



FOR IMMEDIATE RELEASE
March 22, 2007

CONTACT: Lynne Randolph
(916) 445-7442

Department of Managed Health Care fines Blue Cross of California for illegally rescinding health insurance policies

Survey report shows two violations of state law

(Sacramento) – The Department of Managed Health Care (DMHC) has fined Blue Cross of California \$1 million for routinely rescinding health insurance policies in violation of state law. The fine is based on a non-routine survey report that used a random sample of individual health insurance policies that were rescinded by Blue Cross from January 1, 2004, to January 1, 2006. The survey was conducted after complaints from Blue Cross members that their policies were rescinded after they had submitted a health insurance claim or after they received medical treatment.

“Our report reinforces suspicions that Blue Cross’ practices irreparably harm the consumer by issuing policies without doing the proper medical underwriting up front or proving that policyholders intentionally withheld information during the application process,” said Cindy Ehnes, Director of the DMHC. “Not only is the consumer then responsible for large medical bills, these practices hinder an individual’s ability to get and keep health coverage. Therefore, health plan practices are suspect when coverage is snatched away when claims for services are filed.”

The report of survey findings, conducted by the DMHC’s Division of Plan Surveys within its HMO Help Center, summarizes the review of ninety randomly-chosen cases involving policy rescissions, and cites two deficiencies for failure to comply with state law.

The first deficiency found that in 39 of 90 cases, there was no evidence that Blue Cross conducted a thorough and complete pre-enrollment investigation of the applicant’s medical

(more)

ARNOLD SCHWARZENEGGER
GOVERNOR

BUSINESS,
TRANSPORTATION
AND HOUSING
AGENCY

D E P A R T M E N T O F M A N A G E D H E A L T H C A R E

980 9th Street
Suite 500
Sacramento, CA 95814-2725
916-324-8176 Voice
916-322-9430 Fax

320 West 4th Street
Suite 880
Los Angeles, CA 90013-1105
213-620-2744 Voice
213-576-7183 Fax

www.hmohelp.ca.gov
1-888-HMO-2219



Department of Managed Health Care

March 22, 2007

Page 2 of 2

history, or conformed to its own underwriting policies before issuing health coverage. The second deficiency found that, in all 90 cases, Blue Cross did not prove that an applicant willfully misrepresented his or her medical history before coverage was rescinded.

Since late 2005, the DMHC has been investigating California health plans that offer individual health policies, including Blue Cross, for engaging in the illegal practice of post-claims underwriting. Health plans are required to assess an applicant's medical risk and resolve all reasonable questions about a health condition before issuing health coverage. In addition, prior to rescinding an individual policy, state law requires the plan to show that a policyholder willfully or intentionally misrepresented material information on an application.

In September 2006, the DMHC fined Blue Cross \$200,000 for rescinding the health insurance policy of one of its members in violation of state law. The fine was the first to be imposed in the multi-health plan investigation. The DMHC has also fined Kaiser Foundation Health Plan \$325,000 for two illegal rescissions. Kaiser agreed to settle both cases and is currently cooperating with the DMHC in an effort to improve its practices. Although Blue Cross is challenging its penalty, the plan has agreed to implement changes to improve its processes.

A complete copy of the survey report can be found on the DMHC Web site at www.dmhc.ca.gov, under the Announcements section on the home page.

The California Department of Managed Health Care is the only stand-alone HMO watchdog agency in the nation, touching the lives of more than 21 million enrollees. The DMHC has assisted more than 633,000 Californians through its 24-hour Help Center to resolve health plan problems, educates consumers on health care rights and responsibilities, and works closely with HMO plans to ensure a solvent and stable managed health care system.

###

ARNOLD SCHWARZENEGGER
GOVERNOR

BUSINESS,
TRANSPORTATION
AND HOUSING
AGENCY

DEPARTMENT OF MANAGED HEALTH CARE

980 9th Street
Suite 500
Sacramento, CA 95814-2725
916-324-8176 Voice
916-322-9430 Fax

320 West 4th Street
Suite 880
Los Angeles, CA 90013-1105
213-620-2744 Voice
213-576-7183 Fax

www.hmohelp.ca.gov
1-888-HMO-2219

