

REPORT ON
MARKET CONDUCT EXAMINATION

of

NATIONAL GUARDIAN LIFE INSURANCE COMPANY

Madison, Wisconsin

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

November 2, 2010

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Raleigh, North Carolina
November 2, 2010

Honorable Wayne Goodwin
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Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of the Vision Preferred Provider Organization (PPO)

**NATIONAL GUARDIAN LIFE INSURANCE COMPANY
(NAIC #66583)**

NAIC Exam Tracking System Exam Number: NC170-M91
Madison, Wisconsin

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 South Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of National Guardian Life Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This examination commenced on August 3, 2010 and covered the period of January 1, 2007 through December 31, 2008, with analyses of certain operations of the Company being conducted through October 28, 2010. All comments made in this report reflect conditions observed during the period of the examination.

The examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook procedures, including analyses of Company operations and accordingly included tests of provider relations and delivery system, claims administration, subscriber services, and delegated oversight.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/non-compliance at or above the following levels: 0 percent for utilization review determinations, grievances (including quality of care), sales and advertising, producers who were not appointed and/or licensed, the use of contract forms that were neither filed with nor approved by the Department, the listing of a provider/facility in the provider/facility directory prior to being fully credentialed, and use of unapproved underwriting methodology and factors; 7.0 percent for claims practices, provider and facility credentialing, and the content of quality management and utilization management review notification letters; and 10.0 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the Company.

EXECUTIVE SUMMARY

This target examination revealed concerns with Company procedures and practices in the following areas:

Delegated Oversight – failure to maintain executed addendum to an intermediary services agreement; failure to conduct oversight and ensure compliance of provider contracts utilized by intermediaries; failure of an intermediary to maintain copies of provider directories utilized during the examination period; failure of an intermediary to include the required statutory provisions in the printed provider directories; failure of intermediaries to maintain records to demonstrate monitoring of provider availability; failure of an intermediary to require annual monitoring in its policies and procedures addressing provider accessibility; failure of an intermediary to monitor the established appointment wait time standard; failure of intermediaries to maintain claims processing policies and procedures which reflect all of the statutory requirements related to Prompt Pay Law; failure to monitor third party administrator services as required by statute.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com, by clicking “NCDOI DIVISIONS” then “Legislative Services”.

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company’s practices and ensure consumer protection.

COMPANY OVERVIEW

History and Profile

National Guardian Life Insurance Company is a mutual insurance company domiciled in the state of Wisconsin. National Guardian Life Insurance Company was founded in 1909 and is licensed in the District of Columbia and all states with the exception of New York. The Department approved the Company's initial PPO operations filing for vision services on December 21, 2005. In January 2006, the Company began marketing the vision PPO in North Carolina.

GENERAL ADMINISTRATION

The Company's general administration activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

PROVIDER RELATIONS AND DELIVERY SYSTEM

The Company's provider relations and delivery system activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. The Company delegates its provider network to its intermediaries, AlwaysCare Benefits, Inc. and Superior Vision Services, Inc. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

CLAIMS ADMINISTRATION

The Company's claims administration activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. The Company delegates claims administration to its intermediaries, AlwaysCare Benefits, Inc. and Superior Vision Services, Inc. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

SUBSCRIBER SERVICES

The Company's subscriber services activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. The Company delegates subscriber services to its intermediaries, AlwaysCare Benefits, Inc. and Superior Vision Services, Inc. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

DELEGATED OVERSIGHT

Intermediary Organizations

The Company contracts with AlwaysCare Benefits, Inc. (ACB) and Superior Vision Services, Inc. (SVS) for the provision of its provider network. The Company executed a contract with ACB on November 1, 2005 and this form was approved by the Department prior to execution, in accordance with the provisions of 11 NCAC 20.0204.

The Company has also entered into a services agreement with SVS effective January 1, 2005. The Department was unable to ascertain compliance with 11 NCAC 20.0201 as the Company could not provide an executed copy of the 2005 North Carolina addendum to the services agreement. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102 and 19.0106.

Intermediary Provider Contracts

During the examination period, the Company failed to adequately monitor intermediary provider contracts utilized by ACB and SVS on an ongoing annual basis to ensure compliance with the provisions of 11 NCAC 20.0202. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0202 and 20.0204.

It was further noted that the Company did not have formal policies and procedures which address the monitoring of intermediary provider contracts as required by the provisions of 11 NCAC 20.0204.

Provider Directories

AlwaysCare Benefits, Inc. could not provide a copy of its 2007 and 2008 provider directories. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102 and 19.0106.

Superior Vision Services, Inc. did not include all of the required provisions for printed directories in its 2007 and 2008 provider directories. In particular, SVS failed to include the frequency of updates and an indication of the provider's status with respect to accepting new patients. Therefore, the Company was deemed to be in apparent violation of the provisions of NCGS 58-3-245.

Network Availability and Accessibility Standards

The Company's intermediaries, ACB and SVS, have developed a formal methodology to determine specific numbers of providers, in accordance with the provisions of 11 NCAC 20.0301. The methodology includes performance targets that address the following:

- the number and type of vision providers, as applicable;
- a method to determine when the addition of providers to the network will be necessary; and
- a method for arranging or providing vision services outside of the service area when providers are not available in the area.

ACB provided geo-access reports which were run in April 2009 but could not provide documentation to demonstrate that monitoring of the established standards occurred in 2007 through 2008. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0304.

Superior Vision Services, Inc. could not provide the geo-access reports used to document provider accessibility in 2008. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0304. In addition, SVS's policy entitled "Quality Management and Improvement Program" (Policy #28) addressed

a review of the provider accessibility standard through geo-access reports on an “as needed” basis, but it did not require monitoring of the standard at least annually, a deemed apparent violation of the provisions of 11 NCAC 20.0304.

The Company’s intermediaries, ACB and SVS, have developed performance targets for member accessibility to vision providers. Written policies and performance targets address the distance a member must travel to obtain services and appointment availability, in accordance with the provisions of 11 NCAC 20.0302.

The Company has established an appointment standard which requires 90 percent of all providers to accommodate a new or existing patient’s request for a wellness vision examination within 30 days. Results are monitored annually via member surveys conducted by ACB and SVS. During the examination period, SVS used a member satisfaction survey which included a rating for “appointment availability of your provider visit”; however, the survey question did not specifically address/monitor the 30-day standard. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as it failed to monitor its established well visit appointment wait time standard during the examination period.

Claims Processing Policies and Procedures

Always Care Benefits, Inc. failed to maintain claims processing policies and procedures which reflected all of the requirements of NCGS 58-3-225, a deemed apparent violation of the provisions of 11 NCAC 19.0106(c)(7) and NCGS 58-3-225. The policies and procedures submitted to the Department were revised July 27, 2010.

The prompt pay claims processing policies and procedures utilized by SVS during the examination period failed to adequately state that the explanation of benefits (EOB) would include all good faith reasons for the denial, a deemed apparent violation of the provisions of NCGS 58-3-225. Although, the policy does state that the “EOB will include the reason for the denial”, NCGS 58-3-225 requires the inclusion of all specific good faith reason or reasons for the denial on the EOB.

Claims Monitoring and Oversight

During the examination period, the Company failed to adequately monitor the third party administrator (TPA) services provided by ACB and SVS on a semi-annual basis, including an annual on-site review for each entity, a deemed apparent violation of the provisions of NCGS 58-56-26(c).

Telephone Access

Always Care Benefits, Inc. operates a call center which accepts member and provider telephone calls through a toll-free telephone line Monday through Friday 7:30 AM to 8:30 PM and Saturday from 9:00 AM to 3:00 PM, all Central Standard Time. After normal business hours, calls are forwarded to a third party messenger service which directs the message to the Director of Group Claims and Customer Service for handling the next business day.

Superior Vision Services, Inc. operates a call center which accepts member and provider telephone calls through a toll-free telephone line Monday through Friday from 5:00 AM to 6:00 PM and Saturday 8:00 AM to 1:30 PM, all Pacific Standard Time. Members can access benefit/eligibility information at anytime on-line. After normal business hours, callers are instructed to leave a message and their call will be returned the next business day. In addition, providers have 24-hour access to member eligibility and benefit information.

Telephone Standards and Monitoring Results

Always Care Benefits, Inc. has established telephone service standards and monitors actual performance. The results are outlined in the chart below:

Performance Measure	Standard	2007	2008
		Actual	Actual
Average seconds to answer	≤ 30	24.00	21.25
Average service level	80% of all calls answered within 30 seconds	81.28	78.59
Call abandonment rate (%)	≤ 4	1.70	1.69

Always Care Benefits, Inc. failed to meet the established service level standard in 2007. The service level improved in 2008; however, the Company failed to meet the standard during the months of May, June, and July. Always Care Benefits, Inc. met all of the other established standards during the examination period.

Superior Vision Services, Inc. has established telephone service standards and monitors actual performance. The results are outlined in the chart below:

Performance Measure	Standard	2007	2008
		Actual	Actual
Average wait time (seconds)	≤ 90.0	117.0	84.0
Average talk time (seconds)	≤ 150.0	132.0	136.8
Call abandonment rate (%)	≤ 10.0	8.0	6.8

During the exam period, SVS met the call abandonment rate standard based on an annual average, but narrowly missed the abandonment rate standard during the months of January and December in 2007, and January and February in 2008.

In 2007, SVS failed to meet the average wait time standard, and more specifically did not meet the standard during 8 months (January through March, June and September through December). In 2008, SVS met the average wait time standard in aggregate, but failed to meet the average wait time standard during the months of January through March, and July.

In 2007, SVS met the average talk time standard each month. In 2008, SVS met the average talk time standard with the exception of October during which the standard was narrowly missed.

SUMMARY

The target examination revealed the following:

1. Delegated Oversight
 - a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102 and 19.0106 as the Department was unable to ascertain compliance with 11 NCAC 20.0201 since the Company could not provide an executed copy of the 2005 North Carolina addendum to the services agreement with Superior Vision Services, Inc.

- b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0202 and 20.0204 as it failed to adequately monitor the provider contracts utilized by 2 intermediaries.
 - c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102 and 19.0106 as it could not provide a copy of the 2007 and 2008 provider directories utilized by 1 intermediary.
 - d. The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-245 as 1 intermediary did not include all of the required provisions for printed directories in its 2007 and 2008 provider directories.
 - e. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0304 as 1 intermediary could not provide documentation to demonstrate that monitoring of the established provider availability standards occurred during the examination period.
 - f. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0304 as 1 intermediary could not provide the geo-access reports used to document provider accessibility in 2008.
 - g. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as Superior Vision Services, Inc. utilized a policy which addressed a review of the provider accessibility standard through geo-access reports on an "as needed" basis but failed to require monitoring of the standard at least annually.
 - h. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as 1 intermediary failed to monitor its established well visit appointment wait time standard during the examination period.
 - i. The Company was deemed to be in apparent violation of 11 NCAC 19.0106(c)(7) and NCGS 58-3-225 as 1 intermediary failed to maintain claims processing policies and procedures during the examination period which reflected all of the requirements of NCGS 58-3-225.
 - j. The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-225 as the prompt pay claims processing policies and procedures utilized by 1 intermediary during the exam period failed to adequately state that the explanation of benefits (EOB) must include all good faith reasons for the denial.
 - k. The Company was deemed to be in apparent violation of the provisions of NCGS 58-56-26(c) as it failed to adequately monitor the third party administrator services provided by Always Care Benefits, Inc. and Superior Vision Services, Inc. on a semi-annual basis, including an annual on-site review for each entity.
2. Additional Issues Noted During the Examination
- a. The Company did not have formal policies and procedures which address the monitoring of intermediary provider contracts as required by the provisions of 11 NCAC 20.0204.

- b. The Company's intermediary, AlwaysCare Benefits, Inc., failed to meet the established telephone service level standard in 2007. The service level improved in 2008; however, the Company failed to meet the standard during the months of May, June and July.
- c. The Company's intermediary, Superior Vision Services, Inc., met the established call abandonment rate standard based on an annual average, but narrowly missed the 10.0 percent abandonment rate standard during the months of January and December in 2007 and January and February in 2008.
- d. In 2007, SVS failed to meet the average wait time standard, and more specifically did not meet the standard during 8 months (January, February, March, June, September, October, November and December). In 2008, SVS met the average wait time standard in aggregate, but failed to meet the average wait time standard during January, February, March and July.
- e. In 2008, Superior Vision Services, Inc. narrowly missed the established average talk time standard during the month of October.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.
NCGS 58-3-225	Prompt claim payments under health benefit plans.
NCGS 58-3-245	Provider directories.
NCGS 58-56-26	Responsibilities of the insurer.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0106	Records Required for Examination.
11 NCAC 20.0201	Written Contracts.
11 NCAC 20.0202	Contract Provisions.

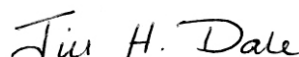
<u>Statute/Rule</u>	<u>Title</u>
11 NCAC 20.0204	Carrier and Intermediary Contracts.
11 NCAC 20.0301	Provider Availability Standards.
11 NCAC 20.0302	Provider Accessibility Standards.
11 NCAC 20.0304	Monitoring Activities.

CONCLUSION

A target examination has been conducted on the market conduct affairs of National Guardian Life Insurance Company for the period of January 1, 2007 through December 31, 2008 with analysis of certain operations of the Company being conducted through October 28, 2010. The Company's response to this report, if any, is available upon request.

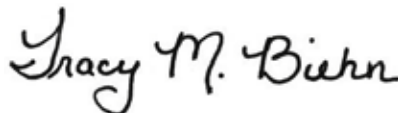
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of general administration, provider relations and delivery system, claims administration, subscriber services, and delegated oversight.

Respectfully submitted,



Jill H. Dale, PAHM, MHP, HIA
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.



Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina