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CALIFORNIA DEPARTMENT OF INSURANCE
LEGAL DIVISION
Michael Tancredi, SBN 101425
300 South Spring Street
South Tower, Suite 12700
Los Angeles, CA 90013
Telephone: 213-346-6635
Facsimile: 213-897-9241

Attorneys for Steve Poizner,
California Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
STATE OF CALIFORNIA

In the Matter of the Licenses and Licensing
Rights of:

Life Insurance Company of North
America,

Respondent.

File No.: UPA 2008-00004

OAH No. Pending

ORDER TO SHOW CAUSE
(Ins. Code Sections 790.03 and 790.05);

STATEMENT OF CHARGES/ACCUSATION
(Ins. Code Sections 790.03 and 790.05); 704(b)
704.7;

NOTICE OF MONETARY PENALTY
(Ins. Code Sections 790.03, 790.05 and
790.035).

and

ORDER TO SHOW CAUSE

(Ins. Code Section 790.06)

Date: On a date to be set.

Time: 9:00 a.m.

Place: Office of Administrative Hearings, Los
Angeles, CA

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ORDER TO SHOW CAUSE

WHEREAS, the Insurance Commissioner of the State of California (hereafter, “the Commissioner”) has reason to believe that **Life Insurance Company of North America** (hereinafter “LINA”) has engaged in or is engaging in this State in the unfair methods of competition or unfair or deceptive acts or practices, and other unlawful acts, as set forth in the STATEMENT OF SPECIFIC CHARGES/ACCUATION contained herein; and

WHEREAS, the Commissioner has reason to believe that a proceeding with respect to the alleged acts of Respondent would be in the public interest;

NOW, THEREFORE, and pursuant to the provisions of § 790.05 of the California Insurance Code (CIC), Respondent is ordered to appear at the time, date and location specified above, and show cause, if any cause there be, why the Commissioner should not issue an Order requiring Respondent to Cease and Desist from engaging in the methods, acts, and practices set forth in the STATEMENT OF SPECIFIC CHARGES/ACCUSATION contained in Paragraph E herein, and imposing the penalties set forth in § 790.035, 704(b) 704.7; of the CIC and as requested in the PRAYER AND NOTICE OF MONETARY PENALTY.

GENERAL STATEMENT

1. Pursuant to 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 practices and procedures in California of LINA.

2. The examination covered the claims handling practices of LINA during the period February 1, 2005 through June 20, 2006. The examination was made to discover, in general, if these and other operating procedures of LINA conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law.

To accomplish the foregoing, the examination included:

- 1 1. A review of the guidelines, procedures, training plans and forms adopted by LINA for use in
2 California including any documentation maintained by LINA in support of positions or
3 interpretations of fair claims settlement practices.
- 4 2. A review of the application of such guidelines, procedures, and forms, by means of an
5 examination of claims files and related records.
- 6 3. A review of consumer complaints received by the California Department of Insurance in the
7 most recent year prior to the start of the examination.
- 8 4. The examination was conducted at the offices of LINA in Glendale, California.
9 At the conclusion of the examination a Report of Examination was provided to LINA
10 and LINA provided its responses to the Report. Further, attached to the Report was the
11 Table of Specific Findings which outlines the names and other identifying information
12 concerning the insureds whose files were reviewed. Those names are not referenced in
13 the Order to Show Cause so as to protect the privacy interests of the insureds. However,
14 as above, Respondent LINA is in possession of this information and has full notice of
15 same.

CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

16 3. The examiners reviewed files drawn from the category of Closed Claims for the
17 period February 1, 2005, through January 31, 2006, commonly referred to as the “review
18 period”. There were a total of 1655 Closed Claims for this period. In addition group long-term
19 disability files closed in litigation between November 1, 2004 and June 20, 2006 were reviewed.
20 There were 139 files closed in litigation for this period. The examiners reviewed targeted
21 samples of claims closed and denied during these window periods. The examiners reviewed
22 224 claim files as follows: 159 for the February 1, 2005 through January 31, 2006 review
23 period; and 20 of the files closed in litigation between November 1, 2004 and June 20, 2006.
24 The examiners cited 57 claims handling violations of the Fair Claims Settlement Practices
25 Regulations and/or California Insurance Code Section 790.03 within the scope of this report, as
26 follows: 39 citations for the February 1, 2005 through January 31, 2006 review period; and 18
27 for the files closed in litigation between November 1, 2004 and June 20, 2006. In this regard, the
28 ratio of violations (57) to reviewed files (224) is approximately 25%. If this ratio is extrapolated

1 to the 1794 files in the review periods, it would reflect 448 violations in this regard.

2 4. In addition, to the Fair Claims Settlement Practices Act violations, the examiners
3 identified five violations instances where the Respondent failed to pay interest on a benefit
4 payment that was not paid within 30 calendar days from receipt of information needed to
5 determine liability. These instances reflect claims in which proof of claim was received and
6 lump sum payments were made after the Respondent's investigation was completed. The
7 Respondent failed to include interest in these lump sum payments issued later than 30 days after
8 receipt of proof from the claimant. The Department alleges these acts are in violation of CICR
§10111.2(c).

9 5. The acts were knowingly committed and or the pattern and frequency of the
10 violations indicate a general business practice.

11 **STATEMENT OF SPECIFIC CHARGES/ACCUSATION**

12 **1. In 27 instances, LINA failed to adopt and implement reasonable standards for the**
13 **prompt investigation and processing of claims arising under its insurance policies. The**
14 **Department alleges these acts are in violation of CIC §790.03(h) (3) as follows:**

15 6. In 6 instances, LINA applied a 21-day or 45-day deadline for submission of
16 proof of claim after receiving notice of claim on Group Long Term Disability policies. LINA
17 indicated to the claimant that, if all the information necessary to make a benefit determination
18 was not received in 45 days from the date of notice, LINA would review the information, (or
19 lack of information) in the file and make an initial claim decision. LINA routinely required
20 documentation, as a standard for entitlement of benefits, to include loss of work-related
21 functions documented in medical records, office notes, and reports of comprehensive medical
22 assessments. When the claimant could not produce these documents within 45 days, the claim
23 was denied and entered the appeal process. Three of the claimants indicated there were reports
24 relating to comprehensive medical assessments that the claimant had not been able to acquire
25 yet. The other three claimants indicated outstanding medical records would support their
26 claims. The claims were denied for lack of information, prior to the LINA obtaining any of the
27 above. An allegedly disabled claimant was required to collect all medical records during the
28

1 appeal process if the additional records were to be included in the review. There was no policy
2 language or statute to support these deadlines. The Department does acknowledge
3 that Title 29, Chapter XXV Section 2560.503-1 of the United States Labor Code requires an
4 adverse benefit determination to be made within 45 days after proof of claim is received.
5 Section 2560.503-1 specifically allows for additional time and tolls the statute when
6 “information necessary to decide a claim” is to be submitted by the claimant and is unavailable
7 to the administrator. It was unreasonable to deny these claims when LINA was aware that the
8 kind of information it required for potential entitlement of benefits (medical records and medical
9 assessment reports) existed but was not obtained by LINA and reviewed prior to making the
10 denial decision. The 45-day deadline was not supported by policy language, statute or
11 precedent. The Department alleges these acts are in violation of CIC §790.03(h) (3).

11 In its response to the examination, LINA has admitted these violations.

12 7. In 3 instances, LINA failed to request medical records prior to making a claim
13 determination. These included instances in which LINA failed to work with the treating
14 physicians in obtaining medical records or failed to request any medical records. LINA limited
15 its request by sending two facsimiles to the medical provider. If the medical provider indicated
16 this was not the way he/she operated, the adjuster requested the medical records directly from
17 the claimant. LINA also failed to send a copy service to collect medical records necessary to
18 decide a claim or otherwise work within parameters acceptable to the attending physician. The
19 Department alleges these acts are in violation of CIC §790.03(h) (3). In its response to the
20 examination, LINA has admitted these violations

21 8. In 5 instances, the claimants had provided significant documentation relating to
22 potentially disabling conditions, but had not paid for or provided their own functional testing.
23 The files reflect the attending physician treated the claimants but did not perform functional
24 testing. LINA failed to perform any functional testing or peer review of medical records on the
25 file while at the same time LINA was utilizing functional test results as the guidepost for
26 medical information necessary to the entitlement of benefits. In addition, LINA asked an
27 attending physician if the attending physician could contact the health insurance carrier of a
28 claimant to arrange and pay for a functional capacity examination. It is unreasonable for LINA

1 to require the claimants to perform their own functional testing to receive benefits. The
2 Department alleges these acts are in violation of CIC §790.03(h) (3). In its response to the
3 examination, LINA has admitted these violations.

4 9. In 5 instances, LINA failed to consult with a health care professional who had
5 appropriate training and experience in the field of medicine involved in the medical judgment.
6 These files reflected Physical Therapists performing functional test or medical records reviews
7 of patients with HIV and other conditions such as AIDS, diabetes, cardiovascular disease,
8 lypodystrophy, recent heart surgeries and fecal incontinence. In addition, medical records were
9 reviewed by a LINA Physical Therapist for claimants with chemotherapy related fatigue and
10 multiple sclerosis. The disabling condition indicated by the attending physician was not
11 addressed. The claim files did not address if the claimant could perform an occupation with
12 reasonable continuity. The Department alleges these acts are in violation of CIC §790.03(h)(3).
13 In its response to the examination, LINA has admitted these violations.

14 10. In 2 instances, LINA utilized the attending physician statement to support its “not
15 disabled” analysis while not clarifying with the attending physician why he/she was indicating
16 continuing disability. LINA failed to have medical personnel review test results reflecting the
17 existence of a potentially disabling condition that came in after the denial. The Department
18 alleges the above acts are in violation of CIC §790.0(h) (3). In its response to the examination,
19 LINA has admitted these violations.

20 11. In 2 instances, claims were denied during the “any occupation” period in which
21 LINA failed to perform a transferable skills analysis and labor market survey to identify
22 alternate occupations appropriate to the claimants based on their restrictions, limitations,
23 education, training, and station in life. LINA assumed alternate occupations existed based on
24 Dictionary of Occupational Titles classifications such as “sedentary” but failed to identify the
25 alternate occupations. The Department alleges these acts are in violation of CIC §790.03(h) (3).
26 In its response to the examination, LINA has admitted these violations.

27 12. In 2 instances, the adjuster ignored substantial information that came into the file
28 after the initial denial. This included information received over a period of eleven months
including signed authorization; hospital records indicating trauma and coma; completed
attending physician statements; and names, addresses and phone numbers of treating specialists.

1 The Department alleges these acts are in violation of CIC §790.03(h) (3). In its response to the
2 examination, LINA has admitted these violations.

3 13. In 1 instance, LINA failed to investigate the course and nature of the disabling
4 condition as it related to the first date missed from work and the end of the waiting period. The
5 Department alleges this act is in violation of CIC §790.03(h) (3). In its response to the
6 examination, LINA has admitted this violation.

7 **2. In 17 instances LINA failed to effectuate prompt, fair and equitable settlements**
8 **of claims in which liability had become reasonably clear. The Department alleges these are**
9 **violations of CIC 790.03 (h) (5) as follows:**

10 14. In 2 instances, LINA denied claims during the “any occupation” period but failed
11 to perform transferable skills analysis or Labor Market Survey to identify alternate occupations
12 that the claimants could reasonably perform given their restrictions, limitations, education,
13 training and station in life. In its response to the examination, LINA has admitted these
14 violations.

15 15. In 1 instance, LINA assumed that alternate employers could make an
16 accommodation for the claimant but never provided supporting documentation for this. The
17 Department alleges this act is in violation of CIC §790.03(h) (5). In its response to the
18 examination, LINA has admitted this violation.

19 16. In 2 instances, LINA applied a 60% threshold to the relation of the wages of
20 alternate occupations to the claimant’s pre-disability earnings. The 60% was not supported
21 contractually or by California precedent. The file did not reflect a “station in life” rationale or
22 consideration. The Department alleges these acts are in violation of CIC §790.03(h) (5). In its
23 response to the examination, LINA has admitted these violations.

24 17. In 2 instances, LINA applied a “national economy” definition during the own
25 occupation on claims in which the claimants could not perform their own occupations. LINA
26 identified alternate occupations in the national economy the claimant allegedly could perform
27 while the file reflected the claimant could not perform the occupation they were performing
28 prior to becoming disabled. The files reflect that the claimants were unable to perform with
reasonable continuity the substantial and material acts necessary to pursue their usual
occupations in the usual and customary way. The Department alleges these acts are in violation

1 of CIC §790.03(h) (5). In its response to the examination, LINA has admitted these violations.

2 18. In 3 instances, LINA failed to consider the course and nature of an illness prior to
3 denial of benefits. LINA identified objective tests results indicating disability once the claimant
4 was properly tested by the proper medical professional. However, as this objective testing did
5 not take place within the waiting period, the claim was denied as the claimant was no longer
6 covered under the policy when disability was documented by subjective test results. LINA
7 failed to ask reasonable and specific questions of the attending physicians and LINA health care
8 professionals as to the course and nature of illnesses such as HIV/AIDS and degenerative disc
9 disease. Claimants receiving conservative treatment initially and going to a specialist only after
10 the end of the waiting period were not given consideration of the nature and course of their
11 disabling condition prior to the denial of the claim. The Department alleges these acts are in
12 violation of CIC §790.03(h) (5). In its response to the examination, LINA has admitted these
13 violations.

14 19. In one instance each, LINA adjuster:

15 a. Ignored the medical assessment by LINA's own medical health professional that
16 the claimant was disabled and denied additional benefits. The Department alleges this act is in
17 violation of CIC §790.03(h) (5). In its response to the examination, LINA has admitted this
18 violation.

19 b. Removed several disabling health conditions (HIV, heart disease, wasting
20 disease) from the claimant's medical history on file prior to requesting an internal health care
21 professional to review and sign-off as to whether the claimant was disabled. None of the
22 claimed disabling conditions were addressed in the assessment summary of LINA nurse
23 consultant. The Department alleges this act is in violation of CIC §790.03(h) (5). In its
24 response to the examination, LINA has admitted this violation.

25 c. Ignored correspondence received after the initial denial that reasonably required
26 a response. The Department alleges this act is in violation of CIC §790.03(h) (5). In its
27 response to the examination, LINA has admitted this violation.

28 d. Failed to clarify the claimant's restrictions and limitations with the attending
physician who was indicating the claimant was disabled. The Department alleges this act is in
violation of CIC §790.03(h) (5). In its response to the examination, LINA has admitted this

1 violation.

2 e. Failed to provide complete information in the file to the health care expert
3
4 performing a peer review of the medical records. In its response to the examination, LINA has
5 admitted this violation.

6 f. Misapplied the Mental and Nervous two-year policy coverage limitation when
7 the file reflected a physiological condition contributed to the disabling condition. The
8 Department alleges this act is in violation of CIC §790.03(h) (5). In its response to the
9 examination, LINA has admitted this violation.

10 g. Failed to investigate how the claimant could perform his/her own occupation
11 given the restrictions applied. The file failed to contain supporting documentation that the
12 claimant could reasonably and safely perform the occupation given his/her medical condition
13 and history of passing out unexpectedly. The Department alleges this act is in violation of CIC
14 §790.03(h) (5). In its response to the examination, LINA has admitted this violation.

15 **3. In 6 instances LINA failed to represent correctly to claimants, pertinent facts or
16 insurance policy provisions relating to a coverage at issue. The Department alleges these
17 acts are violations of CIC §790.03(h) (1) as follows:**

18 20. In 3 of these instances the claims involved government entities. The claimant
19 was sent a denial letter indicating the claim was covered by ERISA (Employee Retirement
20 Income Security Act of 1974). The adjuster did not contact the government entity to determine
21 if they were an exception to the rule regarding government entities not being subject to ERISA.
22 The Department alleges these acts are in violation of CIC §790.03(h) (1). In its response to the
23 examination, LINA has admitted these violations.

24 21. In 1 instance, LINA misrepresented to the claimant the Mental and Nervous
25 policy limitation as it is to be applied in California. The correspondence indicated the claimant
26 would have to demonstrate that they remained disabled solely due to a physiological condition
27 to remain on benefit. The adjuster failed to indicate that disabling conditions caused by,
28 contributed to or concurrent with a psychological condition would not be applicable to the two-
year policy limitation. The Department alleges this act is in violation of CIC §790.03(h) (1). In
its response to the examination, LINA has admitted this violation.

1 22. In 1 instance, the Life Waiver of Premium was discontinued as the claimant was
2 not “totally disabled”. LINA applied a guidepost of any income level on a part-time basis
3 would equate to a claimant not being totally disabled. We could find no support for this in
4 California precedent. The Department alleges this act is in violation of CIC §790.03(h) (1). In
5 its response to the examination, LINA has admitted this violation.

6 23. In 1 instance, LINA sent correspondence to the claimant indicating the policy
7 “requires” them to apply for Social Security Income Disability Insurance. The policy contained
8 no such requirement. The Department alleges this act is in violation of CIC §790.03(h) (1). In
9 its response to the examination, LINA has admitted this violation.

10 **4. In 4 instances, LINA compelled insureds to institute litigation to recover amounts**
11 **under an insurance policy offering substantially less than the amounts ultimately**
12 **recovered in actions brought by the insureds, when the insureds have made claims for**
13 **amounts reasonably similar to amounts ultimately recovered, The Department alleges**
14 **these acts are in violation of CIC §790.03(h) (6) as follows:**

15 24. All of these files reflected that LINA had failed to perform a proper investigation
16 of the claim or had misapplied policy provisions. These errors were recognized only after the
17 claimant had instituted litigation as referenced below:

18 25 In 1 instance, LINA misapplied the two year Mental and Nervous Limitation to
19 include disabilities contributed to by a physiological component. In its response to the
20 examination, LINA has admitted to this violation.

21 26. In 1 instance, LINA failed to address the course and nature of the disabling
22 condition in relation to the date of disability and waiting period. In its response to the
23 examination, LINA has admitted to this violation.

24 27. In 1 instance, LINA applied a 60% threshold of earnings from the alternate
25 occupation in relation to the pre-disability earnings. The file contained no reference to the
26 claimant’s “station in life.” In its response to the examination, LINA has admitted to this
27 violation.

28 28. In 1 instance, LINA failed to investigate how the claimant could perform the

1 alternate occupation with limited use of her hands. In its response to the examination, LINA has
2 admitted to this violation.

3 **5. In 2 instances, LINA attempted to settle a claim by making a settlement offer that**
4 **was unreasonably low as follows:**

5 29. In 1 instance, LINA failed to include an additional 10% to the monthly benefit as
6 the policy allowed an additional 10% when income from other income was offset. In its
7 response to the examination, LINA has admitted to this violation.

8 30. In 1 instance the file reflected a period of disability during which a two year
9 Mental and Nervous limitation was applied to a period of disability contributed to by a
10 physiological condition. The amount recovered for consumers on these two claims was \$137,
11 289.30. The Department alleges these acts are in violation of CCR §2695.7(g). In its response
12 to the examination, LINA has admitted to this violation.

13 **6. In one instance, LINA failed to include a statement in its claim denial that, if the**
14 **claimant believes the claim has been wrongfully denied or rejected, he or she may have the**
15 **matter reviewed by the California Department of Insurance as follows:**

16 31. The Department identified one instance, only in which LINA failed to include the
17 California Department of Insurance language on a denial letter. The Department alleges this act
18 is in violation of CCR §2695.7(b) (3). In its response to the examination, LINA has admitted to
19 this violation.

20 **NON FAIR CLAIMS SETTLEMENT PRACTICE FINDINGS**

21 32. As a result of the examination, the Commissioner, in his official capacity,
22 now alleges that Respondent has violated, in addition to the provisions of the Fair Claims
23 Settlement Practices Regulations above, the following and that these violations constitute acts or
24 practices that are unfair or deceptive: the examiners identified five violations instances where
25 the Respondent failed to pay interest on a benefit payment that was not paid within 30 calendar
26 days from receipt of information needed to determine liability. These instances reflect claims in
27 which proof of claim was received and lump sum payments were made after the Respondent's
28 investigation was completed. The Respondent failed to include interest in these lump sum
payments issued later than 30 days after receipt of proof from the claimant. The Department
alleges these acts are in violation of CICR §10111.2(c).

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PRAYER AND NOTICE OF MONETARY PENALTY

WHEREFORE, Petitioner prays for judgment against Respondent LINA as follows:

1. An Order to Cease and Desist from engaging in such unfair acts or practices in violation of CIC 790.03;
2. Pursuant to CIC Section 790.035, for unfair or deceptive acts in violation of Section 790.03 as set forth above in an amount to be fixed by the Commissioner not to exceed ten thousand dollars (\$10,000.00) for each unfair or deceptive act or practice found to be willful; and a penalty in an amount to be fixed by the Commissioner not to exceed five thousand dollars (\$5,000.00) for each unfair or deceptive act or practice found not to be willful.
3. Pursuant to CIC 704(b) and 704.7 suspension of Respondent's certificate of authority for not exceeding one year or a fine of fifty -five thousand dollars (\$55,000) in lieu of suspension for not carrying out contracts in good faith.
4. Pursuant to CIC Section 790.06, that a declaration be made that the acts identified in paragraph 35 are unfair or deceptive pursuant to Article 6.5 of the California Insurance Code.

Dated: 11-12-2008

STEVE POIZNER
INSURANCE COMMISSIONER

-s-
BY _____
MICHAEL TANCREDI
SENIOR STAFF COUNSEL