

Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

Valley Health Plan, Inc.
P O Box 3128
Eau Claire, WI 54703

dated February 7-February 10, 2000, and served upon the company on April 12, 2000, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 3rd day of May, 2000.

Connie L. O'Connell
Commissioner of Insurance

Report
of the
Market Conduct Examination of

Valley Health Plan, Inc.
Eau Claire, Wisconsin
February 7 - February 10, 2000

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Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

Pursuant to your instructions and authorization, a market conduct examination was made February 7-10, 2000, of the affairs of:

VALLEY HEALTH PLAN, INC.

Eau Claire, Wisconsin

The report of this examination is herein respectfully submitted.

I. INTRODUCTION

The Valley Health Plan, Inc. (VHP), can be described as a for-profit, group model health maintenance organization (HMO) insurer. VHP contracts with the Midelfort Clinic to provide primary and specialist services. In addition, the HMO provides care through contracts with clinics and independent physicians operating out of their separate offices. In 1998 VHP did business in Barron, Buffalo, Chippewa, Clark, Dunn, Eau Claire, Jackson, Pepin, Pierce, Polk, Rusk, St. Croix, Taylor, Trempealeau and Washburn counties in Wisconsin.

The company commenced operation on August 25, 1981, as Midelfort Clinic Health Plan Co-op, a not-for-profit cooperative, operated by Midelfort Clinic, Ltd. As part of a 1988 reorganization, the entity was incorporated as a for-profit, group model HMO, under the name Midelfort Health Plan, Inc. (MHP), a wholly owned subsidiary of Midelfort Clinic, Ltd. United Wisconsin Services, Inc. (UWS) purchased the HMO on January 1, 1992. The purchase by UWS was followed by a name change from MHP to VHP effective January 15, 1993. The ultimate parent of VHP is Blue Cross & Blue Shield United of Wisconsin (BCBSUW).

Company Premium Information:

VHP ranked 19th in premium volume for group accident and health insurance in Wisconsin for the business year of 1998. Table A itemizes the two previous years' premium and loss ratio.

TABLE A: PREMIUM AND LOSS RATIO SUMMARY

Business Line	Wisconsin Business 1998			1997		
	Premium Written	% of Total	Pure Loss Ratio	Premium Written	% of Total	Pure Loss Ratio
HMO Group	59,893,136	86.80%		52,024,061	86.51%	
HMO Individual	9,108,710	13.20%		8,112,877	13.49%	
Total	69,001,846	100%	92.9%	60,136,938	100%	91.8%

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II. PURPOSE AND SCOPE

The examination was conducted to determine whether VHP's practices and procedures comply with the market conduct recommendations in OCI's financial examination report which was adopted February 9, 1998.

The examination focused on the period from January 1, 1998 through December 31, 1999, and was limited to a review of the following company procedures:

- Grievances
- Agent Administration
- Provider Agreements
- Advertising
- Small Employer Health Insurance

Complaints

During 1999 OCI received five complaints against VHP. The majority of the complaints were for claims administration, which can include issues of referral, access, and quality assurance. In addition, the total number of complaints received in 1999 increased from two complaints received in 1998. Table B itemizes the two previous years' complaint numbers and percentages.

VHP was not on OCI's above-average complaint summary for 1998 and had an average of .002 complaints per \$100,000 of written premium for all group accident and health companies in the state. The Wisconsin average was .06 complaints per \$100,000 of written premiums for all group accident and health insurance business in the state.

Table B: Complaints

Categories	1999		1998		1997	
	Number	% of Total	Number	% of Total	Number	% of Total
Marketing and Sales	0	0%	0	0%	0	0%
Policyholder Service	1	20%	0	0%	0	0%
Claims Administration	3	60%	2	100%	8	90%
Underwriting	0	0%	0	0%	1	10%
Other	1	20%	0	0%	0	0%
TOTAL	5	100%	2	100%	9	100%

Grievances:

VHP filed a grievance procedure experience report for calendar year 1997 that contained 93 grievances of which all were categorized as benefit denials. In 1997, 53 of the 93 grievances were overturned.

VHP filed a grievance procedure experience report for calendar year 1998. The plan recorded a total of 71 benefit denial grievances for the year. This represented a decrease of 22 grievances since 1997. Fifty-two of the 71 grievances were overturned.

Table C itemizes the two previous years' grievance numbers.

Table C: Grievances

Categories	1998		1997	
	Number	Number Reversed	Number	Number Reversed
Out-of-network provider	17	13	17	15

Prescription drug	1	0	3	1
Preexisting condition	0	0	0	0
Out-of-area emergency	1	1	2	2
Emergency room	1	1	4	3
Durable medical	7	5	1	1
No prior authorization	5	4	4	3
Noncovered benefit	11	5	26	5
Not medically necessary	2	2	1	0
Usual and customary	0	0	0	0
Request for preauthorization	13	8	9	8
Request for referral	9	9	24	15
Maximum benefit reached	0	0	0	0
Other	4	4	2	0
TOTAL	71	52	93	53

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III. SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS

The previous examination report, adopted on February 9, 1998, contained 13 market conduct recommendations. VHP's compliance with the prior recommendations is noted below:

1. **Grievance Procedure** - It is recommended that the VHP set up the controls to ensure that the Grievance Experience Summary filing with OCI agrees with supporting documents.

Action-Noncompliance

2. **Grievance Procedure** - It is also recommended that the HMO resolve all grievances within 30 days of receipt as required by s. Ins 3.50 (10) (c), Wis. Adm. Code.

Action-Compliance

3. **Agent Administration** - It is recommended that Valley Health Plan, Inc., develop and implement written procedures that set forth the documentation to be kept as part of its agent files. The documentation shall support that Valley's agent listing and termination practices comply with s. Ins. 6.57, Wis. Adm. Code, and s. 628.03, Wis. Stat. The documentation shall include evidence that the agent is licensed in Wisconsin, the date of the agent's copy of the agent listing validation report from OCI. For terminated agents, the documentation shall include the date of termination, a copy of the termination form OCI 11-011, and a copy of the agent termination letter.

Action-Compliance

4. **Provider Agreements** - It is recommended that Valley Health Plan, Inc. develop and implement procedures to ensure that it provides the Hold Harmless Notice required by ss. Ins. 3.50 (8x) and Appendix A, Wis. Adm. Code, and s. 609.94, Wis. Stat. to all providers it contracts with at the time of entering into the contract. The notice to be used shall comply with the wording of s. Ins 3.50, Appendix A, Wis. Adm. Code.

Action-Noncompliance

5. **Advertising** - It is recommended that Valley Health Plan, Inc., establish and maintain, as required by s. Ins 3.27 (28), Wis. Adm. Code, an advertising file containing every printed, published, or prepared advertisement of its policies disseminated in this or any other state, including the manner and extent of distribution.

Action-Noncompliance

6. **Advertising** - It is recommended that Valley Health Plan, Inc., develop and implement procedures to ensure that form numbers are used on all advertisements, as required by s. Ins 3.27 (26), Wis. Adm. Code.

Action-Noncompliance

7. **Advertising** - It is recommended that Valley Health Plan, Inc., develop and implement procedures for the proper use and documentation of testimonials or endorsements by third parties in the HMO's marketing and advertising materials, and cease using all advertising materials that contain testimonials or endorsements which are not in compliance with s. Ins 3.27 (13), Wis. Adm. Code.

Action-Compliance

8. **Advertising** - It is recommended that Valley Health Plan, Inc., cease using the marketing brochure that it uses for its point of service plan until the brochure has been revised to be in compliance with all the requirements of s. Ins 3.27, Wis. Adm. Code.

Action-Compliance

9. **Advertising** - It is recommended that Valley Health Plan, Inc., cease using advertisement materials that state Valley Health Plan, Inc., "was rated highest in the nation by its members" or that Valley "has one of the lowest administrative costs in Wisconsin" or "is a leader in cost management," unless such statements can be shown to be factual and not misleading in fact or in implication, pursuant to s. Ins 3.27 (6), Wis. Adm. Code.

Action-Compliance

10. **Small Employer Health Insurance** - It is recommended that Valley Health Plan, Inc., develop and implement procedures to obtain appropriate supporting documentation with an application to verify a small employer's list of eligible employees, as required by s. Ins 8.65 (1), Wis. Adm. Code.

Action-Compliance

11. **Small Employer Health Insurance** - It is recommended that Valley Health Plan, Inc., develop and implement procedures to ensure that its representatives utilize a definition of eligible employee on the group application as one who works at least 30 hours per week, as required by s. 635.02 (3f), Wis. Stat.

Action-Compliance

12. **Small Employer Health Insurance** - It is recommended that Valley Health Plan, Inc., develop and implement procedures for its representatives to properly and completely fill out required forms used in the small employer group application process. For instance, the agent must sign as the writing agent, and waiver forms must be completed to indicate the reason for waiving coverage, pursuant to s. Ins 8.65 (2) (b), Wis. Adm. Code. Also, the rating and renewal disclosure form must be completed before the application, pursuant to s. 635.11, Wis. Stat., and s. Ins 8.48 (1), Wis. Adm. Code, with a copy of it left with the employer.

Action-Noncompliance

13. **Small Employer Health Insurance** - It is recommended that Valley Health Plan, Inc. develop and utilize a separate loss of protection disclosure form, pursuant to s. Ins 8.44 (2), Wis. Adm. Code.

Action-Compliance

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IV. CURRENT EXAMINATION FINDINGS

Grievances

The HMO's grievance procedure, as well as 69 grievances from 1998 and the 55 grievances from 1999, were reviewed to verify compliance with the two prior examination recommendations in this area.

The company is not compliant with the recommendation from the prior exam that its grievance experience report agrees with supporting documents. The examiners noted the following exception:

- Twenty-four grievance files from 1998 and 25 grievance files from 1999 had resolution letters with a date that was different than the resolution date reported by VHP on the grievance log.

The company stated, in their response to exceptions, that they had used the grievance meeting date as the resolution date.

1. It is again recommended that VHP set up the controls to ensure that the Grievance Experience Summary filing with OCI agrees with supporting documents.

Agent Administration

Agent data was electronically submitted by the HMO to OCI and compared with OCI's

agent records for the same group of agents. The examiners continued the comparison by reviewing 50 new business files for individual policies and 55 new business files for group policies to verify that writing agents were properly licensed and listed with VHP. The HMO's agent administration procedures were also reviewed. The following exception was noted:

- One agent who signed a new business application was not listed for VHP as of the application date.
- 2. It is recommended that Valley Health Plan, Inc., implement procedures to ensure that the company does not accept business from unlisted agents pursuant to the requirements of s. Ins 6.57 (5), Wis. Adm. Code.

Provider Agreements

The examiners reviewed seven provider agreements: Network Physician Agreement, Clinic Agreement, Dental Agreement, Pharmacy Agreement, Optometry Agreement, Durable Medical Equipment Agreement, and Chiropractic Agreement. These provider agreements used by the HMO were reviewed to verify compliance with the prior examination recommendation.

The company is not compliant with the recommendation from the prior examination. The HMO has not developed and implemented a procedure to provide the Hold Harmless notice to the provider at the time the provider contract is signed as required by s. Ins 3.50 (8x) and Appendix A, Wis. Adm. Code, and s. 609.94, Wis. Stat.

- 3. It is again recommended that Valley Health Plan, Inc. develop and implement procedures to ensure that it provides the Hold Harmless Notice required by s. Ins 3.50 (8x) and Appendix A, Wis. Adm. Code, and s. 609.94, Wis. Stat. to all providers it contracts with at the time of entering into the contract. The notice to be used shall comply with the wording of s. Ins 3.50, Appendix A, Wis. Adm. Code.

Advertising

A sample of 25 advertisements that included newspaper ads, billboards, and radio and television ads, and samples of the marketing information including brochures, membership benefit booklets, and plan summaries were reviewed to confirm compliance with the prior examination recommendations. The company is not compliant with two of the prior recommendations.

The examiners noted the following exceptions:

- Eight of the 25 advertising and marketing files produced for the examiners to review did not have a notation attached describing the manner and extent of distribution of the advertisement.
- Eight of the 25 advertising and marketing files produced for the examiners to review did not contain form numbers.
- Eight of the advertising and marketing files produced for the examiners to review did not have a notation attached indicating the form number of any policy, amendment, rider or endorsement advertised.

4. It is again recommended that Valley Health Plan, Inc., develop and implement procedures to ensure that form numbers are used on all advertisements, as required by s. Ins 3.27 (26), Wis. Adm. Code.
5. It is again recommended that Valley Health Plan, Inc. maintain, as required by s. Ins 3.27 (28), Wis. Adm. Code, an advertising file containing every printed, published, or prepared advertisement of its policies disseminated in this or any other state, with a notation attached to each advertisement which indicates the manner and extent of the advertisement's distribution.
6. It is recommended that Valley Health Plan, Inc., attach, as required by s. Ins 3.27 (28), Wis. Adm. Code, a notation to each advertisement in its advertising file that indicates the form number of any policy, amendment, rider, or endorsement form advertised. A copy of the policy advertised, together with any amendment, rider or endorsement applicable shall be included in the file with each such advertisement as well.

Small Employer Health Insurance

A sample of 53 new business files were reviewed for compliance with the four recommendations in the prior examination. The examiners noted the following exceptions:

- One file included a waiver form that did not indicate the reason for waiving coverage.
 - In two files the rating and renewal disclosure form, as required by s. Ins 8.48 (1), Wis. Adm. Code, was signed after the application was signed.
 - One other file did not include the rating and renewal disclosure form.
 - Although VHP developed and implemented a procedure to obtain appropriate supporting documentation to verify a small employer's list of eligible employees, as recommended in the prior examination, nine files did not contain the supporting documentation required by s. Ins 8.65 (1), Wis. Adm. Code.
7. It is recommended that Valley Health Plan, Inc. develop and implement procedures to ensure that the supporting documentation to verify a small employer's list of eligible employees as required by s. Ins 8.65 (1), Wis. Adm. Code., is included in each new business file.
 8. It is again recommended that Valley Health Plan, Inc. develop and implement procedures for its representatives to properly and completely fill out required forms used in the small employer group application process. Waiver forms must be completed to indicate the reason for waiving coverage, pursuant to s. Ins 8.65 (2) (b), Wis. Adm. Code. Also, the rating and renewal disclosure form must be completed before the application, pursuant to s. 635.11, Wis. Stat., and s. Ins 8.48 (1), Wis. Adm. Code.

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V. SUMMARY OF RECOMMENDATIONS

Grievances

1. It is again recommended that VHP set up the controls to ensure that the Grievance Experience Summary filing with OCI agrees with supporting documents.

Agent Administration

2. It is recommended that Valley Health Plan, Inc., implement procedures to ensure that the company does not accept business from unlisted agents pursuant to the requirements of s. Ins 6.57 (5), Wis. Adm. Code.

Provider Agreements

3. It is again recommended that Valley Health Plan, Inc., develop and implement procedures to ensure that it provides the Hold Harmless Notice required by s. Ins 3.50 (8x) and Appendix A, Wis. Adm. Code, and s. 609.94, Wis. Stat., to all providers it contracts with at the time of entering into the contract. The notice to be used shall comply with the wording of s. Ins 3.50, Appendix A, Wis. Adm. Code.

Advertising

4. It is again recommended that Valley Health Plan, Inc., develop and implement procedures to ensure that form numbers are used on all advertisements, as required by s. Ins 3.27 (26), Wis. Adm. Code.
5. It is again recommended that Valley Health Plan, Inc., maintain, as required by s. Ins 3.27 (28), Wis. Adm. Code, an advertising file containing every printed, published, or prepared advertisement of its policies disseminated in this or any other state, with a notation attached to each advertisement which indicates the manner and extent of the advertisement's distribution.
6. It is recommended that Valley Health Plan, Inc., attach, as required by s. Ins 3.27 (28), Wis. Adm. Code, a notation to each advertisement in its advertising file that indicates the form number of any policy, amendment, rider, or endorsement form advertised. A copy of the policy advertised, together with any amendment, rider or endorsement applicable shall be included in the file with each such advertisement as well.

Small Employer Health Insurance

7. It is recommended that Valley Health Plan, Inc., develop and implement procedures to ensure that the supporting documentation to verify a small employer's list of eligible employees as required by s. Ins 8.65 (1), Wis. Adm. Code., is included in each new business file.
8. It is again recommended that Valley Health Plan, Inc., develop and implement procedures for its representatives to properly and completely fill out required forms used in the small employer group application process. Waiver forms must be completed to indicate the reason for waiving coverage, pursuant to s. Ins 8.65 (2) (b), Wis. Adm. Code. Also, the rating and renewal disclosure form must be completed before the application, pursuant to s. 635.11, Wis. Stat., and s. Ins 8.48 (1), Wis. Adm. Code.

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VI. CONCLUSION

The prior examination contained 13 market conduct in the areas of Grievances, Agent Administration, Provider Agreements, Advertising, and Small Employer Health Insurance. The HMO was found to be noncompliant with a total of five recommendations from the prior examination in the areas of Grievances, Provider Agreements, Advertising, and Small Employer Health Insurance. Three new recommendations were written for the areas of Agent Administration, Advertising, and Small Employer Health Insurance.

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VII. ACKNOWLEDGMENTS

In addition to the undersigned, the following personnel from the Office of the Commissioner of Insurance participated in the examination and preparation of this report.

Barbara Belling, Senior Insurance Examiner
Jo LeDuc, Advanced Insurance Examiner

The cooperation and courtesy extended to the examiners is hereby acknowledged.

Respectfully submitted,

Marcia Zimmer
Examiner-in-Charge
Bureau of Market Regulation

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Updated: May 19, 2000