

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Life and Health Business of

Blue Cross Blue Shield of Kansas City
NAIC # 47171

MISSOURI EXAMINATION # 0903-04-TGT

NAIC EXAM TRACKING SYSTEM # MO268-M101

October 5, 2010

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VERIFICATION OF WRITTEN REPORT OF EXAMINATION

FOREWORD

This is a targeted market conduct examination report of Blue Cross and Blue Shield of Kansas City, (NAIC Code # 47171). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP. During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “Company” refers to Blue Cross and Blue Shield of Kansas City;
- “Covansys” refers to Covansys (CSC - Computer Sciences Corporation), the claim designee for the Missouri Department of Elementary and Secondary Education (DESE) as described in 20 CSR 400-2.170(4) (C);
- “CSR” refers to the Missouri Code of State Regulation;
- “DESE” refers to the Missouri Department of Elementary and Secondary Education;
- “DIFP” refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “Director” refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “First Steps” refers to Missouri’s early intervention system as eligible for services under Part C of the Individuals with Disabilities Education Act, 20 U.S.C. Section 1431, et seq and §376.1218 RSMo;
- “NAIC” refers to the National Association of Insurance Commissioners; and
- “RSMo” refers to the Revised Statutes of Missouri. All citations are to RSMo 2000, unless otherwise specified.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations pursuant to Missouri's First Steps program. The primary period covered by this review is January 1, 2006, through December 31, 2008, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: Equitable claim payments for Early Childhood Intervention Services, "First Steps."

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark error rate for claims practices is seven percent (7%), five percent (5%) for electronically submitted health claims, and ten percent (10%) for other trade practices. Error rates exceeding these benchmarks are presumed to indicate a general business practice contrary to the law. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files related to First Steps claims. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The Company is licensed by the DIFP under Chapter 354, RSMo, to write Health Maintenance Organization (HMO) and Health Services Corporation (HSC) business as set forth in its Certificate of Authority.

The following information was obtained by the examiners from the Company's web site at:

[http://www.bluekc.com/About/About Blue KC.aspx](http://www.bluekc.com/About/About_Blue_KC.aspx)

“Blue KC is the largest health insurance provider in the Kansas City area, offering health empowerment and trusted support to more than one million members. For more than 70 years, our members have relied on our healthcare benefits and personalized services to help them achieve lifelong health and wellness.

“The Headquarters Address is One Pershing Square, 2301 Main, Kansas City, MO 64108 with a Service Area of 32 counties in greater Kansas City and northwest Missouri and Johnson and Wyandotte counties in Kansas.

“Affiliated Blue Cross Blue Shield of Kansas City companies are Good Health HMO, Inc and Blue-Advantage Plus of Kansas City, Inc. Good Health HMO is a for-profit health maintenance organization incorporated by Blue KC in 1988. Blue-Advantage Plus of Kansas City is a for-profit corporation formed in 2005 to offer Blue-Advantage Plus, a Medicaid replacement health maintenance organization, in a nine county region encompassing the Kansas City metropolitan area.

“Blue Cross and Blue Shield of Kansas City (Blue KC) is committed to maintaining our not-for-profit status, which allows us to always put our members' best interests first. Our Board of Directors ensures that Blue KC operates as an independent, not-for-profit corporation. And, our Board provides corporate governance that meets the highest ethical and legal standards.”

EXECUTIVE SUMMARY

The DIFP conducted a series of targeted market conduct examinations of 14 insurance companies providing First Steps benefits. For Blue Cross Blue Shield of Kansas City, the examiners found the following principal areas of concern:

- The Company improperly denied payments for First Steps benefits in 152 claim files.
- The Company improperly reduced payments for First Steps benefits in 790 claim files.
- The targeted examination revealed an overall error ratio of 73%.

The insurance coverage mandate for First Steps began as on January 1, 2006. This is the first examination targeting First Steps benefits and claim payments.

Examiners requested that the Company make refunds concerning claim underpayments found for amounts greater than \$5.00 during the examination. Examiners criticized the company for delaying claim payments by requesting information from the “provider” that had been satisfied by an established statute or regulation.

The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

This market conduct examination was performed as a desk audit at the DIFP offices:

HST State Office Building
301 W. High Street
Jefferson City, MO 65101

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING PRACTICES

The examiners reviewed the Company's forms filed by or on behalf of the Company with the DIFP.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

A. Forms and Filings

The examiners reviewed the company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect those insured.

The examiners discovered no issues or concerns.

II. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of claims from First Steps providers with a date of closing from January 1, 2006, through December 31, 2008.

A. Unfair Settlement and General Handling Practices

Examiners reviewed the Company's claim handling processes to determine compliance with contract provisions, adherence to unfair claims statutes and regulations and compliance with First Steps statutes and regulations. Whenever a claim file reflected that the Company failed to meet these standards, the examiners cited the Company for noncompliance.

The examiners reviewed denied claims for adherence to Missouri's First Steps mandated benefits. For the following reviews, the examiners eliminated claims that were subsequently paid and those that did not involved the parameters specified. They reviewed records to determine that the Company's claims process is fair, reasonable, prompt and equitable according to the laws and regulations of Missouri.

The examiners asked for the computer processing specifications that control the requirements and payment levels for handling claims. The Company provided information and contracts related to claims clearinghouses and claim processing procedures.

Field Size: 1,291 total
139 files paid pre-8/28/2007
1152 files paid post-8/28/2007

Type of Sample: Census

Number of Errors: 942 total
31 files paid pre-8/28/2007
911 files paid post-8/28/2007

Percent of Errors: 73% total
22% of files paid pre-8/28/2007
79% of files paid post-8/28/2007

Within Dept. Guidelines: No

1. Improperly Denied Claims

The examiners noted the following errors during their review:

- A. Thirty-nine claims were wrongfully denied, in that they were a part of a system edit and improperly coded. These claims contained a denial code of N59 or N01 which stated “line items that denied as a subset of another service.” Although these claims were re-adjudicated as a result of this examination, it should be noted that these claims were paid by the Company at a rate less than the amount billed.

Reference: §376.1218.5, RSMo, and 20 CSR 400-2.170(4)(C)3.C

The 39 claims applicable to this error are found in Appendix A.

- B. Examiners discovered that payments for 79 claim files were wrongfully denied because the Company felt the charges exceeded the First Steps provider Medicaid rate published by DESE. To distinguish that a file was being paid at a reduced rate, these

claim files contained Remittance Advice codes of PS and PSS indicating that a “charge has been processed based upon the provider's participation status” with the Company. The reduced payment reasons given to the examination staff were that the Company did not consider the Place of Service (POS) code as billed by DESE. As stated in the Company’s response, dated October 18, 2009, to an examiner criticism, “The Company based its payment to DESE/Covansys on the Medicaid *published* fee schedule.”

As advised by DESE and Mo HealthNet, the applicable Medicaid rate and applicable provider manuals are related to the HCY/EPSTDT program and discussed in 13 CSR 70-70.010. Subsection (5) of this regulation states “Reimbursement. Payment will be made in accordance with the fee per unit of service as defined and determined by the MO HealthNet Division.” The Mo HealthNet Therapy Manual indicates that POS codes may “have a higher...maximum allowable amount.”

Reference: §§160.900, 208.144, 376.1218.4 and .5, RSMo, and 20 CSR 400-2.170(3)(B) and (4)(E)

The 79 claims applicable to this error may be found in Appendix B

- C. The Company wrongfully denied claims because they did not receive information about Coordination of Benefits (COB). 20 CSR 400-2.170(4)4 references the Company’s obligations related to COB. According to that regulation, DESE will notify a primary plan or secondary plan about payment obligations under COB. Although these claims were re-adjudicated as a result of this examination, it should be noted that these claims were paid by the Company at a rate less than the amount billed.

Reference: §376.1218.1 RSMo.

The 25 claims applicable to this error may be found in Appendix C

D. The Company wrongfully denied five claims because they did not receive additional information as requested. 20 CSR 100-1.060(2)(L)1 states that a request for additional information “shall describe with specificity” the information needed. Neither the file nor the X17 claim denial code specifies the needed information. As a result of this examination, these claims were re-adjudicated and paid.

Reference: §376.383 RSMo.

<u>Claim Number</u>	<u>Reason Code</u>	<u>Amount Billed</u>	<u>Claims Status</u>
08164F4AC900	X17	\$ 40.00	DENIED
08105F5D3B00	X17	\$ 40.00	DENIED
08105F5D3C00	X17	\$ 40.00	DENIED
08046F45F800	X17	\$ 40.00	DENIED
08046F45F900	X17	\$ 40.00	DENIED

E. The Company improperly denied four claims because they did not receive a “valid rendering provider” name or number. The information requested duplicates the information set forth in 20 CSR 400-2.170(3) and does not pertain to the Company’s determination of liability. Additionally, the Company adjudicated claims for over a year prior to the submission of these specific claims. Although these claims were re-adjudicated as a result of this examination, it should be noted that these claims were paid by the Company at a rate less than the amount billed.

Reference: §376.1218.4 RSMo.

<u>Claim Number</u>	<u>Reason Code</u>	<u>Amount Billed</u>	<u>Claims Status</u>
07061F4BE000	XB3	\$ 50.00	DENIED
07061F4BE300	XB3	\$ 50.00	DENIED
07061F4BE400	XB3	\$ 50.00	DENIED
07061F4B7F00	XB3	\$ 62.50	DENIED

2. Improperly Reduced Claim Payments

The examiners noted the following errors during their review:

- A. The aforementioned Appendix A claims were reprocessed during the course of this examination. The Company did not pay claims at the applicable Medicaid Rate. Although these claims were re-adjudicated as a result of this examination, it should be noted that these claims were paid by the Company at a rate less than the amount billed.

Reference: §376.1218.5, RSMo, and 20 CSR 400-2.170(4)(E)

The 34 claims applicable to this error may be found in Appendix D and are not counted in the error ratio.

- B. Examiners discovered that payments for 790 claim files were wrongfully underpaid because the Company felt the charges exceeded the First Steps provider Medicaid rate published by DESE. To distinguish that a file was being paid at a reduced rate, these claim files contained remittance advice codes of PS and PSS indicating that a “charge has been processed based upon the provider's participation status” with the Company. The reduced payment reasons given to the examination staff were that the Company did not consider the Place of Service (POS) code as billed by DESE. As stated in the Company’s response, dated October 18, 2009, to an examiner criticism, “The Company based its payment to DESE/Covansys on the Medicaid *published* fee schedule.”

As advised by DESE and Mo HealthNet, the applicable Medicaid rate and applicable provider manuals are related to the HCY/EPSTDT program and discussed in 13 CSR 70-70.010. Subsection (5) of this regulation states “Reimbursement. Payment will be made in accordance with the fee per unit of service as defined and determined by the

MO HealthNet Division.” The Mo HealthNet Therapy Manual indicates that POS codes may “have a higher...maximum allowable amount”.

Reference: §§160.900, 208.144, 376.1218.4 and .5, RSMo, and 20 CSR 400-2.170(3)(B) and (4)(E)

The 790 claims applicable to this error may be found in Appendix E and are counted in the error ratio.

3. Unreasonable delay in the payment or denial of a claim.

The Company issued letters which requested additional information about certain First Steps claims. Because §376.1218, RSMo, and 20 CSR 400-2.170 set forth situations for the unconditional acceptance of diagnosis, provider status, and COB, letters requesting additional related information delayed the payment of a First Steps claim.

Files indicate that the Company delayed payment to the provider by issuing a letter requesting additional information. The letter requested information about diagnoses and rendering provider name and address. Since the information requested duplicates the information set forth in 20 CSR 400-2.170, the request does not pertain to the Company’s “determination of liability” and is a “duplication of information and verification.” Additionally, the Company failed to supply the document criticized when originally requested.

Reference: §§ 374.205.2(2), 375.1007(11), 376.383.10, 376.1218 RSMo, and 20 CSR 100-8.040(6)(B), 20 CSR 400-2.170(3) and (4)(C)3.C,

<u>Claim Number</u>	<u>CoCode</u>	<u>Date of Letter</u>
08046F45F900	47171	2/21/2008

The Company response to an Examiner inquiry revealed that there were similar letters sent in 2009. Examiners requested that the Company take corrective action so that such letters are not generated for future First Steps claims.

III. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	4	100%
Received outside time-limit, incl. any extensions	0	0 %
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	4	100 %

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040

B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	8	88%
Received outside time-limit, incl. any extensions	1	22%
<u>No Response</u>	<u>0</u>	<u>0% .</u>
Total	9	100 %

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Blue Cross Blue Shield of Kansas City (NAIC #47171), Examination Number 0903-04-TGT. This examination was conducted by John S. Korte, E. Jack Baldwin, John T. Clubb, Mike Woolbright and David Pierce. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated May 27, 2010. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

Jim Mealer
Chief Market Conduct Examiner

Date