

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

Coventry Health Care of Delaware, Inc.

NAIC #96460

750 Prides Crossing, Suite 300

Newark, DE 19713

As of

December 31, 2010

Karen Weldin Stewart, CIR-ML
Commissioner

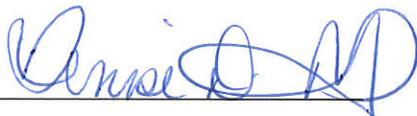


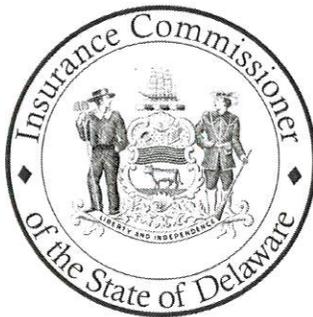
Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 on

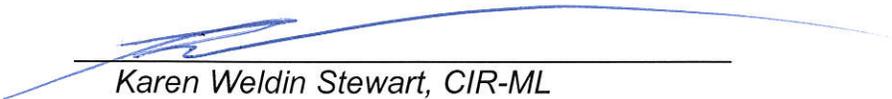
COVENTRY HEALTH CARE OF DELAWARE, INC.

is a true and correct copy of the document filed with this Department.

Attest By: 



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



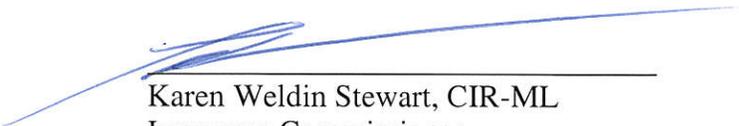
Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
COVENTRY HEALTH CARE OF DELAWARE, INC.
AS OF
December 31, 2010

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Table of Contents

SALUTATION	1
EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION.....	2
METHODOLOGY	3
COMPANY HISTORY AND PROFILE.....	4
DISCLOSURES AND CERTIFICATIONS.....	5
RATE APPROVALS.....	5
HEALTH INSURANCE POLICIES ISSUED.....	5
CONSUMER COMPLAINTS	6
CONCLUSION	7

SALUTATION

Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 11.SG.11, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Coventry Health Care of Delaware, Inc.

The examination was performed as of December 31, 2010. Coventry Health Care of Delaware Inc., hereinafter referred to as the "Company" or as "CHCDE," was incorporated under the laws of Delaware, Inc. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

750 Prides Crossing, Suite 300
Newark, DE 19713

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

**Delaware Market Conduct Examination Report
Coventry Health Care of Delaware, Inc.**

EXECUTIVE SUMMARY

CHCDE (the "Company") incorporated in the State of Delaware on May 29, 1985, and commenced business on November 17, 1986.

According to their December 31, 2010, annual statement filed with the Department, CHCDE reported health premiums earned for group health insurance business in Delaware in the amount of \$99,090,684. The Company's main administrative offices are located in Newark, Delaware.

The purpose of the examination was to ensure compliance with Delaware statutes and regulations regarding the Company's disclosure and premium rating process in the small employer health insurance market.

The focus of the review included the following:

- The use of proper disclosures in the sales and marketing of small employer health insurance as required by 18 Del. C. §7217.
- The proper filing and approval of the Company's rating methodology and rate manual with the Department as required by 18 Del. Admin Code 1308 §6.0.
- The application of the approved rating methodology as filed with the Department to ensure the rates charged were not excessive and outside the rate deviation allowable under 18 Del. C §7205 and Del. Admin. Code 1308 §6.0.

One exception was noted to 18 Del. Admin Code 1308 §6.1.2.1 for the application of an area rating factor in one file that was not filed and approved.

No exceptions were noted in the other areas of operation reviewed.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. C. §§318-322 and covered the experience period of January 1, 2010 through December 31, 2010. The purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to the premium rating process and disclosures in the small employer health insurance market.

The examination focused on the following areas of operation in the Company's small employer health insurance business: Sales and Marketing, Rating and Rating Methodology and Consumer Complaint Handling.

**Delaware Market Conduct Examination Report
Coventry Health Care of Delaware, Inc.**

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners' report on the errors found in individual files, the examination also focuses on general business practices of the Company.

The Company was requested to provide a list of each class of health insurance business the Company marketed in Delaware for the period from January 1, 2010 to December 31, 2010. Based on the universe size identified, all first and second quarter policy issued files were selected and reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda of each section of the review. Additional information was requested to clarify apparent exceptions and/or concerns. An exit conference was conducted with Company officials to discuss the results of the review.

**Delaware Market Conduct Examination Report
Coventry Health Care of Delaware, Inc.**

COMPANY HISTORY AND PROFILE

Coventry Health Care of Delaware, Inc. (“CHCDE”) is a wholly owned subsidiary of Coventry Health Care, Inc.

CHCDE, A Delaware corporation (Formerly known as physicians Health Plan of Delaware Ltd. from May 29, 1985 to October 14, 1986, and Principal Health Care of Delaware, Inc. from October 14, 1986 to October 4, 1999); was acquired by Coventry Health Care, Inc. on April 1, 1998, at which time the name was changed to Coventry Health Care of Delaware, Inc., (on October 4, 1999). Physicians Health Plan of Delaware, Ltd., a Delaware corporation was incorporated on May 29, 1985, by Delaware physicians in order to establish and operate an IPA-Model HMO. On October 14, 1986, the Company changed its name to Health Plan of Delaware, Ltd. The Company’s Certificate of Authority was granted by the State of Delaware on November 17, 1986.

In 1988, Principal Health Care, Inc. acquired Health Plan of Delaware, Ltd. and on December 15, 1988, changed Health Plan of Delaware Ltd.’s name to Principal Health Care of Delaware, Inc. Principal Health Care of Delaware, Inc. was acquired by Coventry Health Care, Inc., on April 1, 1988, and became a wholly owned subsidiary of Coventry Health Care, Inc. when Principal Health Care, Inc. merged with Coventry Cooperation to form Coventry Health Care, Inc. The name was changed to Coventry Health Care of Delaware, Inc. on October 4, 1999.

CHCDE is a licensed Health Maintenance Organization in the States of Delaware and Maryland.

According to their December 31, 2010, annual statement filed with the Department, CHCDE reported health premiums earned for group health insurance business in Delaware in the amount of \$99,090,623, and current year member months of 273,880.

DISCLOSURES AND CERTIFICATIONS

The Company was requested to provide copies of all disclosures utilized in connection with the solicitation of any health benefit plan to a small employer during the calendar year, 2010. Additionally, the Company was requested to provide the actuarial certifications that the rating methodology utilized in the small employer health insurance market is actuarially sound and the Company is in compliance with 18 Del. C. §7217. The disclosures and actuarial certifications were received and reviewed to ensure compliance with 18 Del. C. §7217.

No exceptions were noted.

RATE APPROVALS

The Company was requested to provide a copy of the rating manual and the rating methodology filed and approved for the period of January 1, 2010 through December 31, 2010. The rating manual and rating methodology were reviewed to ensure compliance with 18 Del. Admin. Code 1308 § 6.0.

No exceptions were noted.

HEALTH INSURANCE POLICIES ISSUED

The Company identified a universe of 244 small group health insurance policies issued and 1,419 policies renewed during the experience period of January 1, 2010 through December 31, 2010. All 49 policies issued in the first quarter of 2010 and all 51 policies issued in the second quarter of 2010 were requested, received and reviewed. The policy files were reviewed to verify that the Company's filed and approved rates were being applied and in compliance with 18 Del. C. §7205 and 18 Del. Admin. Code 1308§ 6.0.

The following exception was noted:

1 Exception - 18 Del. Admin Code 1308 § 6.1.2.1 Restrictions Relating to Premium Rates

A small employer carrier shall not modify the rating method used in the rate manual for a class of business until the change has been approved as provided in this paragraph. The Commissioner may approve a change to a rating method if the Commissioner finds that the change is reasonable, actuarially appropriate, and consistent with the purposes of 18 Del.C. Ch. 72 and this Regulation.

The premium rate calculation in the noted file included an area rating factor that was not filed and approved resulting in a premium overcharge. The Company subsequently

**Delaware Market Conduct Examination Report
Coventry Health Care of Delaware, Inc.**

agreed an incorrect area rating factor was applied in the rate calculation for the one group.

Recommendation: It is recommended that the Company review and enhance their internal controls to ensure their procedures for the application of approved rating factors are followed in a consistent manner to ensure compliance with 18 Del. Admin. Code 1308 §6.1.2.1. In addition, the Company should provide proof of reimbursement of the premium overcharge to the effected employer group.

CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints specific to Small Employer Health Insurance premium and billing concerns, received from Delaware consumers, claimants and complaints referred to the Department of Insurance during the period of January 1, 2010 through December 31, 2010. The Company identified 4 consumer complaints received. All 4 complaints were forwarded from the Delaware Department of Insurance. The 4 consumer complaint files were requested, received, and reviewed.

The files were reviewed to compare the rates charged with the base rates filed to ensure that the rates were not excessive and outside the rate deviation allowable under 18 Del. C §7205 and 18 Del. Admin. Code 1308 §6.0.

No exceptions were noted.

**Delaware Market Conduct Examination Report
Coventry Health Care of Delaware, Inc.**

CONCLUSION

The recommendation made below identifies the corrective measures the Department finds necessary as a result of the Exception noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company review and enhance their internal controls to ensure their procedures for the application of approved rating factors are followed in a consistent manner to ensure compliance with 18 Del. Admin. Code 1308 §6.1.2.1. In addition, the Company should provide proof of reimbursement of the premium overcharge to the effected employer group.
(Small Employer Health Insurance Policies Issued)

The examination conducted by Daniel Stemcosky, Frank W. Kyazze, and Sean Connolly is respectfully submitted.

Frank Kyazze

Frank W. Kyazze, CIE, MCM, FLMI, ALHC
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance