



California Department of Insurance  
Insurance Commissioner, Steve Poizner



**FOR IMMEDIATE RELEASE**

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**NEWS RELEASE**

**COMMISSIONER POIZNER AND DMHC DIRECTOR EHNES TAKE  
HISTORIC JOINT ACTION AGAINST PACIFICARE TO  
HALT BAD CLAIMS PAYMENTS**

*More Than \$1 Million for Providers and Consumers Recovered, Millions of Dollars in  
Additional Penalties Sought, Permanent Cure of Broken Claim Handling Systems*

**SAN FRANCISCO** — Insurance Commissioner Steve Poizner and Cindy Ehnes, Director of the California Department of Managed Health Care (DMHC), today announced a joint action against PacifiCare companies, owned by UnitedHealth Group, in response to more than 130,000 alleged claims handling violations. This joint endeavor is an historic step in the efforts of both the California Department of Insurance (CDI) and DMHC to put an end to the practice of unfair claims handling in the health insurance industry. This collaborative effort is the first action ever by both CDI and DMHC against a single health plan or insurer.

After receiving hundreds of consumer and provider complaints about claims payment problems by PacifiCare, particularly after it was acquired by United Healthcare in late 2005, CDI and DMHC took action and launched a joint investigation in 2007 into PacifiCare's alleged unfair practices. California law specifies that CDI generally regulates PPO (provider-preferred organization) health products and DMHC regulates HMO (health-maintenance organization) products.

"Paying claims is the heart of the insurance business model and the most fundamental job insurers must perform," said Insurance Commissioner Steve Poizner. "After years of broken promises to California regulators, it became crystal clear that PacifiCare simply could not or would not fix the meltdown in its claims paying process. We're going to put an end to that. If PacifiCare can't understand the ABCs of basic claims payment, maybe it will understand the dollars and cents of regulatory action."

"The most fundamental purpose of insurance is the promise to pay claims fairly and on time and PacifiCare has broken this promise," said Cindy Ehnes, Director of the DMHC. "We're taking strong action today to make sure patients and providers are treated fairly so that they are able to continue to take care of California's health care needs."

PacifiCare's alleged violations cited by CDI and DMHC include:

- Wrongful denials of covered claims
- Incorrect payment of claims
- Lost documents including certificates of creditable coverage and medical records
- Failure to timely acknowledge receipt of claims

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Poizner and Ehnes Take Historic Joint Action Against PacifiCare to Halt Bad Claims Payments

- Multiple requests for documentation that was previously provided
- Failure to address all issues and respond timely to member appeals and provider disputes
- Failure to manage provider network contracts and resolve provider disputes

CDI also directed a self-audit of PacifiCare's unfair pre-existing condition denials, resulting in \$765,157 in claims and recoveries for consumers and providers. As a result of this CDI investigation, more than \$1 million has already been recovered for California consumers and health providers who were impacted by PacifiCare's alleged violations.

CDI market conduct examinations revealed that PacifiCare allegedly made large scale and willful decisions to use broken systems to process claims and respond to providers, while continually and effectively collecting premiums. CDI discovered PacifiCare's alleged unlawful conduct last year while investigating consumer complaints and then confirmed PacifiCare's failure to fix its systems during a targeted market conduct examination which revealed the full extent of alleged misconduct. CDI's investigation exposed PacifiCare's alleged decision to improperly handle claims which resulted in thousands of infractions and grossly unfair treatment of policyholders and providers.

CDI's market conduct examinations reviewed PacifiCare files processed between July 1, 2005 and May 31, 2007, and have identified 130,000 violations of law by PacifiCare in its claims handling practices and handling of provider data including tracking of provider disputes and maintaining network lists. Statutory penalties are provided for up to \$5,000 for each non-willful violation of law and up to \$10,000 for each willful violation of law. The enforcement action Commissioner Poizner has brought against PacifiCare thus potentially implicates up to \$650 million if all violations are proved and shown to be non-willful and up to \$1.3 billion if all violations are proved and shown to be willful. Only a few days ago, the company admitted that it expects to lose at least 400,000 customers nationally due to poor customer service.

Similar provider claims payment violations have been established by the DMHC and the plan has been assessed a penalty of \$3.5 million, the largest fine imposed by the DMHC. The DMHC fine differs from the CDI amount because it is calculated based on a set of standards set by law, not on a per violation formula. In addition, the DMHC has set out certain steps the company must take to correct the claims payment problems, including an independent monitor to oversee changes and additional staff to handle the workload.

The CDI enforcement action is attached. The DMHC report can be found at [www.dmhc.ca.gov](http://www.dmhc.ca.gov).

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