, Individual Short-Term Health products, and Group and Individual life insurance products, and examined guidelines, policies and procedures, training plans and forms adopted by BLUE SHIELD LIFE for use in California to determine whether BLUE SHIELD LIFE'S denial of claims and claims handling practices conformed to contractual obligations and applicable law; and,

4. The Department also conducted a targeted Market Conduct examination focusing on BLUE SHIELD LIFE'S rescission practices during the same twelve-month period from June 1, 2004 through May 31, 2005. The examination reviewed underwriting and rescission files and related records involving Individual and Family Plan health insurance products to determine whether BLUE SHIELD LIFE'S rescission practices and related claims settlement practices conformed to contractual obligations and applicable law; and,

5. The Department issued a Public Report of the Market Conduct Examination As of May 31, 2005 that identified instances in which the Department alleged that BLUE SHIELD LIFE did not comply with California Insurance Code §790.03 and the Fair Claims Settlement Practices Regulations contained in Title 10, Chapter 5, Subchapter 7.5 of the California Code of Regulations, commencing with §2695.1; and,

[1] Unless otherwise stated, all references are to the California Insurance Code.

6. The Department also issued a Report of the Market Conduct Examination As of May 31, 2005 that identified instances in which the Department alleged that BLUE SHIELD LIFE did not comply with provisions of the Insurance Code other than §790.03 and the Fair Claims Settlement Practices Regulations; and,

7. In July 2008, the Department's Field Claims Bureau commenced a targeted examination, pursuant to California Insurance Code §735.5, of BLUE SHIELD LIFE'S underwriting and rescission practices and related claims settlement practices during the period from June 1, 2005 through May 31, 2008 involving Short-Term Health and Individual and Family Plan Preferred Provider Organization health insurance products written in California. The examination included a review of a sample of rescission files and related supporting records, guidelines, policies and procedures, training manuals and forms adopted by BLUE SHIELD LIFE for use in California to determine BLUE SHIELD LIFE'S conformance with contractual obligations and applicable law.

8. Based on a preliminary and limited review of a sample of rescission files and related records, the Department identified instances in which the Department alleged that BLUE SHIELD LIFE did not comply with provisions of the California Insurance Code and applicable law in BLUE SHIELD LIFE'S rescission practices and related claims settlement practices from June 1, 2005 through May 31, 2008; and,

9. On or about December 11, 2007, the Department caused to be served upon BLUE SHIELD LIFE an Order to Show Cause, Accusation, Notice of Noncompliance, and Demand for Monetary Penalty ("Accusation") "In the Matter of the Certificate of Authority of: BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY, Respondent," File No. OSC-2007-00067. Subsequently, on or about August 27, 2008, the Department served upon BLUE SHIELD LIFE a First Amended Accusation and, on or about October 2, 2008, served

a Second Amended Accusation (collectively "Accusation"), collectively incorporated herein by reference. Said Accusation alleged, inter alia, that BLUE SHIELD LIFE engaged in acts or practices in violation of California Insurance Code §§790.03, 790.06, 700(c), 704(b), 796.04, 10113, 10123.13, 10123.131, 10169, 10380, 10381.5, 10384, and the Fair Claims Settlement Practices Regulations contained in title 10, California Code of Regulations, §§2695.1 et seq.; and,

10. BLUE SHIELD LIFE expressly denies all of the allegations set forth in the preceding paragraphs and denies any liability, violation, wrongdoing or improper conduct; and,

11. BLUE SHIELD LIFE and the Department, in order to avoid the expense, uncertainty and distractions of litigation, and without BLUE SHIELD LIFE admitting the allegations set forth herein and in the Accusation referenced herein, have undertaken discussions to resolve the issues in this proceeding and now wish to resolve those issues without the need for a hearing or further administrative action. Therefore, by this Stipulation and Waiver, BLUE SHIELD LIFE waives any and all rights to a hearing in this matter, and any and all other rights related to this proceeding which may be accorded pursuant to Chapter 5, Part 1, Division 3, Title 2 (commencing with §11500) of the California Government Code, and by the California Insurance Code; and,

12. This Stipulation and Waiver does not constitute an admission of liability, violation, wrongdoing, or improper conduct by BLUE SHIELD LIFE; and,

13. Without admitting wrongdoing or improper conduct, BLUE SHIELD LIFE agrees to and shall cease and desist from engaging in any acts or practices in the business of life and disability insurance in violation of California Insurance Code §§790.03, 790.06, 700(c), 704(b), 796.04, 10113, 10123.13, 10123.131, 10169, 10380, 10381.5, 10384 and title 10, California Code of Regulations, §§2695.1 et seq.; and,

14. BLUE SHIELD LIFE agrees to and shall offer, on a voluntary basis, to each FORMER INSURED, as defined below, an offer of health insurance coverage going forward on a guaranteed issue basis ("New Coverage Offer"). That coverage shall be subject to the following terms, conditions, and restrictions:

(a) The New Coverage Offer will not require medical underwriting.

(b) The New Coverage Offer will waive exclusions for pre-existing conditions.

(c) With respect to a FORMER INSURED who had an IFP policy, the New Coverage Offer will be for coverage that is most comparable to the FORMER INSURED'S rescinded policy based on policies currently being offered to the general public by BLUE SHIELD LIFE.

(d) With respect to a FORMER INSURED who had a STH policy, the New Coverage Offer will be for short term health coverage substantially on the terms of whichever of the following products most closely matches the annual deductible amount of the FORMER INSURED'S rescinded STH policy: Blue Shield Life Balance PPO Plan 1000, Shield Spectrum PPO Plan 1500, Shield Spectrum PPO Plan 2000, and Essential PPO Plan 3000 product, except that the policy will not be renewable and will be offered for a defined term equivalent to the term of each FORMER INSURED'S rescinded STH policy.

(e) The New Coverage Offer will not include FORMER INSUREDS who have already been reinstated or have current coverage with BLUE SHIELD LIFE or Blue Shield of California.

(f) The New Coverage Offer will not include individuals who (i) filed a lawsuit asserting claims arising out of the rescission of the individuals' health insurance policy, which have been subject to a ruling on their merits by a court, or

(ii) have entered into or are otherwise bound by a settlement with BLUE SHIELD LIFE regarding claims arising from rescission of the FORMER INSURED'S health insurance policy.

(g) The New Coverage Offer will be open for a ninety (90) day period from the confirmed date of delivery of the notice provided by BLUE SHIELD LIFE of the New Coverage Offer, referred to in paragraph 18 herein.

(h) Notwithstanding subsection (g) above, the New Coverage Offer will be open to FORMER INSUREDS who were not contacted by BLUE SHIELD LIFE despite commercially reasonable search efforts, as set forth in paragraph 18 herein, if acceptance of the offer by a FORMER INSURED is received by BLUE SHIELD LIFE on or before July 1, 2009.

(i) The New Coverage Offer, and continuation of such coverage, is conditioned on each FORMER INSURED meeting all non medical underwriting eligibility requirements including, by way of example and not limitation, residence in California, cancellation of any other current coverage (if applicable), age limits for insureds and dependents, and payment of the applicable premiums going forward.

(j) The effective date of health coverage under the New Coverage Offer will be the first day of the month following BLUE SHIELD LIFE'S receipt of a FORMER INSURED'S first month premium.

(k) BLUE SHIELD LIFE will not require FORMER INSUREDS who accept the New Coverage Offer to execute a release of claims against BLUE SHIELD LIFE as a condition of acceptance; and,

15. "FORMER INSURED," for purposes of this Stipulation and Waiver, is defined as a subscriber formerly insured with BLUE SHIELD LIFE under an Individual and Family Plan health insurance policy ("IFP") or Short Term Health insurance policy ("STH") written in California that was rescinded between January 1, 2004 and May 31, 2008, except individuals who (i) filed a lawsuit asserting claims arising out of the rescission of the individual's health insurance policy, which have been subject to a ruling on their merits by a court, or (ii) have entered into or are otherwise bound by a settlement with BLUE SHIELD LIFE regarding claims arising from rescission of the FORMER INSURED'S health insurance policy.

16. Subject to the conditions and limitations set forth in this paragraph, BLUE SHIELD LIFE agrees to and shall offer, on a voluntary basis, to reimburse each FORMER INSURED for, or hold each FORMER INSURED harmless from, only those medical expenses described herein.

(a) Reimbursable medical expenses ("Reimbursable Expenses") under this Stipulation and Waiver shall be limited to paid out-of-pocket medical expenses and medical expenses that were incurred and are owed but not yet paid by the FORMER INSURED, for medically necessary medical services that (1) were provided to the FORMER INSURED during the periods specified in subsection (b) below, and (2) would have been covered under the terms of the FORMER INSURED'S rescinded BLUE SHIELD LIFE health insurance policy, and (3) have not been covered or reimbursed by any third party payer entity, health care service plan, insurance contract (including, but not limited to, any applicable disability, workers' compensation, group, individual, or employer self-insurance coverage), or from the proceeds of any judgment or settlement, and (4) have not been waived, released, discharged, barred, settled or otherwise no longer

collectible by the medical provider at issue (including the medical provider's agents and assigns). Reimbursable Expenses do not include any applicable co-payments, coinsurance, deductible amounts, or any other expense that would have been the responsibility of the FORMER INSURED under the terms of the rescinded policy.

(b) With respect to FORMER INSUREDS who had IFP policies, BLUE SHIELD LIFE agrees to pay Reimbursable Expenses for the Rescinded Coverage Period (which runs from the effective date of the original rescinded health insurance policy to the date upon which the rescission of that policy was effective) and the Gap Period (which runs from the end of the FORMER INSURED'S Rescinded Coverage Period through the confirmed date of delivery of the notice to the address identified through commercially reasonable efforts pursuant to paragraph 18 herein.

(c) With respect to FORMER INSUREDS who had STH policies, BLUE SHIELD LIFE agrees to pay Reimbursable Expenses for the Policy Coverage Period (which runs from the effective date of the original rescinded health insurance policy to the date that the original policy would have expired had it not been rescinded). To the extent a FORMER INSURED who had a STH policy can demonstrate that he or she was required to pay additional amounts for medical expenses due to the assertion by a subsequent insurer of a pre-existing condition exclusion, and those additional amounts would have been payable by the FORMER INSURED'S subsequent insurer had the BLUE SHIELD LIFE Short Term Health policy not been rescinded, BLUE SHIELD LIFE agrees to

compensate the FORMER INSURED for any such amounts that would have been paid by the subsequent insurer.

(d) BLUE SHIELD LIFE may fully satisfy its obligation to reimburse a FORMER INSURED for those unpaid medical expenses described herein by holding the FORMER INSURED harmless from such medical expenses, and references herein to reimbursement of medical expenses shall be interpreted to include the option by BLUE SHIELD LIFE to hold the FORMER INSURED harmless from such medical expenses.

(e) Except as provided in paragraph 14(h), this offer of reimbursement of medical expenses shall remain open for ninety (90) days from the confirmed date of delivery of the notice of this offer as set forth in paragraph 18 herein.

(f) This offer of reimbursement of medical expenses is an option that is in addition to, and separate from, BLUE SHIELD LIFE'S New Coverage Offer as described in paragraph 14 above. BLUE SHIELD LIFE will not require a FORMER INSURED to accept the New Coverage Offer in order to accept the offer of reimbursement of medical expenses, or vice versa.

(g) Any claim for Reimbursable Expenses shall be subject to reasonable documentation requirements.

(h) This offer to pay Reimbursable Expenses is conditioned upon a settlement and full release by the FORMER INSURED of all disputes and claims arising from the rescission of the FORMER INSURED'S BLUE SHIELD LIFE health insurance policy.

(i) In the event a FORMER INSURED submits a request for reimbursement of medical expenses, BLUE SHIELD LIFE will either make a written offer to

reimburse all applicable medical expenses within sixty (60) days of receiving a written claim for all applicable medical expenses from a FORMER INSURED that includes reasonable documentation supporting the claim, such as invoices and cancelled checks, or dispute the claim on the basis of (1) medical necessity, (2) the scope of coverage, and/or (3) the amount of the claim. BLUE SHIELD LIFE agrees not to assert the validity of the rescission as a defense.

(j) BLUE SHIELD LIFE may require authorization from FORMER INSUREDS for the release of medical records and bills, as well as other information reasonably necessary to verify the claims.

(k) If a FORMER INSURED disputes BLUE SHIELD LIFE'S determination as to the amount of Reimbursable Expenses, the FORMER INSURED will have various options, in his or her sole discretion, as described below:

(1) A FORMER INSURED may decline to follow any process set forth in this Stipulation and Waiver and may pursue any legal remedy for any and all claims, in which event BLUE SHIELD LIFE retains the right to assert any and all defenses to any claim, including but not limited to, the validity of the rescission, statute of limitations and whether the claim would have been covered under the rescinded health insurance policy; or

(2) If the dispute involves the question of medical necessity of a health care service, the FORMER INSURED will have the option to refer the medical necessity question to an Independent Medical Review Organization for review, pursuant to California Insurance Code §§10169.2-10169.3. Any Independent Medical Review shall be paid by BLUE SHIELD LIFE and shall be binding on the parties; and,

(3) If the dispute involves BLUE SHIELD LIFE'S determination of the scope of coverage and/or the amount of Reimbursable Expenses, the FORMER INSURED will have the option to resolve the dispute through an expedited proceeding that shall be conducted by a JAMS arbitrator, subject to the rules described herein, except that the only issues to be determined shall be the scope of coverage and the appropriate amount of Reimbursable Expenses during the relevant period. The proceeding shall be subject to the following rules:

(i) BLUE SHIELD LIFE shall not assert the validity of the rescission as a defense; and,

(ii) The arbitration proceeding shall be on the basis of a written record without personal appearance of any party. The record shall consist of a statement by both parties, and their evidence addressing the appropriate amount of medical expenses reimbursable under the terms of this Stipulation and Waiver. Both parties shall have the right to submit additional written statements and materials following review of the materials submitted by the other party. No discovery shall be permitted, except that BLUE SHIELD LIFE may obtain the FORMER INSURED'S medical records and bills, and other information reasonably necessary to the determination of the dispute. The burden of proof shall be on the FORMER INSURED to establish the right to reimbursement of particular medical expenses; and,

(iii) BLUE SHIELD LIFE shall pay the cost of the arbitrator; and,

(iv) Any award shall be limited to Reimbursable Expenses under the terms of this Stipulation and Waiver, will be final and binding for both parties

and conditioned upon a full and complete release of all disputes and claims arising from the rescission of the FORMER INSURED'S original health insurance policy; and,

(v) In the event that an award is based upon Reimbursable Expenses owed by a FORMER INSURED that have not yet been paid to the provider, the arbitration decision shall provide that BLUE SHIELD LIFE, in its sole discretion, have the right to resolve any such unpaid medical expenses directly with the billing provider in which event BLUE SHIELD LIFE shall hold the FORMER INSURED harmless from any such unpaid medical expenses and deduct the amount owed by the FORMER INSURED from the award. In the event BLUE SHIELD LIFE resolves any unpaid medical expenses directly with the billing provider and holds the FORMER INSURED harmless from any such unpaid medical expenses, such action shall satisfy fully BLUE SHIELD LIFE'S obligation under this Stipulation and Waiver to reimburse the FORMER INSURED for such unpaid Reimbursable Expenses owed by the FORMER INSURED to such provider; and,

(vi) The arbitrator shall be selected randomly by JAMS from a qualified healthcare panel of arbitrators. The FORMER INSURED shall have the right to reject the randomly selected arbitrator within fifteen (15) days of notice of selection by JAMS. Should the FORMER INSURED reject the selected arbitrator, JAMS will send a list containing five (5) arbitrators. BLUE SHIELD LIFE and the FORMER INSURED each may strike up to two names and rank the remaining arbitrators in order of preference. The arbitrator with the highest composite ranking will be appointed. Such arbitrators shall follow the terms of the IFP or

STH policy and applicable California law, including the California Insurance Code and implementing regulations, and shall periodically consult with each other to ensure consistency in decision-making. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures, subject to the modifications in this Stipulation and Waiver.

17. BLUE SHIELD LIFE shall report to the Department, on a monthly basis, beginning ninety (90) days after the date of the Order adopting this Stipulation and Waiver, the following information: the name, last known address, last known telephone number (if available), and policy number of each FORMER INSURED as described herein. Each monthly report shall also contain a summary of the number of FORMER INSUREDS who accepted the offer of New Coverage and the number of FORMER INSUREDS who did not accept the offer of New Coverage; and the number of FORMER INSUREDS who accepted the offer of reimbursement of Reimbursable Expenses and the total dollar amount of Reimbursable Expenses subject to this Stipulation and Waiver and the date of the expected payment of such Reimbursable Expenses and/or the actual date of payment of such Reimbursable Expenses; and the number of FORMER INSUREDS who submitted a claim for reimbursement for medical expenses for whom BLUE SHIELD LIFE disputed such claim and the reason(s) for the dispute (medical necessity and/or scope of coverage and/or amount of Reimbursable Expenses); and the number of FORMER INSUREDS who accepted the offer of expedited dispute resolution for Reimbursable Expenses and the total dollar amount of arbitration awards as an outcome of such proceedings; and,

18. BLUE SHIELD LIFE shall use its commercially reasonable efforts to contact eligible FORMER INSUREDS to make the voluntary offers set forth herein, commencing no later than ninety (90) days from the date of the Order adopting this Stipulation and Waiver.

BLUE SHIELD LIFE shall provide a report to the Department identifying the date and method of each attempt to contact eligible FORMER INSUREDS. Commercially reasonable efforts to contact eligible FORMER INSUREDS shall consist of notification of the voluntary offers, the content of which notice shall be satisfactory to the Department, by overnight or certified mail or private delivery service with confirmation of delivery to the last known address, the use of an independent search service to locate the current address of FORMER INSUREDS, and notice and publication of information regarding the settlement on BLUE SHIELD LIFE'S web site; and,

19. BLUE SHIELD LIFE shall exercise its commercially reasonable efforts to issue and send payment for reimbursement of Reimbursable Expenses to FORMER INSUREDS who accept the voluntary offer described in paragraph 16 herein within thirty (30) days of the date of the final resolution of the FORMER INSURED'S claim for reimbursement of Reimbursable Expenses, and shall complete the offer to reimburse and payment of Reimbursable Expenses as soon as is reasonably possible, and in no event later than thirty (30) days following an award in the FORMER INSURED'S favor; and,

20. BLUE SHIELD LIFE agrees to and shall establish the following business process practices:

(a) BLUE SHIELD LIFE agrees to and shall work with the Department to establish an independent third party review process for rescissions of IFP and STH policies. Within a reasonable time after reaching an agreement with the Department regarding the criteria and design of the independent third party review process, BLUE SHIELD LIFE agrees to implement the independent third party review process and apply it to IFP and STH policy rescissions that occur on and after the date of implementation. In the event that one or more statutes are enacted and become effective that establish an independent review process for rescissions

of individual health insurance policies by California insurers, BLUE SHIELD LIFE'S obligations under this section shall cease and BLUE SHIELD LIFE shall comply with such statute or statutes. Nothing in this section shall obligate BLUE SHIELD LIFE to commit any action or inaction that would be contrary to applicable law.

(b) BLUE SHIELD LIFE agrees to and shall institute policies and procedures, as soon as is reasonably possible, to require the review of at least one source of information other than the application for coverage as part of its pre-enrollment underwriting process prior to issuing the policy (such as reviewing BLUE SHIELD LIFE'S internal claim database, pharmacy database, or other source of information).

(c) BLUE SHIELD LIFE agrees to submit a corrective action proposal to the Department within thirty (30) days of the date of the Order adopting this Stipulation and Waiver and to work with the Department to establish appropriate criteria for such corrective actions, and once the criteria are approved by the Department, to timely implement such corrective actions. BLUE SHIELD LIFE agrees to and shall complete implementation of such corrective actions within one hundred twenty (120) days of the date the Department approves, in writing, the criteria for such corrective actions. The corrective action proposal shall cover the following areas:

(i) the application form and health history questionnaire,

(ii) the underwriting process,

(iii) the training and integration of agent/broker involvement in the application and underwriting process,

(iv) the appropriate notification to policyholders and providers of a rescission investigation and decision,

(v) the claims handling process related to rescissions

(vi) the rescission investigation and decision-making process,

(vii) the rescission appeals process,

(viii) internal audits of the rescission process, and

(ix) internal audits of the claims handling process

(d) BLUE SHIELD LIFE agrees and acknowledges that the Department may conduct a follow-up examination to verify that BLUE SHIELD LIFE has timely and substantially complied with the terms of the corrective action proposal. If, following completion of the follow up examination, the Department determines that BLUE SHIELD LIFE has not timely and substantially implemented the corrective actions, the Department may impose a monetary penalty proportional to the identified deficiencies, up to five million dollars ($5,000,000.00). BLUE SHIELD LIFE does not waive its right to contest any such determination through available administrative procedures; and,

21. BLUE SHIELD LIFE agrees to and shall pay, within ten (10) business days after receiving an invoice from the California Department of Insurance, Division of Accounting, the amount of two hundred eighty-five thousand dollars ($285,000.00) to the Department for reimbursement of attorneys fees and costs, pursuant to California Insurance Code §12921, upon written order of the Insurance Commissioner to be made and filed herein and without further notice to BLUE SHIELD LIFE; and,

22. This Stipulation and Waiver will settle and fully resolve the matters alleged or arising out of practices identified in the Public Report of the Market Conduct

Examination of the Claims Practices of Blue Shield of California Life & Health Insurance Company and CareAmerica Life Insurance Company As of May 31, 2005, the Report of the Market Conduct Examination of the Claims Practices of Blue Shield of California Life & Health Insurance Company and CareAmerica Life Insurance Company As of May 31, 2005, and the targeted examination of rescission practices of Blue Shield of California Life & Health Insurance Company specified in paragraph 7 herein and any report of examination issued by the Department as a result of such targeted rescission examination, the allegations in the Accusation (File No. OSC-2007-00067), and any consumer complaints received for alleged acts or failures to act that are identified in the foregoing reports and Accusation that occurred during the respective time periods referenced within such reports and Accusation.

23. BLUE SHIELD LIFE and the Department agree that this Stipulation and Waiver is intended to be a complete and final resolution of the issues and allegations referenced in paragraph 22 above and the Accusation and no further action will be brought against BLUE SHIELD LIFE based upon the matters referenced in paragraph 22 and the allegations contained in the Accusation, provided, however, that neither this Stipulation and Waiver nor the Order approving this Stipulation and Waiver are in any way intended to limit or waive the Commissioner's authority to bring disciplinary action against BLUE SHIELD LIFE for alleged violations of California law arising from rescissions occurring after May 31, 2008 or any other acts or failures to act not referred to in either paragraph 22 or the Accusation; and,

24. Nothing contained in this Stipulation and Waiver or the Order approving this Stipulation and Waiver shall prevent the Department from taking action at any time to enforce this Stipulation and Waiver or the Order approving this Stipulation and Waiver if BLUE SHIELD LIFE is not in compliance with the terms and conditions of the Stipulation and Waiver and/or the Order approving this Stipulation and Waiver; and,

25. The Insurance Commissioner retains jurisdiction to ensure that BLUE SHIELD LIFE complies with the provisions and terms of this Stipulation and Waiver and/or Order approving this Stipulation and Waiver; and,

26. BLUE SHIELD LIFE represents and warrants that the persons executing this Stipulation and Waiver on behalf of BLUE SHIELD LIFE are authorized to enter into and execute this Stipulation and Waiver; and,

27. BLUE SHIELD LIFE acknowledges that California Insurance Code §12921 requires the Insurance Commissioner to approve the final settlement of this matter. Both the settlement terms and conditions contained herein and the acceptance of those terms and conditions are contingent upon the Commissioner's approval, which shall be evidenced and memorialized by the issuance of the Order provided for herein.

28. This Stipulation and Waiver is a compromise within the meaning of California Evidence Code §§1152 and 1154.

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Dated: December 29, 2008

BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY

Signed _____

Name: Seth A. Jacobs

Title: Secretary

APPROVED AS TO FORM:

Dated: December _____, 2008

MANATT, PHELPS & PHILLIPS, LLP

Signed: _____

Name: Gregory N. Pimstone
Attorneys for Respondent

25. The Insurance Commissioner retains jurisdiction to ensure that BLUE SHIELD LIFE complies with the provisions and terms of this Stipulation and Waiver and/or Order approving this Stipulation and Waiver; and,

26. BLUE SHIELD LIFE represents and warrants that the persons executing this Stipulation and Waiver on behalf of BLUE SHIELD LIFE are authorized to enter into and execute this Stipulation and Waiver; and,

27. BLUE SHIELD LIFE acknowledges that California Insurance Code §12921 requires the Insurance Commissioner to approve the final settlement of this matter. Both the settlement terms and conditions contained herein and the acceptance of those terms and conditions are contingent upon the Commissioner's approval, which shall be evidenced and memorialized by the issuance of the Order provided for herein.

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Dated: December 29, 2008

BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY

Signed _____

Name: Seth A. Jacobs

Title: Secretary

APPROVED AS TO FORM:

Dated: December 29, 2008

MANATT, PHELPS & PHILLIPS, LLP

Signed: _____

Name: Gregory N. Pimstone
Attorneys for Respondent

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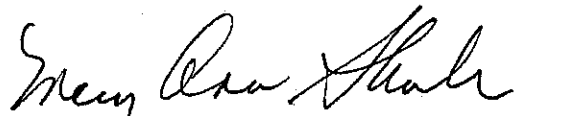
Dated: December 29, 2008

STEVE POIZNER
Insurance Commissioner



Mary Ann Shulman
Senior Staff Counsel

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Attorneys for the
California Department of Insurance

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

SAN FRANCISCO

In the Matter of the Certificate of Authority of: BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY, Respondent.	CDI File No. OSC-2007-00067 OAH No.: 2008020772 **ORDER**

WHEREAS, on or about December 11, 2007, the Insurance Commissioner (hereafter "Commissioner") caused to be served upon BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY (hereafter "BLUE SHIELD LIFE") an Order to Show Cause, Accusation, Notice of Noncompliance, and Demand for Monetary Penalty, denominated "In the Matter of the Certificate of Authority of: BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY, Respondent, File No. OSC-2007-00067," and subsequently, on or about August 27, 2008, the Commissioner served upon BLUE SHIELD LIFE a First Amended Accusation and, on or about October 2, 2008, served a Second Amended

Accusation (collectively "Accusation"). Said Accusation is incorporated herein by reference, and alleged that BLUE SHIELD LIFE engaged in acts or practices in violation of California Insurance Code §§790.03, 790.06, 700(c), 704(b), 796.04, 10113, 10123.13, 10123.131, 10169, 10380, 10381.5, and 10384, and the Fair Claims Settlement Practices Regulations contained in title 10, California Code of Regulations, §§2695.1 et seq.; and,

WHEREAS, Respondent has executed a Stipulation and Waiver in which it waived its rights to a hearing in this matter, and any and all other rights which may be accorded pursuant to the provisions of the California Administrative Procedure Act (Government Code §§11500-11528) and the California Insurance Code, and has stipulated to the entry of this Order. Said Stipulation and Waiver is incorporated herein by reference; and,

GOOD CAUSE APPEARING;

IT IS HEREBY ORDERED that BLUE SHIELD LIFE shall Cease and Desist from engaging in acts or practices in the business of life and disability insurance in violation of California Insurance Code §§790.03, 790.06, 700(c), 704(b), 796.04, 10113, 10123.13, 10123.131, 10169, 10380, 10381.5, 10384, and title 10, California Code of Regulations, §§2695.1 et seq.; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall offer to each FORMER INSURED, as defined in the Stipulation and Waiver, a written offer of health insurance coverage going forward on a guaranteed issue basis as more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall offer to reimburse each FORMER INSURED for, or hold each FORMER INSURED harmless from, those medical expenses, as more fully described in the Stipulation and Waiver. With respect to FORMER INSUREDS who had an Individual and Family Plan health insurance policy ("IFP"), BLUE SHIELD LIFE shall offer to reimburse those medical expenses for medical services received during the Rescinded Coverage Period (which runs from the effective date of the original rescinded health insurance policy to the date upon which the rescission of that policy was effective) and the Gap Period (which runs from the end of the FORMER INSURED'S Rescinded

Coverage Period through the confirmed date of delivery of the notice of the offers as more fully described in the Stipulation and Waiver) in accordance with the process as more fully described in the Stipulation and Waiver. With respect to FORMER INSUREDS who had a Short Term Health insurance policy ("STH"), BLUE SHIELD LIFE shall offer to reimburse those medical expenses for the Policy Coverage Period (which runs from the effective date of the original rescinded health insurance policy to the date that the original policy would have expired had it not been rescinded) and such additional medical expenses as more fully described in the Stipulation and Waiver in accordance with the process as more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELF LIFE shall provide to the California Department of Insurance ("Department") monthly reports and contact eligible FORMER INSUREDS and complete the offers, reimbursement of medical expenses and arbitration resolution process as set forth and more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall establish an independent third party review process to determine any future rescissions of IFP and STH policies as set forth and more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall institute and implement policies and procedures to require the review of at least one source of information other than the application for coverage as part of its pre-enrollment underwriting process prior to issuing the policy, as more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall submit a corrective action proposal to the Department to address improvements to the application form and health history questionnaire, the underwriting process, the training and integration of agent/broker involvement in the application and underwriting process, the notification to policyholders and providers of a rescission investigation and decision, the rescission claims handling process, the rescission investigation and decision-making process, the rescission appeals process, internal audits of the rescission process, and internal audits of the claims handling process, and shall work with the

Department to establish criteria for such corrective actions, as more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall complete implementation of the corrective action proposal as set forth and more fully described in the Stipulation and Waiver. Upon completion of a follow up examination, if the Department determines that BLUE SHIELD LIFE has failed to substantially and timely implement the corrective actions, the Department may impose a monetary penalty of up to five millions dollars ($5,000,000.00), as more fully described in the Stipulation and Waiver; and,

IT IS FURTHER ORDERED that BLUE SHIELD LIFE shall pay, within ten (10) business days after receiving an invoice from the California Department of Insurance, Division of Accounting, the amount of two hundred eighty-five thousand dollars ($285,000.00) to the Department for reimbursement of attorneys fees and costs, pursuant to California Insurance Code §12921; and,

IT IS FURTHER ORDERED that this Order shall become effective immediately upon the date set forth below.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this 30th day of December, 2008.

STEVE POIZNER
Insurance Commissioner

By: _____
JERRY L. WHITFIELD
Assistant Chief Counsel