BENJAMIN J. CAYETANO
GOVERNOR

MAZIE K. HIRONO
LT. GOVERNOR

KATHRYN S. MATAYOSHI
DIRECTOR

WAYNE METCALF
INSURANCE COMMISSIONER

STATE OF HAWAII
INSURANCE DIVISION
DEPARTMENT OF COMMERCE & CONSUMER AFFAIRS
P. O. BOX 3614
HONOLULU, HAWAII 96811-3614
250 S. KING ST., 5TH FLOOR
HONOLULU, HAWAII 96813

FOR IMMEDIATE RELEASE

CONTACT:
Wayne Metcalf
Insurance Commissioner
Telephone: (808) 586-2790
Fax: (808) 586-2806

Insurance Division initiates action against Darren Larson, and Design Benefits Insurance Services in the wake of the new illegal activities

HONOLULU, HI – Insurance Commissioner Wayne Metcalf announced today that the Insurance Division issued a cease and desist order on November 30, 2000, against Mr. Darren Larson, the organizer of the insolvent and unauthorized health insurer Hawaii HealthCare Alliance (“HHA”), and owner of Design Benefits Insurance Services (“DBIS”). Texas law enforcement officers served the Cease and Desist Order on Mr. Larson’s at his residence in Texas on Monday December 4, 2000. The cease and desist order demands, among other things, that Mr. Larson cease further referrals to the SAI Plus L.L.C. Health Insurance Plan (“SAI”) and the TRG Marketing plan (“TRG”) which are unauthorized insurance products. The Division has also initiated proceedings to revoke Mr. Larson’s general agent and subagent licenses to do insurance business in the State of Hawaii and to impose a $100,000 fine for illegal activities related to the organization and operation of HHA and other violations of State Insurance laws.

“The Insurance Division has taken these actions to protect the consumers of the State,” said Metcalf. Metcalf noted that SAI was also the subject of investigations by the U.S. Department of Labor – Pension and Welfare Benefits Administration (“USDOL”), The Federal Bureau of Investigation (“FBI”), the U.S. Postal Inspection Service (“USPIS”), and the State of

Texas Department of Insurance ("TDI") for possible criminal and fraudulent acts committed by SAI and its owners. Those investigations have so far resulted in two separate legal actions. The first by TDI, seeks to impose a $1 million fine on SAI and bar it from conducting business in the State of Texas. In the second action, Federal investigators from USDOL obtained a search warrant for financial and operational records on SAI business premises and the residences of the owners of SAI.

"Last month the Hawaii Insurance Division took action against HHA, since it was unlicensed and did not possess adequate financial resources to protect consumers and ensure that claims would be paid," Metcalf recalled. "Since taking control of HHA, we have discovered that it is not only insolvent by law, but also insolvent-in-fact," Metcalf said. "HHA is $200,000 in the red and new claims continue to be filed."

"When HHA was first organized, Mr. Larson maintained that it was exempt from State regulation, and was regulated by Federal authorities," Metcalf said. "In a subsequent investigation, the USDOL determined HHA was not an organization subject to federal regulation. Upon being informed of the USDOL's findings, the State asserted its jurisdiction, and determined that HHA was an illegal, unauthorized insurer which posed a threat consumers and healthcare service providers in Hawaii, since it lacked adequate financial resources to ensure claims would be paid," Metcalf explained.

"On October 19, 2000, the Division gave HHA 30 days to comply with licensing requirements and raise the necessary funds to ensure timely payment of claims. Thirty days later, no substantial steps had been taken to meet these requirements and it was discovered that HHA did not even have enough money to pay claims which had already been incurred," Metcalf said. "Rather than comply with the law, Mr. Larson attempted to sign the HHA policy holders with a second unauthorized insurer, Maryland-based SAI, through an Indiana-based marketing firm TRG." Metcalf explained. Mr. Larson was President of HHA and its primary organizer. "Mr. Larson has now marketed at least two unauthorized health insurance carriers in Hawaii and has misrepresented their policies to regulators and consumers," Metcalf added.

The State of Texas and Federal actions allege that SAI marketed and sold group health insurance plans to many employers, including several Texas public school districts, representing that the plans were "fully insured." SAI collected the premiums from employers but allegedly never remitted them to an insurer to buy coverage. Instead, SAI pocketed the premium money TDI also alleges that SAI marketed unauthorized group health plans, failed to pay claims in a timely manner, and improperly denied claims. Federal investigators also allege that SAI employees: 1) shredded claims before entering them into the claims processing system, then denied the claim after it had been resubmitted on the grounds that the consumer failed to meet the 90-day filing limit, and 2) forged applications for insurance to support denials of claims on the basis that preexisting conditions were not disclosed by the consumer in the initial application process.

Both the SAI and HHA plans were marketed to self-employed small business people and independent contractors who are not covered by the Hawaii Prepaid Health Care Act. "We recognize that this is a population struggling to provide affordable health insurance for themselves and their families," said Metcalf. "Unfortunately, the answer will not be found in questionable insurance companies which provide products that are too good to be true. The Insurance Division cannot provide a comprehensive answer since it is not empowered to configure health insurance policies and price them. The problem most likely will need to be addressed by the legislature some time in the future." Metcalf said that further legal proceedings regarding HHA and related matters are scheduled for later this month and reserved further comment until that time.

CONTACT:
Wayne Metcalf
Insurance Commissioner
Telephone: (808) 586-2790
Fax: (808) 586-2806

Wayne Metcalf was reappointed Insurance Commissioner on March 1, 1999, after serving in that capacity from 1994-1997.

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