

REPORT ON
MARKET CONDUCT EXAMINATION

of

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA
(Vision PPO)

Harrisburg, Pennsylvania

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

September 20, 2012

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Raleigh, North Carolina
September 20, 2012

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Michael F. Consedine
Commissioner of Insurance
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

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 UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA
(NAIC #19445)**

NAIC Exam Tracking System Exam Number: NC170-M19
Harrisburg, Pennsylvania

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 Union Fire Insurance Company of Pittsburgh, PA. 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 December 14, 2010 and covered the period of January 1, 2007 through December 31, 2009, with analyses of certain operations of the Company being conducted through September 6, 2012. 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 in the areas of general administration, provider relations and delivery system, provider credentialing, claims practices, policyholder treatment, 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:

General Administration – failure to submit a “Marketing and Services” intermediary agreement for the Department’s approval prior to execution; failure to submit the managed care annual filing for data year 2007 to the Department by the established due date.

Delegated Oversight – failure to adequately monitor provider contracts utilized by the intermediary; failure to monitor delegated provider availability/accessibility activities; failure to formally monitor delegated credentialing activities; failure to conduct oversight and monitoring of delegated claims adjudication and administration activities.

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 Union Fire Insurance Company of Pittsburgh, PA was incorporated in the state of Pennsylvania on February 14, 1901 and commenced business on March 1, 1901. The

Company is a wholly owned subsidiary of Chartis U.S., Inc. The Company's ultimate parent is American International Group, Inc. In North Carolina, the Company operates the following lines of group business: Accident, Accident and Sickness, Accidental Death, Accidental Death and Dismemberment, Business Travel, Limited Benefit Fixed Indemnity, Specified Disease, Stop Loss, Student Health, Travel, and Vision. The Company also offers the following Individual policies: Accident, Accident and Sickness, Cancer/Specified Disease, and Specified Disease. The Company is licensed in all 50 states and the District of Columbia. The Company has been marketing its vision plans in North Carolina since 2005.

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. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0201 as the Company executed a "Marketing and Administrative Services" agreement (which also supplied the provider network) with National Vision Administrators, LLC (NVA) prior to the Department's approval. The agreement became effective January 1, 2002 but was not approved by the Department until June 13, 2003.

Managed Care Annual Filings

The Company failed to submit the managed care annual filing for data year 2007 to the Department by the established due date and was deemed to be in apparent violation of the provisions of NCGS 58-3-191(a).

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 the provision of its provider network to NVA. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

PROVIDER CREDENTIALING

The Company's provider credentialing activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. The Company delegates provider credentialing to NVA. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

CLAIMS PRACTICES

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 NVA. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

POLICYHOLDER TREATMENT

The Company's policyholder treatment activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. The Company delegates policyholder treatment activities to NVA. Please refer to the Delegated Oversight section of this report for discussion of the Company's monitoring activities.

DELEGATED OVERSIGHT

Intermediary Organizations

The Company delegates the provision of its provider network to NVA.

Intermediary Provider Contracts

During the examination period, the Company did not perform oversight and monitoring of the intermediary provider contracts utilized and executed by NVA and was deemed to be in apparent violation of the provisions of 11 NCAC 20.0202 and 20.0204.

Network Availability and Accessibility Standards

The Company delegates provider availability and accessibility activities to NVA which has established standards in accordance with the provisions of 11 NCAC 20.0301 and 20.0302. However, the Company failed to conduct and document annual oversight and monitoring of

NVA's provider availability and accessibility standards and performance results during the examination period. Therefore, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304.

Provider Credentialing

The Company delegates provider credentialing activities to NVA. The Company failed to conduct credentialing oversight and monitoring activities of NVA and was deemed to be in apparent violation of the provisions of 11 NCAC 20.0410.

Claims Monitoring Oversight

During the examination period, the Company failed to perform oversight and monitoring of the claims adjudication and administration activities of NVA to ensure compliance with the provisions of NCGS 58-3-225, the North Carolina Prompt Pay Law. This review is to be conducted at least semi-annually with at least 1 semi-annual review being conducted on-site at the Third Party Administrator's (TPA) location. Therefore, the Company was deemed to be in apparent violation of the provisions of NCGS 58-56-26(c).

Telephone Access

The NVA Customer Service Call Center is available Monday through Friday from 8:00 a.m. until 6:00 p.m. and Saturday from 8:30 a.m. until 5:00 p.m. Questions received after hours are handled by NVA's Interactive Voice Response (IVR) system or through NVA's website. By utilizing IVR, members and/or providers can access information 24 hours per day. When certain identifying provider and/or member information is entered, the caller will be allowed to access information regarding eligibility, claims, participating providers, and/or authorizations. The Vision Plan provides routine exams only and does not provide medical or urgent coverage.

Telephone Standards and Monitoring

The NVA Customer Service Call Center has established service standards and monitors actual performance. Review of the telephone reports revealed that, during the examination period, the Customer Service Call Center Department met its average speed of answer

standard in 2009, the average talk time standard in 2007 and abandonment rate standards in 2008 and 2009 but failed to meet the established standards during the examination period as outlined in the following chart:

Performance Measure	Standard	2007 Actual	2008 Actual	1/1/09-5/31/09 Actual	6/1/09-12/31/09 Actual	2009 Actual
Average speed of answer (seconds)	< 30	63.8	33.9	n/a	n/a	28.6
	< 20-30	n/a	n/a	n/a	n/a	
Average talk time (seconds)	< 170	168.0	187.1	n/a	n/a	176.8
Abandonment rate (%)	< 5.0	6.4	3.2	3.8	n/a	n/a
	< 3.0	n/a	n/a	n/a	2.1	
Average handle time (seconds)	< 200	320.6	308.8	n/a	n/a	352.2
Average call work (seconds)	< 30	152.4	121.8	n/a	n/a	176.6

*n/a indicates not applicable

SUMMARY

The target examination revealed the following:

1. General Administration
 - a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0201 as the Company executed a "Marketing and Administrative Services" agreement with NVA prior to receiving approval from the Department.
 - b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-191(a) as it failed to submit the managed care annual filing for the 2007 data year to the Department by the established due date.
2. Delegated Oversight
 - a. 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 provider contracts utilized by NVA.
 - b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as it failed to monitor provider availability/accessibility activities delegated to NVA.
 - c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0410 as it failed to formally monitor the credentialing activities delegated to NVA.

- d. The Company was deemed to be in apparent violation of the provisions of NCGS 58-56-26(c) as it failed to conduct oversight and monitoring of the claims adjudication and administration activities delegated to NVA.
3. Additional Issues Noted During the Examination
- a. The NVA Customer Service Call Center failed to consistently meet its established standards throughout the examination period.

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 58-3-191	Managed care reporting and disclosure requirements.
NCGS 58-3-225	Prompt claim payments under health benefit plans.
NCGS 58-56-26	Responsibilities of the insurer.
11 NCAC 20.0201	Written Contracts.
11 NCAC 20.0202	Contract Provisions.
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.
11 NCAC 20.0410	Delegation of Credential Verification Activities.

CONCLUSION

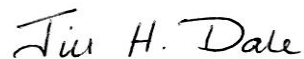
A target examination has been conducted on the market conduct affairs of National Union Fire Insurance Company of Pittsburgh, PA for the period of January 1, 2007 through

December 31, 2009 with analyses of certain operations of the Company being conducted through September 6, 2012.

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, provider credentialing, claims practices, policyholder treatment, and delegated oversight.

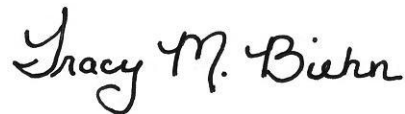
In addition to the undersigned, Scott Grindstaff, MHP, HIA, North Carolina Market Conduct Senior Examiner, participated in this examination and in the preparation of this report.

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