

TO: MEGA Life and Health Insurance Company
Office of the President
9151 Grapevine Highway
North Richland Hills, Texas 76180

RE: Delaware Market Conduct Examination #04-709

CONSENT DECREE

WHEREAS, the MEGA Life and Health Insurance Company, (“MEGA” or “the Company”) has recently been the subject of a Market Conduct Examination resulting in a report entitled, *Report on Market Conduct Examination as of August 23, 2004* (the “Report”); and

WHEREAS, the Report alleges a number of discrepancies, among them the manner in which MEGA marketed Small Employer Group products to self-employed individuals in Delaware during the period of examination; and

WHEREAS, MEGA desires to correct any such deficiencies and to conduct future business in Delaware in full compliance with Delaware law; and

WHEREAS the report of the Market Conduct Examination has revealed that:

I. Small Employer Act

A. The following Recommendations and Corrective Actions pertain to the Company’s General Business Practices, in particular as these practices pertain to compliance with Delaware’s Small Employer Act – 18 Del. C. §§7201-7217.

1. MEGA will prepare and implement a disclosure form or forms for use in connection with the marketing of health insurance products to self-employed individuals in Delaware, which form or forms will be approved by the Department and will describe the following:

a. the self-employed person’s right to elect to purchase from MEGA, and MEGA’s obligation to issue to such self-employed person, the Basic and Standard Small Employer Group Health insurance coverage policies prescribed under Delaware Regulation 1308 or such other successor Small Employer Group Health insurance coverage policies as may be mandated by statute or regulation for use under Chapter 72 of the Delaware Insurance Code from time to time (such Small Employer Group Health insurance coverage policies are hereinafter referenced collectively as the “Mandated Small Group Forms”);

b. the advantages of the Mandated Small Group Forms relative to other Small Employer Group Health insurance products marketed by MEGA within the State of Delaware from time to time (“Other Small Group Forms”) and to Association Group Health insurance products and/or individual health insurance products marketed by MEGA within the State of Delaware from time to time (such Association Group Health insurance products and Individual Health Insurance products are hereinafter referenced collectively as “Non-Small Group Forms”);

c. the disadvantages of the Mandated Small Group Forms relative to Other Small Group Forms and to Non-Small Group Forms.

d. MEGA shall delineate the differences between the types of policies, including but not limited to the premium, benefits available under each policy, and any applicable exclusions or limitations.

2. MEGA will prepare and implement an "opt-out" form for use in marketing Non-Small Employer Group Forms to self-employed persons in Delaware, which "opt-out" form or forms will be approved by the Department and will be executed by prospective policyholders and which will clearly identify and evidence the prospective policyholder's selection of a Non-Small Group Form for purchase. Such form will be used in conjunction with the disclosure form or forms described in paragraph 1 above.

3. MEGA will conduct additional training for all Delaware agents with respect to sales practices in the Individual and Small Group Health insurance markets. MEGA will permit Delaware Insurance Department staff to monitor this training and will cooperate with the Delaware Insurance Department to facilitate Insurance Department staff attendance at such training. Further, MEGA will incorporate additional training with respect to sales practices in the Individual and Small Group Health insurance markets into MEGA's program of initial and continuing training for all Delaware agents on an ongoing basis.

4. MEGA will implement an enhanced review and audit process for all new Health Insurance business written in Delaware to ensure that sales practices are fully compliant with Delaware law and with this Consent Order.

5. MEGA will make benefit confirmation calls to all new Health Insurance policy or certificate holders in Delaware for the purpose of ensuring that new policyholders or certificateholders understand the products purchased.

6. MEGA will prepare and send a letter to each person who: (i) first became insured under a MEGA Health Insurance product after January 1, 2002 and prior to June 30, 2007, and (ii) is currently insured under a MEGA Health Insurance product issued in Delaware and has been so insured on a continuous basis since MEGA Health Insurance coverage was first issued to such person, for the purpose of confirming that such persons understand the MEGA Health Insurance products under which they are currently insured. MEGA will develop the format of this letter and submit same to the Department for approval.

7. MEGA shall comply with all Delaware Statutes and Regulations pertaining to the availability of insurance coverage in the Small Employer Group market, pursuant to 18 Del. C. §§7201-7217. Reference Examination Report Recommendations H-02-1, J-05-1, J-05-2 and J-07-2.

8. MEGA shall comply with Delaware's statutes and regulations in their classification of applicants in regard to Guaranteed Issue Options and those options shall be made available to all qualified applicants, pursuant to 18 Del. C. §2304(13)(b). Reference Examination Report Recommendation J-19-1.

9. MEGA shall utilize the Association Group disclaimer attached hereto as Exhibit "A" pre-issue which will include a definitive statement and disclosure to Association Group purchasers of Health Insurance relating to the requirement for membership in the association and the relationship between the insurer and the association, pursuant to 18 Del. C. §7202. Reference Examination Report Recommendation D-02-2.

10. MEGA shall comply with Delaware's statutes and the federal law relative to the marketing of Small Employer plans as defined in 18 Del. C. §§7201-7217 and Public Law 104-191, the Federal Health Insurance Portability and Accountability Act of 1996 (HIPAA). Reference Examination Report Recommendation P-32-3.

11. MEGA shall revise all forms used to determine eligibility in the Small Employer market and cease using any forms in use during the exam period that may have adversely impacted the rights afforded to applicants under Delaware's Small Employer Act, 18 Del. C. §§7201-7217. MEGA will develop the format of revised forms and will submit same to the department for approval. Reference Examination Report Recommendation P-32-4.

12. MEGA shall formulate, adopt and implement a written Rate and Form Filing Procedure and ensure that the Basic and Standard policies used for the Small Employer market are properly filed with the Department prior to their use, pursuant to 18 Del. C. §35 and 18 Del. C. §7205. Reference Examination Report Recommendation P-39-1.

13. MEGA shall formulate, adopt and implement a written Premium Quotation Procedure. MEGA shall ensure that this procedure is included in all of its agent training materials, that all agents have ready access to all product information and rates, and that the proper active marketing of all Small Employer plans is readily carried out by all agents, pursuant to 18 Del. C. §7215, 18 Del. C. §7207 and 18 DE Reg. §1308(12). Reference Examination Report Recommendation P-37-1.

14. MEGA shall formulate, adopt and implement a written Cancellation Procedure that includes clearly stated timeframes for the Cancellation Process, pursuant to 18 Del. C. §7206 and 18 Del. C. §3326. Reference Examination Report Recommendations P-28-1 and J-10-1.

15. MEGA shall discontinue the use of its multiple authorization and acknowledgement form, or Confirmation of Presentation (COP) form in use during the examination period. The disclosures and authorizations contained within this form must be separated for clarity and consumers are not to be asked to attest to having received information that is not specifically identified by the Company. Reference Examination Report Recommendations P-32-5 and D-01-1.

16. MEGA shall ensure that in any redesign of the COP form that the Medical Authorization and the Medical Information Bureau (MIB) notification are each made on separate forms. Reference Examination Report Recommendation D-01-2.

17. MEGA shall identify the actual brochure and/or Outline of Coverage presented to the applicant by form number and by product name, pursuant to 18 DE Reg. 1302 §7.1.1. Reference Examination Report Recommendation D-01-2.

18. MEGA shall formulate, adopt and implement a written Creditable Coverage Procedure, pursuant to 18 Del. C. §7202(14). Reference Examination Report Recommendation P-33-1.

19. MEGA shall implement a written Policy Issuance Procedure that ensures the timely issuance of certificates to Delaware applicants, pursuant to 18 Del. C. §7207. Reference Examination Report Recommendations H-02-2 and P-26-1.

20. MEGA shall review all application forms and any other sales related materials used by agents in the solicitation of policies of insurance and document that these materials meet the requirements of Delaware's Statutes and Regulations relating to required information and disclosures, pursuant to 18 Del. C. §7217. Reference Examination Report Recommendation D-01-4.

21. MEGA shall ensure that all sales brochures and issued certificates, provided to consumers in Delaware, are compliant with all Delaware statutes and regulations, and in particular, that these materials provide the appropriate reference to mandated coverages, including those for Immunizations, pursuant to 18 Del. C. §3558, and for Mental Illness, pursuant to 18 Del. C. §3343. Reference Examination Report Recommendation D-04-3.

22. MEGA shall only quote and issue its health insurance certificates in accordance with the rates filed with the Department, pursuant to 18 Del. C. §2517. Reference Examination Report Recommendation J-01-1.

23. MEGA shall implement a written procedure to prevent the acceptance of applications from agents who are not duly licensed in Delaware and appointed by the Company, pursuant to 18 Del. C. §1703 and 18 DE Reg. §202. Reference Examination Report Recommendation J-06-1.

24. MEGA shall not process or issue contracts or certificates where the applications contain changes that have not been properly initialed by the applicant, pursuant to 18 Del. C. §2709. Reference Examination Report Recommendation J-08-1.

B. The following Recommendations and Corrective Actions pertain to the Company's Underwriting Practices.

1. MEGA shall formulate, adopt and implement a written Underwriting File Documentation Procedure, pursuant to 18 Del. C. §7202. Reference Examination Report Recommendations P-42-1 and J-07-1.

2. MEGA shall maintain adequate and accurate underwriting file documentation to ensure that all underwriting decisions can be supported by the documentation in the file and to ensure that all applicants are treated fairly, pursuant to 18 DE Reg. 1308 §11.3. Reference Examination Report Recommendation J-07-3.

3. MEGA shall formulate, adopt and implement a written Underwriter Training Procedure. Reference Examination Report Recommendation P-41-1.

4. MEGA shall institute new, or augment and enhance existing, procedures to protect the personal health information of applicants and ensure that no such information is obtained without a specified legitimate purpose, pursuant to 18 DE Reg. §904(1). Reference Examination Report Recommendation P-32-6.

5. MEGA shall ensure that all Rejections, Declinations, Terminations and Cancellations Procedures are not unfairly discriminatory, pursuant to 18 Del. C. §2304(13). Reference Examination Report Recommendation J-09-1.

C. The following Recommendations and Corrective Actions pertain to the Company's Marketing and Advertising Practices.

1. MEGA shall formulate, adopt and implement a written Advertising, Sales and Marketing Procedure to ensure that advertising, sales and marketing materials contain an accurate description of the products being sold and specifically address the requirements that pertain to the marketing of the Basic and Standard Health Plans, pursuant to 18 Del. C. §2304 and 18 Del. C. §7215. Reference Examination Report Recommendations P-15-1 and P-32-2.

2. MEGA shall ensure that its producers are aware of Delaware's statutes and regulations pertaining to the marketing and advertising of insurance and the Company's own rules regarding the production and use of unauthorized sales materials, pursuant to 18 Del. C. §2304 and 18 Del. C. §7215. Reference Examination Report Recommendation D-04-1.

3. MEGA shall develop an effective process to identify and track the use of agent-produced sales materials, develop written supervisory procedures and, when appropriate, institute disciplinary procedures for those agents that deviate from these written procedures, pursuant to 18 Del. C. §2304 and 18 DE Reg. §1302(3.2). Reference Examination Report Recommendation D-04-2.

4. MEGA shall present the products it sells to the public in a manner that is clear and avoids deception, pursuant to 18 Del. C. §2304, 18 Del. C. §7215 and 18 DE Reg. §1302(3.2). Reference Examination Report Recommendation J-04-1.

5. MEGA shall ensure that all marketing materials and agent sales materials include the name of the insurance product being sold and that the name and form number accurately reflects those same policies submitted to and approved by the Department, pursuant to 18 Del. C. §2304(14). Reference Examination Report Recommendation J-04-1.

6. MEGA shall require that the full cost implications of the "Return of Premium Rider" be disclosed during all solicitations, pursuant to 18 Del. C. §2304(1)(a) and 18 DE Reg. 1304. Reference Report Recommendation P-32.

D. The following Recommendations and Corrective Actions pertain to the Company's Agent Training Practices.

1. MEGA shall formulate, adopt and implement a written Agent Produced Advertising Procedure. Reference Examination Report Recommendations P-16-1 and D-04-1.

2. MEGA shall develop written procedures to address agent disciplinary issues as they pertain to agent related issues identified in a complaint. Reference Examination Report Recommendation P-13-4.

3. MEGA shall formulate, adopt and implement a written Producer Training Procedure and ensure that these procedures properly address the requirements of the Small Employer market. Reference Examination Report Recommendation P-19-1.

4. MEGA shall formulate, adopt and implement a written Producer Selection and Appointment Procedure, pursuant to 18 Del. C. §1703, 18 Del. C. §1712, 18 Del. C. §1715 and 18 DE Reg. §202. Reference Examination Report Recommendations P-20-1, F-01-1 and F-02-1.

5. MEGA shall review all Delaware consumer and Department complaints of record in MEGA's complaint log, including individual complaints discovered subsequent to this consent decree that should have been recorded in such log, and complaints on file with the Department, received from 2002 until the present, that allege improper agent behavior and impose original or additional agent disciplinary actions, including additional training, where appropriate after investigation by the Company. Reference Examination Report Recommendations D-01-3 and B-03-2.

6. MEGA shall provide adequate training for producers relating to the definition of, and the Delaware requirements for, inclusion of applicants in the Small Employer market, pursuant to 18 Del. C. §7201-7217. Reference Examination Report Recommendation D-02-1.

E. The following Recommendations and Corrective Actions pertain to the Company's Claims Handling Practices.

1. MEGA shall formulate, adopt and implement a written Claim Handling and Investigation Procedure and ensure that all claims handling personnel and claims-related vendors are familiar with the provisions, pursuant to 18 Del. C. §2304(16). Reference Examination Report Recommendation P-50-1.

2. MEGA shall ensure that its Claim Handling Procedures acknowledge that response time is determined by receipt of the claim by either the Company, its Preferred Provider Organization (PPO) or an outside vendor. Reference Examination Report Recommendation P-50-2.

3. MEGA shall formulate, adopt and implement a written Internal Claim Audit Procedure. Reference Examination Report Recommendation P-51-1.

4. MEGA shall formulate, adopt and implement a written Timely Resolution of Clean Claims Procedure, pursuant to DE Reg. §903, DE Reg. §1310 and 18 Del. C. 2304(16). Reference Examination Report Recommendation P-53-1.

5. MEGA shall formulate, adopt and implement a written Claim File Documentation Procedure. Reference Examination Report Recommendation P-54-1.

6. MEGA shall ensure that all claim related correspondence between the claimant and the Company is maintained in the claim files and that Claim Handling Procedures are developed and communicated to personnel responsible for handling claims. Reference Examination Report Recommendations L-04-1 and L-05-1.

7. MEGA shall enhance its claim settlement processes to ensure that it provides complete and accurate information to Delaware claimants, pursuant to 18 Del. C. §2304(16). Reference Examination Report Recommendation L-06-1.

8. MEGA shall provide claim settlements within the time-frames required by 18 Del. C. §332 and DE Reg. §902. Reference Examination Report Recommendation L-09-1.

9. MEGA shall provide Internal Review Process notices to claimants following an adverse claim determination, pursuant to 18 Del. C. §332 and DE Reg. §902. Reference Examination Report Recommendation L-09-2.

10. MEGA shall develop a means to tie claim numbers for a single bill if the line items exceed the file contents capacity resulting in multiple claim numbers. MEGA shall provide claim history data at the bill level which ties together multiple claim numbers that are generated for that bill or one instance of illness. MEGA's Explanation of Benefits statements should reflect a full bill regardless of how many separate claims are processed within the adjudication system. Reference Examination Report Recommendation L-06-1.

11. MEGA shall revise its Explanation of Benefits statements to disclose complete and accurate information to Delaware insureds relative to the type and amount of all applicable deductibles as well as the current status of the deductible following a claim settlement. Reference Examination Report Recommendation P-31-1.

F. The following Recommendations and Corrective Actions pertain to the Company's Complaint Handling Practices.

1. MEGA shall formulate, adopt and implement a written Complaint Handling Procedure, ensuring that the procedure provides direction to all complaint handling staff and agents for addressing how to identify and convert all verbal complaints to writing, pursuant to 18 Del. C. §2304(17). Reference Examination Report Recommendation P-13-1.

2. MEGA shall ensure that its procedures for the handling, recording and responding to complaints, whether received directly from consumers or through the Department, are consistent and that they comply with Delaware's statutes and regulations. Reference Examination Report Recommendation P-13-2.

3. MEGA shall develop procedures to properly identify all of the issues raised in a complaint, that the Company acknowledges said issues in any correspondence to the consumer, and that all issues are handled completely. MEGA shall also develop a procedure for evaluating and instituting changes necessary to address the cause of the complaint. Reference Examination Report Recommendations P-13-3 and B-08-1.

4. MEGA shall formulate, adopt and implement written Grievance Handling Procedures, ensuring that the procedure provides direction to all grievance handling staff and agents for addressing how to identify and convert all verbal grievances to writing, pursuant to 18 Del. C. §332. Reference Examination Report Recommendation P-14-1.

5. MEGA shall ensure that all complainants and aggrieved persons that file notice either in written form or orally, and whether submitted directly from a consumer or through the Department, are informed when there has been an adverse claim determination, and that the determination be recorded as required by Delaware law pursuant to 18 Del. C §2304(17). Reference Examination Report Recommendation B-01-1.

6. MEGA shall ensure that procedures are in place to allow it to accurately and completely respond to all complaints and grievances and that all issues are resolved within the required timeframes. Reference Examination Report Recommendations B-01-2 and B-04-1.

7. MEGA shall comply with the timeliness of response and timeliness of resolution of grievances as required by 18 Del. C. §332 (c)(5) and 18 Del. C.§2304(17). Reference Examination Report Recommendation B-04-1.

8. MEGA shall ensure that all complaint files and all grievance files are adequately documented. Reference Examination Report Recommendations P-13-1 and B-05-1.

G. The following Recommendations and Corrective Actions pertain to the Company's General Business Practices.

1. MEGA shall implement a written Procedure for routing correspondence from policyholders, applicants and regulatory authorities to ensure the consistent handling of customer and regulatory correspondence throughout the Company. Reference Examination Report Recommendation P-23-1.

2. MEGA shall formulate, adopt and implement a written Premium Billing Procedure. Reference Examination Report Recommendation P-25-1.

3. MEGA shall formulate, adopt and implement a written Staff Training Procedure. Reference Examination Report Recommendation P-46-1.

4. MEGA shall formulate, adopt and implement a written HIPAA Compliance Procedure, paying particular attention to those issues involving enrollment and the availability of coverage requirements. Reference Examination Report Recommendation P-47-1.

5. MEGA shall formulate, adopt and implement a written Adjustor or Claims Adjudicator Training Procedure. Reference Examination Report Recommendations P-49-1, L-01-1 and L-03-1.

6. MEGA shall formulate, adopt and implement a written Procedure to ensure compliance with 18 U.S.C. §1033(e)(1) and (2) in order to prevent convicted felons {and others as defined in 18 U.S.C. §1033} from being associated with the Company. Reference Examination Report Recommendation P-58-1.

7. MEGA shall formulate, adopt and implement a written Procedure to place appropriate limitations on access to private customer information, pursuant to Public Law 104-191, the Federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) and 18 DE Reg. 904 and 905.

II. Other Procedures

1. MEGA shall formulate, adopt and begin implementation of a written Record Retention Procedure that addresses the deficiencies noted in the Recommendations in the report that pertain to the following Procedures: Procedure 03 – Electronic Records Control, Procedure 04 – File Backup, Procedure 05 – File Maintenance and Content, Procedure 06 – Record Retention, Procedure 07 – Computer Security, and Procedure 08 – Documentation for Computer Screens and Programs. Reference Examination Report Recommendation A-06-1.
2. MEGA shall formulate, adopt and implement a written Internal and External Audit Procedure. Reference Examination Report Recommendations P-01-1 and A-01-1.
3. MEGA shall formulate, adopt and implement a written Anti-Fraud Procedure that requires positive action on the part of the Company’s staff to detect, report and prevent acts of insurance fraud as may be required pursuant to 18 Del. C. §2408. Reference Examination Report Recommendations P-02-1 and A-03-1.
4. MEGA shall finalize and implement its SEC-EN-PO-101 “Enterprise Security Program Summary” policy referenced in the report and provide evidence to the Department of having taken such action. Reference Examination Report Recommendation P-07-1.
5. MEGA shall finalize and implement the “IT Processes and Procedures” referenced in the report and provide evidence to the Department of having taken such action. Reference Examination Report Recommendation P-12-1.
6. MEGA shall formulate, adopt and begin implementation of a written Computer Information Integrity Procedure that addresses the deficiencies noted in the Recommendations in the report that pertain to the following Procedures: Procedure 03 – Electronic Records Control, Procedure 04 - File Backup, Procedure 05 - File Maintenance and Content, Procedure 07 - Computer Security, Procedure 08 - Documentation for Computer Screens and Programs, Procedure 12 - Insurance Information Management and Procedure 56 - Vendor Oversight and Control. Reference Examination Report Recommendation A-02-1.
7. MEGA shall formalize its procedures for responding to examiners, examination inquiries and information requests, as well as overall examination cooperation, pursuant to 18 Del. C. §318 and 18 Del. C. §320. Reference Examination Report Recommendation A-08-1.
8. MEGA shall require all areas of the Company to assist the Examination Coordinator in providing responses to examiner inquiries, that all areas of the Company be apprised of their responsibility to provide such assistance promptly, and that the Company devote appropriate and adequate resources to achieve timely and accurate responses during an examination, pursuant to 18 Del. C. §318 and 18 Del. C. §320. Reference Examination Report Recommendations A-08-2 and A-08-3.
9. MEGA shall formulate, adopt and implement a written Termination Procedure that complies with the requirements of the Delaware Small Employer Act. Reference Examination Report Recommendations P-29-1 and J-10-1.
10. MEGA shall formulate, adopt and implement a written Policy Reinstatement Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual

Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendation P-30-1.

11. MEGA shall formulate, adopt and implement a written Enrollment Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendations P-32-1 and P-27-1.

12. MEGA shall formulate, adopt and implement a written Premium Determination Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendation P-36-1.

13. MEGA shall formulate, adopt and implement a written Policyholder Disclosure Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendation P-40-1.

14. MEGA shall formulate, adopt and implement a written Policyholder Services Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendation P-24-1.

15. MEGA shall formulate, adopt and implement a written Declination Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendation P-43-1.

16. MEGA shall formulate, adopt and implement a written Rescissions Procedure that complies with the requirements of the Delaware Small Employer Act and all other Individual Health insurance plans not included in the definition of Small Employer plans. Reference Examination Report Recommendation P-44-1.

III. Additional Remediation

1. MEGA shall prepare and send a letter to all current Delaware policyholders who applied for and obtained coverage with MEGA on or after January 1, 2002 (except for persons who have entered into legal settlements with MEGA pertaining to their coverage) (each a "Covered Contactee"). In such letter, MEGA shall inform such Covered Contactees of their potential rights in the small employer market if they were qualified as a small employer under Delaware law at time of initial application and shall offer, on a retroactive basis, the Standard Indemnity Benefit Plan set forth in Appendix A to Insurance Department Regulation 1308 (18 De. Admin Code 1308) (hereinafter the "Standard Plan") to any such Covered Contactees who respond to such letter indicating interest in obtaining retroactive Small Employer coverage in replacement of other MEGA coverages held by them and who are determined to have been qualified as a small employer at the time of initial application for such other MEGA coverages. MEGA shall prepare such letter and any other forms and documents provided to consumers in connection with this remediation process and shall submit same to the Department for approval. Reference Examination Report Recommendation J-05-3.

2. For those Covered Contactees who indicate interest in obtaining retroactive Small Employer coverage in replacement of other MEGA coverages held by them (hereinafter, a “Covered Requestor”) pursuant to paragraph 1 above, MEGA shall take the following steps:

- a. MEGA shall evaluate such indication of interest to verify that the Covered Requestor qualified for Small Employer coverage at the time such other MEGA coverage was initially applied for.
- b. For Covered Requestors who did qualify for Small Employer coverage (a “Qualifying Covered Requestor”), MEGA shall re-evaluate all previous paid and denied claims, submitted on or after January 1, 2002, to determine whether or not the claim was adjudicated in accordance with the requirements of the Standard Plan. In particular, MEGA shall review any claims denied because of the health condition of the applicant(s), because of any pre-existing conditions, or any restrictions or riders.
- c. MEGA shall calculate any additional amount Qualifying Covered Requestors (or their respective health care providers) would have received on each such re-evaluated claim, and shall calculate the net of such amount (the “Net Amount”) against all additional premiums owed under the Standard Plan from the time of initial application. In calculating the Net Amount, MEGA shall calculate simple interest at the rate of nine percent (9%) per annum on the unpaid portion of any claims that were denied or limited because such claims were not adjudicated according to the terms and conditions of the Standard Plan. Such interest will be calculated from the date of payment if a payment was made or thirty (30) days following the filing of the original claim if no payment was made.
- d. MEGA shall provide notice to each Qualifying Covered Requestor of the Net Amount for that Qualifying Covered Requestor, and of the amount of monthly premium going forward for continued enrollment in the Standard Plan.
- e. MEGA shall: (i) enroll each Qualifying Covered Requestor that elects retroactive enrollment (hereinafter a “Retroactive Enrollee”) in the Standard Plan in replacement of other MEGA coverages held by such person, (ii) shall pay, or collect, the Net Amount as appropriate, and (iii) shall otherwise treat such Retroactive Enrollee as a Standard Plan participant on a going forward basis.
- f. In complying with the provisions of this paragraph 2, MEGA will be entitled to (i) coordinate benefits with respect to other coverages as and to the extent permitted by the terms of the Standard Plan and by Delaware law, (ii) take into account and apply all claims payments made and premiums received under and with respect to MEGA coverages held by a Qualifying Covered Requestor that are to be replaced by the Standard Plan on a retroactive basis, (iii) evaluate eligibility of any Retroactive Enrollee for the Standard Plan at any point or points in time on a continuing basis from issue date under the terms of the Standard Plan and pursuant to Delaware law, and (iv) terminate or cancel any Retroactive Enrollee’s coverage under the Standard Plan effective at and as of any point or points in time from issue date based on

ineligibility or other circumstances, events or factors as provided by the terms of the Standard Plan and by Delaware law.

3. MEGA shall prepare and send a letter to all persons who, on or after January 1, 2002, previously made application to MEGA for coverage in Delaware but were declined (except for persons who have entered into legal settlements with MEGA) (each a “Decline Contactee”). In such letter, MEGA shall:

- a. inform such Decline Contactees of their potential rights in the small employer market if they were qualified as a small employer under Delaware law at time of initial application;
- b. offer, on a retroactive basis, the Standard Plan to any Decline Contactees who: (i) respond to such letter (“Responding Decline Contactees”) indicating interest in obtaining retroactive Small Employer coverage, (ii) are determined to have been qualified as a small employer at the time of initial application for such other MEGA coverages, (iii) did not obtain or otherwise have in force health insurance coverage from another source for a period of time beginning on the date of such declination and therefore had no health insurance coverage from any source during such period, and (iv) received and paid for out of personal funds¹ medical treatment or services during the period of time in which each respective Responding Decline Contactee was without coverage. Such letter shall invite Responding Decline Contactees to submit evidence of medical treatment or services, including at a minimum copies of original billing and payment documentation, during the period of no coverage (the “Claims Evidence”) and shall provide guidance on how Responding Decline Contactees may locate and assemble Claims Evidence, and in particular how to obtain copies of original billing documentation from providers. MEGA shall prepare such letter and any other forms and documents provided to consumers in connection with this remediation process and shall submit same to the Department for approval. Reference Examination Report Recommendation J-05-3.

4. For those Responding Decline Contactees who indicate interest in obtaining retroactive Small Employer coverage (hereinafter, a “Decline Requestor”) pursuant to paragraph 3 above, MEGA shall take the following steps:

- a. MEGA shall evaluate such indication of interest to verify that the Decline Requestor (i) qualified for Small Employer coverage at the time MEGA coverage was initially applied for, (ii) did not obtain or otherwise have in force health insurance coverage from another source for a period of time beginning on the date of such declination and therefore had no health insurance coverage from any source at any time during this period, and (iii) received and paid for out of personal funds medical treatment or services during the period of time in which each respective responding Decline Requestor was without coverage.

¹ All references in this Section III to medical treatment or services “paid for out of personal funds” shall include the unsatisfied payment obligations of Decline Contactees for medical treatment or services that are not payable by or through any other source.

- b. For Decline Requestors who are determined to meet the standards set forth in paragraph 4a above (a “Qualifying Decline Requestor”), MEGA shall evaluate the Claims Evidence submitted by such Qualifying Decline Requestor to determine whether or not such medical treatment or services are sufficiently documented for consideration under the Standard Plan and would have been covered under the Standard Plan during the period of no coverage following declination.
- c. MEGA shall calculate any amounts Qualifying Decline Requestors (or their respective health care providers) would have received under the Standard Plan for each claim evaluated pursuant to paragraph 4b above which is determined to be sufficiently documented for consideration under the Standard Plan and that would have been covered under the Standard Plan during the period of no coverage following declination, and shall calculate the net of such amount (the “Net Amount”) against all premiums owed under the Standard Plan from the time of initial application throughout the period of no-coverage following declination. In calculating the Net Amount, MEGA shall calculate simple interest at the rate of nine percent (9%) per annum on any claims determined to be payable under this paragraph 4c. Such interest will be calculated from sixty (60) days following the date or dates of service in question.
- d. MEGA shall provide notice to each Qualifying Decline Requestor of the Net Amount, and of the amount of monthly premium going forward for continued enrollment in the Standard Plan.
- e. MEGA shall: (i) retroactively enroll each Qualifying Decline Requestor that elects retroactive enrollment (hereinafter a “Retroactive Decline Enrollee”) in the Standard Plan, (ii) shall pay, or collect, the Net Amount as appropriate, and (iii) to the extent such Retroactive Decline Enrollee elects coverage under the Standard Plan on a going forward basis, shall otherwise treat such Retroactive Decline Enrollee as an ordinary Standard Plan participant.
- f. In complying with the provisions of this paragraph 4, MEGA will be entitled to (i) coordinate benefits with respect to other coverages as and to the extent permitted by the terms of the Standard Plan and by Delaware law, (ii) evaluate eligibility of any Retroactive Decline Enrollee for the Standard Plan at any point or points in time on a continuing basis from issue date under the terms of the Standard Plan and pursuant to Delaware law, and (iii) terminate or cancel any Retroactive Decline Enrollee’s coverage under the Standard Plan effective at and as of any point or points in time from issue date based on ineligibility or other circumstances, events or factors as provided by the terms of the Standard Plan and by Delaware law.

5. MEGA shall prepare and send a letter to all persons who, on or after January 1, 2002, applied for and obtained coverage with MEGA in Delaware and whose coverage was subsequently terminated (except for persons who had their coverage rescinded due to misrepresentations in the application process and persons who have entered into legal settlements with MEGA pertaining to their coverage) (each a “Terminated Contactee”). In such letter, MEGA shall:

- a. inform such Terminated Contactees of their potential rights in the small employer market if they were qualified as a small employer under Delaware law at time of initial application;
- b. offer, on a retroactive basis, the Standard Plan to any such Terminated Contactees who: (i) respond to such letter (“Responding Terminated Contactees”) indicating interest in obtaining retroactive Small Employer coverage, and (ii) are determined to have been qualified as a small employer at the time of initial application for such other MEGA coverages. Such letter shall also invite Responding Terminated Contactees to submit evidence of medical treatment or services, including at a minimum copies of original billing and payment documentation, in the event that such Responding Terminated Contactees (i) did not obtain or otherwise have in force health insurance coverage from another source for a period of time beginning on the date of termination of their MEGA coverage and therefore had no health insurance coverage from any source during such period, and (ii) received and paid for out of personal funds² medical treatment or services during such period of no coverage (the “Post Termination Claims Evidence”). Such letter shall further provide guidance on how Responding Terminated Contactees may locate and assemble Post Termination Claims Evidence, and in particular how to obtain copies of original billing documentation from providers. MEGA shall prepare such letter and any other forms and documents provided to consumers in connection with this remediation process and shall submit same to the Department for approval. Reference Examination Report Recommendation J-05-3.

6. For those Responding Terminated Contactees who indicate interest in obtaining retroactive Small Employer coverage (hereinafter, a “Terminated Requestor”) pursuant to paragraph 5 above, MEGA shall take the following steps:

- a. MEGA shall evaluate such indication of interest to verify that the Terminated Requestor qualified for Small Employer coverage at the time MEGA coverage was initially applied for.
- b. For Terminated Requestors who are determined to have qualified for Small Employer coverage at the time MEGA coverage was initially applied for (a “Qualifying Terminated Requestor”), MEGA shall (i) evaluate any Post Termination Claims Evidence submitted by such Qualifying Terminated Requestor to determine whether or not such medical treatment or services have been sufficiently documented for consideration under the Standard Plan and would have been covered under the Standard Plan during the period of no coverage following termination and (ii) re-evaluate all claims previously paid and denied under MEGA coverage in force prior to the date of termination and submitted on or after January 1, 2002, to determine whether or not the claim was adjudicated in accordance with the requirements of the Standard Plan. In particular, MEGA shall review any claims denied because of the health condition of the applicant(s), because of any pre-existing conditions, or any restrictions or riders.

² All references in this Section III to medical treatment or services “paid for out of personal funds” shall include the unsatisfied payment obligations of Terminated Contactees for medical treatment or services that are not payable by or through any other source.

- c. MEGA shall calculate any amounts Qualifying Terminated Requestors (or their respective health care providers) would have received on each claim evaluated or re-evaluated under paragraph 6b above, and shall calculate the net of such amount (the “Net Amount”) against all premiums owed under the Standard Plan from the time of initial application through any period of no coverage following termination. In calculating the Net Amount, MEGA shall calculate simple interest at the rate of nine percent (9%) per annum on the unpaid portion of any claims determined to be payable under this paragraph 6c. Such interest will be calculated from (i) sixty (60) days following the date or dates of service in question for claims involving medical treatment or services provided post termination, (ii) the date of payment for claims submitted during coverage with MEGA if a payment was made, or (iii) thirty (30) days following the filing of the original claim during coverage with MEGA if no payment was made.
- d. MEGA shall provide notice to each Qualifying Terminated Requestor of the Net Amount, and of the amount of monthly premium going forward for continued enrollment in the Standard Plan.
- e. MEGA shall: (i) retroactively enroll each Qualifying Terminated Requestor that elects retroactive enrollment (hereinafter a “Retroactive Terminated Enrollee”) in the Standard Plan, (ii) shall pay, or collect, the Net Amount as appropriate, and (iii) to the extent such Retroactive Terminated Enrollee elects Standard Plan coverage on a going forward basis, shall otherwise treat such Retroactive Terminated Enrollee as an ordinary Standard Plan participant.
- f. In complying with the provisions of this paragraph 4, MEGA will be entitled to: (i) coordinate benefits with respect to other coverages as and to the extent permitted by the terms of the Standard Plan and by Delaware law, (ii) take into account and apply all claims payments made and premiums received under and with respect to MEGA coverages held by a Retroactive Terminated Enrollee that are to be replaced by the Standard Plan on a retroactive basis, (iii) evaluate eligibility of any Retroactive Terminated Enrollee for the Standard Plan at any point or points in time on a continuing basis from issue date under the terms of the Standard Plan and pursuant to Delaware law, and (iv) terminate or cancel any Retroactive Terminated Enrollee’s coverage under the Standard Plan effective at and as of any point or points in time from issue date based on ineligibility or other circumstances, events or factors as provided by the terms of the Standard Plan and by Delaware law.

7. MEGA shall provide a list to the Department, of all Covered Contactees, Decline Contactees, Terminated Contactees, Responding Decline Contactees, Responding Terminated Contactees, Covered Requestors, Decline Requestors, Terminated Requestors, Qualifying Covered Requestors, Qualifying Decline Requestors, Qualifying Terminated Requestors, Retroactive Enrollees, Retroactive Decline Enrollees and Retroactive Terminated Enrollees.

8. MEGA shall contact all current policyholders and past policyholders who held coverage with MEGA between January 1, 2002 and the date of this Consent Order and inform them of the

availability of coverage for Child Immunizations, pursuant to 18 *Del. C.* § 3558, and Mental Illness, pursuant to 18 *Del. C.* § 3343. Where requested and appropriate the Company shall re-adjudicate these claims and documentation of all such claim related activity shall be provided to the Department. Reference Examination Report Recommendations P-32-7 and D-04-3.

9. MEGA shall review all rescinded files, a sample of all claim denials for policyholders not covered under Paragraphs 1 through 7 of this Section III, and all complaint records, in each case incurred during 2002 to present, in order to determine whether these decisions were made in compliance with Delaware's laws. Wherever required the Company shall remediate improperly denied claims, rescissions that do not comport with Delaware law respecting rescission of policies in the individual market, and improperly processed complaints. MEGA shall define sampling methodology and size and shall make such determinations subject to approval of the Department.

10. MEGA shall provide a list to the Department of the results of its review required under paragraph 9 of this Section III, and shall provide documentation to the Department that appropriate adjustments were made. Reference Examination Report Recommendation J-13-2.

11. MEGA shall maintain a procedure to record the reason or cause for customer-initiated cancellations.

12. MEGA shall produce a list for the Department of all Delaware insureds who voluntarily terminated their insurance policy with the Company on or after January 1, 2002 through the present. This list must include the date the Company received notification of the policyholder's intention to cancel the policy, the paid to date for the subsequently cancelled policy as well as any related correspondence.

13. MEGA agrees to produce a sample of voluntarily cancelled policy files to the Department for review in order to determine whether these cancellations were processed in a timely manner.

14. MEGA agrees to review a sample of denied claims for policyholders not covered under Paragraphs 1 through 7 of this Section III, for the time period 2002 through the present, where the claims were denied without any payment based on certain codes identified by the Department. The Company agrees to develop a review work plan that is satisfactory to the Department. The results from this review shall be provided to the Department in writing once (i) the Department has provided to MEGA the list of codes contemplated by this paragraph 14, (ii) the Department and MEGA have reached agreement on the sampling methodology and sample size to be utilized pursuant to this paragraph 14, and (iii) MEGA has assessed the magnitude of the project contemplated by this paragraph 14 based on such list and the agreed sampling methodology and sample size.

15. The Department will monitor MEGA's compliance with this Agreement. It is further expected that the Department will conduct re-examination of the issues addressed by the Examination Report corresponding to the specific timeframes set forth below and, upon such re-examination, the Company shall demonstrate to the satisfaction of the Department substantial compliance with the provisions of this Consent Decree as follows:

- a. The Company shall demonstrate substantial compliance with the following provisions hereof 6 months from the date hereof:

- i. Section I.A
- ii. Section I.B
- iii. Section I.C
- iv. Section I.D.1 through I.D.4.
- v. Section I.D.6
- vi. Section I.E.2 through I.E.11
- vii. Section I.F
- viii. Section I.G
- ix. Section II
- x. Section III.11

b. The Company shall demonstrate substantial compliance with the following provisions hereof 12 months from the date hereof:

- i. Section I.D.5
- ii. Section I.E.1
- iii. Section III.1
- iv. Section III.3
- v. Section III.5
- vi. Section III.12 and III.13

c. The Company shall demonstrate substantial compliance with the following provisions hereof 24 months from the date hereof:

- i. Section III.2
- ii. Section III.4
- iii. Section III.6 through III.10
- iv. Section III.14

16. The reasonable costs of the Department in monitoring the Company's compliance with the Agreement, including, but not limited to, the cost of conducting any reviews, interim monitoring or re-examination provided for by the Agreement, shall be paid by the Company.

17. The Department will impose a fine of \$500,000 against the Company. Up to \$400,000 of this fine will be suspended if the Company meets certain benchmarks set forth in this paragraph as determined by the Department upon re-examination. Accordingly, the Company will voluntarily and knowingly surrender and forfeit sums as follows:

- a. \$100,000, such sum payable to the State Treasurer for deposit in the General Fund, in accordance with 18 *Del. C.* § 329, within 30 days of the date of the entry of this Consent Decree;
- b. \$100,000, if the Company is found to have failed to demonstrate substantial compliance with the sections of this Consent Decree identified in Section 15.a. hereof on or after 6 months from the date hereof, such sum payable to the State Treasurer for deposit in the General Fund, in accordance with 18 *Del. C.* § 329, within 30 days from the date of such finding;
- c. \$100,000, if the Company is found to have failed to demonstrate substantial compliance with the sections of this Consent Decree identified in Section 15.b. hereof on or after 12

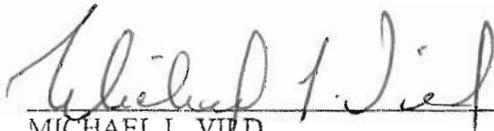
months from the date hereof, such sum payable to the State Treasurer for deposit in the General Fund, in accordance with 18 Del. C. § 329, within 30 days from the date of such finding; and

- d. \$200,000, if the Company is found to have failed to demonstrate substantial compliance with the sections of this Consent Decree identified in Section 15 c. hereof on or after 24 months from the date hereof, such sum payable to the State Treasurer for deposit in the General Fund, in accordance with 18 Del. C. § 329, within 30 days from the date of such finding.

18. Nothing in this Consent Decree, including but not limited to Section 15 hereof, shall be interpreted to relieve the Company of its obligation, at all times, to comply with all applicable provisions and requirements of Delaware law.

NOW, THEREFORE, in lieu of the institution by the Commissioner of any action for the SUSPENSION or REVOCATION of the Certificate of Authority of MEGA Life and Health Insurance Company to transact the business of insurance in the State of Delaware or the imposition of other sanctions, MEGA Life and Health Insurance Company does hereby voluntarily and knowingly waive all rights to any hearing, and does agree to and consent to the terms and conditions of this Consent Decree.

Agreed and consented to this 4th day of October, 2007



MICHAEL L. VILD
Deputy Insurance Commissioner
Department of Insurance
State of Delaware



PRESIDENT
The MEGA Life and Health Insurance Company

SO ORDERED THIS 4th DAY OF October, 2007



MATTHEW DENN
Commissioner