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STATE OF ALASKA

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

In the Matter of:)
)
Gary Billingsley, d/b/a)
Medical Indemnity Group L.L.C.,)
)
Licensee.)
_____)

Case No. D 00-08

STIPULATED AGREEMENT AND ORDER

The Division of Insurance (division) and Mr. Gary Billingsley, d/b/a Medical Indemnity Group L.L.C., (Mr. Billingsley) stipulate and agree to the following.

BACKGROUND

A. Mr. Billingsley of Issaquah, Washington is a nonresident insurance producer holding Alaska insurance license #10104, first issued to him as an individual license on November 13, 1992. On December 7, 1998, firm license #18178 was issued for Medical Indemnity Group, L.L.C. Mr. Billingsley is the principal and compliance officer of Medical Indemnity Group, L.L.C..

B. In the fall of 1999 and spring of 2000 the division conducted a market conduct examination of the insurance business of Gary Billingsley, d/b/a Medical Indemnity Group, L.L.C., covering the period January 1, 1998 to September 30, 1999.

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL
ANCHORAGE BRANCH
1031 W. FOURTH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-5100

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C. The examiners found evidence of conduct in violation of Alaska's insurance laws including: altering policy declaration pages in violation of AS 21.36.360(p)(2); charging broker's fees without a written agreement in violation of AS 21.27.560(a); misrepresenting fees as premiums in violation of AS 21.36.030; and conducting unlicensed activities in violation of AS 21.27.010.

D. Former director Robert A. Lohr concluded that after considering Mr. Billingsley's reply that the examination report cited sufficient evidence to proceed with administrative enforcement action and filed an accusation on November 7, 2000.

E. The parties have been involved in settlement negotiations on and off over the years.

F. During this time, no complaints have been filed against Mr. Billingsley in any jurisdiction where he is licensed.

G. The parties desire to settle this matter under the terms described below.

TERMS OF AGREEMENT

1. Mr. Billingsley will present documentation by ^{May 15, 2004} ~~April 1, 2004~~ that he has refunded the first risk management fee of \$25,915 to Central Peninsula Hospital and returned a second check for the same amount that he received for risk management services.

2. Mr. Billingsley will pay a fine of \$12,500, in one payment within 60 days after this Order is signed by the director, with an additional fine of \$50,000 suspended for three years.

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3. If new serious violations are discovered during the suspension period, then a new accusation may be filed and a new administrative process may be initiated.

4. The \$50,000 suspended fine may not be imposed until a hearing officer, pursuant to applicable administrative law, finds that Mr. Billingsley committed a new serious violation of Alaska insurance law, or Mr. Billingsley otherwise agrees to the imposition of the suspended fine.

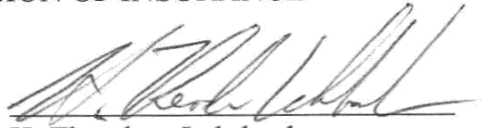
5. If there is a determination that Mr. Billingsley engaged in new violations of Alaska insurance laws, then he may be subject to new fines and penalties in addition to imposition of the suspended fine entered into as part of this settlement agreement. Mr. Billingsley will be provided the appropriate due process.

6. By signing this agreement, Mr. Billingsley understands and agrees that any failure to comply with the conditions of this agreement will be grounds to revoke, suspend, or not renew Alaska licenses # 10104 and #18178.

7. Mr. Billingsley understands that this agreement is not binding on the parties unless and until the director signs the order approving the agreement.

DATED: 04/15/04

DIVISION OF INSURANCE

By: 
H. Theodore Lehrbach
Chief Examiner, Market Conduct

DATED: 04/07/04

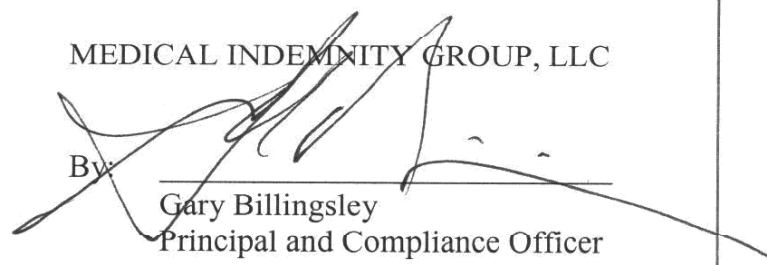

Gary Billingsley

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DATED: 04/07/04

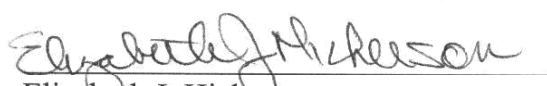
MEDICAL INDEMNITY GROUP, LLC

By: 
Gary Billingsley
Principal and Compliance Officer

Approved as to form and content:


DATED: 3-2-04

GREGG D. RENKES
ATTORNEY GENERAL

By: 
Elizabeth J. Hickerson
Assistant Attorney General

DATED: 3/3/04

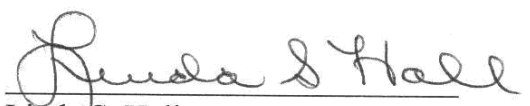
DELANEY, WILES, HAYES, GERETY,
ELLIS & YOUNG, INC.

By: 
Howard Lazar
Attorney for Licensee

ORDER

IT IS ORDERED that this Stipulated Agreement and Order is adopted in full resolution of the issues in this case, and shall constitute the final order in this matter.

DATED this 17th day of April, 2004.


Linda S. Hall
Director of Insurance

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STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

In the Matter of:)
Gary Billingsley, d/b/a)
Medical Indemnity Group L.L.C.,)
Licensee.)

Case No. D 00-08

ACCUSATION

Robert A Lohr, Director, Division of Insurance, Department of Community and Economic Development, states and alleges as follows:

1. This is a proceeding under the Alaska Insurance Code (Alaska Statutes Title 21) to adjudicate and impose penalties for statutory violations.
2. Gary Billingsley, d/b/a Medical Indemnity Group, L.L.C., of Issaquah, Washington is a nonresident insurance producer holding Alaska insurance license #10104, first issued to Mr. Billingsley as an individual license on November 13, 1992. On December 7, 1998, firm license #18178 was issued for Medical Indemnity Group, L.L.C. Mr. Billingsley is the principal and compliance officer of Medical Indemnity Group, L.L.C., and until recently, was the only licensed individual in the firm.
3. In the fall of 1999 and spring of 2000, the Division of Insurance conducted a market conduct examination of the insurance business of Gary Billingsley, d/b/a Medical Indemnity Group, L.L.C., covering the period January 1, 1998 to September 30, 1999. The examiners found evidence of statutory violations as described in this accusation.

Count I

AS 21.36.360(p)(2). Altering policy declaration pages

4. The director re-alleges and incorporates by reference paragraphs 1 through 3 above.

5. The examiners found that files in the office of Medical Indemnity Group contained two policy declaration pages. The original declaration page received from the insurance company shows the dollar amount of the premium charged by the company. The files examined also contained a second declaration page on which the premium amount was deleted and the words "as invoiced" were added in place of the premium amount.

6. In a letter dated November 18, 1999, Mr. Billingsley described how the second declaration page was prepared. According to the letter, ". . . upon receipt of the Policy from the insurance company we have enter (sic) the words "As Invoiced" in place of the dollar amount of the Premium that had been entered on the Premium Line of the Declaration Page by the insurance company. We present the specific dollar amount of Premium in a detailed breakdown on the Invoice. In this way we have disclosed the precise amount of the Premium along with separate line items for any Broker Fees, Alaska Surplus Lines Taxes, Alaska Filing Fees, etc."

7. The examiners determined that Mr. Billingsley altered the policy declaration pages in the manner described in paragraph 6 in approximately 109 cases.

8. By his action in changing the policy declaration pages, Gary Billingsley, d/b/a Medical Indemnity Group, L.L.C., violated AS 21.36.360(p)(2). This subsection provides:

AS 21.36.360. Fraudulent or criminal insurance acts.

(p) A fraudulent insurance act is committed by a person who

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(2) falsely makes, completes, or alters a certificate of insurance or other document relating to insurance; (emphasis added)

9. Under AS 21.36.320(d), a person the director determines has violated a provision of AS 21.36 is subject to an order of restitution and a penalty of \$2,500 for each violation or \$25,000 for engaging in a general business practice in violation of this chapter. Under AS 21.36.320(e), if the director also determines that the person charged knew or should have known that the person's conduct was in violation of this chapter, the person charged is also subject to a suspension or revocation of the person's license and a penalty of not more than \$25,000 for each violation or \$250,000 for engaging in a general business practice.

Count II

AS 21.27.560(a). Charging broker's fees without written agreement

10. The director re-alleges and incorporates by reference paragraphs 1 through 9 above.

11. The examiners reviewed the invoices from Medical Indemnity Group to the policyholders and noted that a broker's fee was added to the premium quoted by the insurer. The examiners then searched the files for copies of the broker's agreement with the client required by AS 21.27.560(a). The examiners found no written contracts between Medical Indemnity Group and any client that were in place during the period covered by the examination, January 1, 1998 to September 30, 1999. Upon inquiry by the examiners, Mr. Billingsley stated that he had no written contracts in place, but that he disclosed the broker's fee to the clients by means of the detailed invoice.

12. By charging broker's fees without written agreements with his clients, Gary Billingsley, d/b/a Medical Indemnity Group, L.L.C. violated Alaska Statute 21.27.560(a). This section provides:

ACCUSATION

1 AS 21.27.560. Appointment of insurance producers as brokers. (a) A client
2 who appoints an insurance producer as its broker in this state or relative to a
3 subject resident, located, or to be performed in this state shall execute a written
4 contract that specifically sets out the duties, functions, powers, authority, and
5 compensation of the insurance producer, if the broker is compensated by a fee
6 paid the client or by a combination of a fee paid by a client and a commission
7 paid by an insurer with which coverage has been placed. The written contract
8 shall be kept in the permanent records of the insurance producer and be open to
9 inspection by the director.

10 13. The examiners determined that Mr. Billingsley charged a broker's fee to each
11 client in 109 insurance placements during the examination period. On the 109 placements
12 during the examination period, Medical Indemnity Group charged the clients a total of
13 approximately \$406,000 in broker's fees without written contracts required by AS 21.27.560(a)
14 in place. In addition to the broker's fees, Medical Indemnity Group earned commissions in the
15 approximate amount of \$350,000 from the companies that provided the insurance on the 109
16 placements during the examination period.

17 14. Under AS 21.27.440(a), a person who the director determines has violated a
18 provision of AS 21.27 is subject to 1) a civil penalty equal to the compensation promised, paid,
19 or to be paid, for each violation; 2) either a civil penalty of not more than \$10,000 for each
20 violation or a civil penalty of not more than \$25,000 for each violation if the director
21 determines that the person wilfully violated the provisions of this chapter; and 3) denial,
22 nonrenewal, suspension, or revocation of a license.

23 Count III

24 AS 21.36.030. Misrepresenting fee as premium

25 15. The director re-alleges and incorporates by reference paragraphs 1 through 14
26 above.

ACCUSATION

1 16. In examining the file of one policyholder, a hospital, the examiners noted an
2 inconsistency between the insurer's premium billings and the premium information provided
3 by Medical Indemnity Group. Upon inquiry, Mr. Billingsley explained to the examiners that
4 the difference in charges to the client is a result of fees for risk management/loss control service
5 added to the premium.
6

7 17. In a letter dated November 18, 1999, Mr. Billingsley stated:

8 At the request of the Insured we provided Risk Management/Loss Control
9 services on behalf of [client hospital] Alaska during Policy Years 03/01/98-
10 03/01/99 and 03/01/99-03/01/00. These services were provided under an
11 understanding with the Insurer, National Union Fire Insurance Company of
12 Pittsburgh, PA, that they would replace a large portion of the services normally
13 provided by the carrier. In return the carrier reduced the quoted Premium by a
14 significant amount. For this reason, the fee for these services was included in
15 the Premium line item on the invoice to the Insured. The fee for this service
16 came to \$25,915 for each of the two years. We added this amount to the
17 Premium quoted by the Insurance company. . . .

18 We have credited the final quarterly invoice for the 1999 Policy Year by an
19 amount equal to the \$25,915.00 service fee.

20 18. By charging a fee that was misrepresented on the invoice as premium, Gary
21 Billingsley, d/b/a Medical Indemnity Group, L.L.C. violated AS 21.36.030. This section
22 provides:
23

24 Sec. 21.36.030. Misrepresentation and false advertising of insurance policies.

25 (a) A person may not make, issue, circulate, broadcast, or have made,
26 issued, circulated, or broadcast an estimate, circular, statement, illustration,
comparison, or other written or oral presentation that

 (1) misrepresents the benefits, advantages, conditions, sponsorship,
 source, or terms of an insurance policy;

 . . .

 (11) is in any other way misleading, false, or deceptive.

 (b) In this section, "misrepresentation" includes any statement or omission
of a statement that when taken in the context of the whole presentation
may tend to mislead or deceive the person or persons addressed.

 19. Under AS 21.36.320(d), a person the director determines has violated a
provision of AS 21.36 is subject to an order of restitution and a penalty of \$2,500 for each

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violation or \$25,000 for engaging in a general business practice in violation of this chapter. Under AS 21.36.320(e), if the director also determines that the person charged knew or should have known that the person's conduct was in violation of this chapter, the person charged is also subject to a suspension or revocation of the person's license and a penalty of not more than \$25,000 for each violation or \$250,000 for engaging in a general business practice.

Count IV

AS 21.27.010. Unlicensed activity

20. The director re-alleges and incorporates by reference paragraphs 1 through 19 above.

21. The examiners developed a licensure test to determine if all persons involved in a transaction were properly licensed. Documented activities of unlicensed Medical Indemnity Group staff included communicating with insurers, insureds, and certificate holders in Alaska. In doing so, the unlicensed employees acted as insurance producers as defined in AS 21.90.900(24), which says: AS 21.90.900. Definitions for title. . . (24) "insurance producer" means a person who solicits, negotiated, effects, procures, or delivers a policy of insurance, or to the extent authorized by the insurer, renews, continues, or binds a policy of insurance;"

22. By their activities, including communicating with insurers, insureds, and certificate holders in Alaska, employees under the direction of Gary Billingsley at Medical Indemnity Group acted as insurance producers. Because the Medical Indemnity Group employees did not qualify for any of the licensing exceptions set out in AS 21.27.010(j), their actions violated AS 21.27.010(a). This section provides: AS 21.27.010. License required. (a) . . . a person may not act as or represent to be an insurance producer, managing general

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agent, . . . in this state or relative to a subject resident, located or to be performed in this state unless licensed under this chapter. . . .

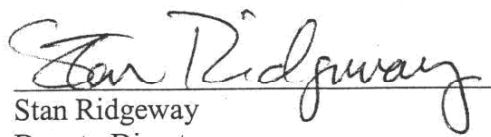
23. Under AS 21.27.440(a), a person who the director determines has violated a provision of AS 21.27 is subject to 1) a civil penalty equal to the compensation promised, paid, or to be paid, for each violation; 2) either a civil penalty of not more than \$10,000 for each violation or a civil penalty of not more than \$25,000 for each violation if the director determines that the person wilfully violated the provisions of this chapter; and 3) denial, nonrenewal, suspension, or revocation of a license.

24. Under AS 21.27.140(c), a firm and its licensed principal or manager are responsible for unlicensed activity of the firm's staff if they knew or should have known of such activity.

WHEREFORE, the Division of Insurance requests that Gary Billingsley d/b/a medical Indemnity Group, L.L.C. be adjudicated to have violated the Alaska Insurance Code by the activities described in Counts I through IV above, and that appropriate penalties be imposed.

Dated this 7th day of November, 2000 in Juneau, Alaska.

ROBERT A. LOHR
Director

By 
Stan Ridgeway
Deputy Director