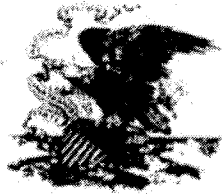


STATE OF ILLINOIS



Department of Insurance

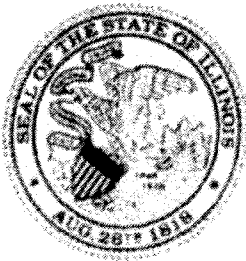
IN THE MATTER OF
THE EXAMINATION OF:

AMERICAN COMMUNITY MUTUAL INSURANCE COMPANY
39201 WEST SEVEN MILE ROAD
LIVONIA, MICHIGAN 48152-1094

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 5/131.21, 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425) do hereby appoint Sam Binnun, Examiner-In-Charge, and RSM McGladrey, Inc. as examiners of the insurance business and affairs of American Community Mutual Insurance Company of Livonia, Michigan, and to make a full and true report to me of the examination made by them of American Community Mutual Insurance Company with a full statement of the condition and operation of the business and affairs of American Community Mutual Insurance Company with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business.

The examiners so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of American Community Mutual Insurance Company.



IN TESTIMONY WHEREOF,

I hereto set my hand and cause to be affixed the Seal of my office.
Done at the City of Springfield, this 5th day of Nov., 2009.

Michael T. McRaith

Michael T. McRaith

Director

AMERICAN COMMUNITY MUTUAL
INSURANCE COMPANY
NAIC #60305

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: November 16, 2009 through March 12, 2010

EXAMINATION OF: American Community Mutual Insurance Company

LOCATION: 3901 Seven Mile Road
Livonia, MI 48152-1094

SCOPE PERIOD COVERED
BY EXAMINATION: January 1, 2007 through June 30, 2009

EXAMINERS: Sam Binnun, Examiner-in-Charge
Cindy Wood
Dennis Forrester

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I. SUMMARY

The following Illinois statutes and regulations were cited as a result of a review of 79 sample rescission files:

1. The American Community Mutual Insurance Company (Company) was criticized under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices for failure to conduct a prompt investigation of medical records prior to issuing an insurance policy in instances in which the application for health insurance did not provide sufficient or complete details of the medical condition(s) acknowledged by the applicant.
2. The Company was criticized under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices for assessing a rating or exclusion rider, based upon the applicant's "yes" response to medical questions on the application, without evidence of an investigation or review of medical records prior to issuing the policy. Such a review is necessary to determine the severity, accuracy and/or completeness of the information provided by the applicant.
3. The Company was criticized under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices for using a "pre-existing condition" or "pre-existing illness" as grounds for denying a claim or rescinding a policy in which the Company knew or should have known the medical history of the applicant. The Company possessed this information as a result of prior issuances of short-term policies to the applicant.
4. The Company was criticized under 50 Ill. Adm. Code 2005.40 for failure to fully investigate all incomplete details of the medical condition(s) acknowledged by the applicant prior to issuing the insurance policy and for using a "pre-existing condition" or "pre-existing illness" as grounds for denying the claim or rescinding the policy for the particular disease, illness, sickness, malady or condition.
5. The Company was criticized under 50 Ill. Adm. Code 2005.40 for post-claim or post-issue underwriting by using a "pre-existing condition" or "pre-existing illness" as grounds for denying the claim or rescinding the policy for the particular disease, illness, sickness, malady or condition. The Company did not fully investigate all "yes" responses to medical questions on the application prior to issuing the policy.
6. The Company was criticized under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices for failure to comply with its Individual Underwriting Screening and Processing of New Applications procedures or Underwriting Workflow guideline.

7. The Company was criticized under 215 ILCS 5/143(1) for failure to comply with the "medically underwritten" language in the state-approved application.
8. The Company was criticized under 215 ILCS 5/359a(2) for processing a health insurance application in which the signature of the applicant in the "Authorization to Obtain Protected Health Information" section of the application appears to be different from the applicant's signature on the application's signature line.
9. The Company was criticized under 215 ILCS 5/155.22a(a)(1) for rescinding a health insurance policy in which the post-claim underwriting records cited a diagnosis and history of serious physical or sexual abuse.

II. COMPANY HISTORY AND ILLINOIS BUSINESS

American Community Mutual Insurance Company (Company) originated as the Michigan Hospital Benefit Association (MHBA) which began operating in 1938. In 1958, MHBA merged with the American Hospital-Medical Benefit Association and became American Community Mutual Insurance Company (Company).

At the time of the Examination, the Company marketed three (3) individual health products in Illinois. The three (3) products included short-term major medical plans; Next Generation Health Savings Account (HSA) which was a high deductible health plan used with an HSA; and Community Flex, a major medical PPO plan.

At the time of the Examination, the Company also marketed three (3) products for small group plans in Illinois. The three (3) products included Latitude, a major medical PPO plan; Next Generation HSA described above; and American Choice Options, a dental, vision, weekly income and life insurance product.

At the time of the Examination, the Company was licensed to conduct business in 43 states.

On April 8, 2010, the Company was placed in rehabilitation by Order of the Circuit Court for the 30th Judicial Circuit, Ingham County, State of Michigan. On May 5, 2010, the Director of Insurance of the State of Illinois issued an Order suspending the Company's Certificate of Authority to transact an insurance business in the State of Illinois. The Order recited the fact that the Company had been placed in rehabilitation in Michigan and that "it is evident from the foregoing that American Community is in such financial condition that further transaction of business in Illinois would be hazardous to policyholders and creditors in this state and to the public."

III. METHODOLOGY

The targeted Market Conduct Examination (Examination) placed emphasis on evaluating the Company's policies, procedures and practices for rescinding individual and small group health insurance policies and determining compliance with applicable Illinois insurance statutes and regulations. The following targeted areas were examined:

1. Rescinded Health Policies
2. Policies and Procedures
3. Underwriting Guidelines

The Examination was accomplished by testing a random selection of rescissions in accordance with the testing procedures described in the NAIC Market Regulation Handbook (Handbook). Sample rescission files were randomly selected from a population of all policies that were rescinded during the examination period.

This Examination Report (Report) discloses improper business practices performed with such frequency as to indicate a general business practice exists. The Report also includes other inappropriate business practices identified during the Examination that were not deemed to be general business practices. The Examiners considered these practices to be potential "red flags" or indicators of a lack of management oversight.

The issues identified during the Examination were communicated to the Company. The Examiners reviewed the Company's responses to the issues and supporting documentation when provided.

SAMPLE SELECTION

The Examiners used the sampling program, Audit Command Language (ACL), and a 95% confidence level to select the random sample of rescissions. The Company provided a population of 182 rescinded policies during the examination period. In consultation with the Illinois Department of Insurance and the Handbook, the sample size was determined by ACL to be 79. ACL was used to randomly select the 79 rescissions.

<u>Issue</u>	<u>Population</u>	<u>Reviewed</u>	<u>% Reviewed</u>
Rescinded Policies	182	79	43%

IV. FINDINGS

1. Post-Issue/Post-Claim Underwriting of Policies

The review of 79 health insurance rescission files produced a general criticism. In 64 or 81% of the rescission files reviewed, the Company was cited under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices for failing to conduct prompt investigations of medical records prior to the issuance of policy in which the application for insurance contained insufficient or incomplete details of medical condition(s) elicited and acknowledged by the applicant.

The Company's rescission files received an additional general criticism written under 50 Ill. Adm. Code 2005.40. The Company was cited for failure to fulfill its obligation under the referenced regulation to investigate further all incomplete details of the medical condition(s) acknowledged by the applicant prior to the issuance of policy. The Company took inappropriate action by using a "pre-existing condition" or "pre-existing illness" as grounds for denying the claim or rescinding the policy for the particular disease, illness, sickness, malady or condition in which the Company failed to investigate the complete medical history of the applicant during the pre-issue underwriting and application process.

The rescission files sampled showed that the Company did not perform complete pre-issue underwriting prior to issuing the individual health policies. In the rescission files reviewed, one (1) or more medical questions on the application were answered "yes". However, the file documentation failed to show evidence that the Company fully investigated the "yes" responses even though the applicant responded to the Company's additional general questions related to the applicant's medical condition. The additional general questions area of the Company's application lacked the specificity or detail required to make a determination of the applicant's medical conditions at the time of application.

The Company did not review the medical records prior to issuing the policy to determine whether the applicant met the Company's underwriting criteria and was insurable. Further, the Company only requested medical records during the post-issue or post-claim underwriting process. The Company used "pre-existing conditions" or "pre-existing illnesses" as grounds for denying the claim or rescinding the policy for the particular disease, illness, sickness, malady or condition without fully investigating all "yes" responses to medical questions on the applications.

The medical records that the Company ultimately used to rescind these policies during the post-claim or post-issue underwriting process were in fact available to it during the pre-issue underwriting/application process but were not requested.

2. Pre-Issue Ratings or Exclusion Riders

The Examiners' review of the underwriting files showed that the Company's own written pre-issue underwriting practices and procedure illustrate the required level of medical investigation needed by the underwriter to determine at which rating percentage the policy should be issued and whether an exclusionary rider is appropriate. Based on a review of the referenced files, the Company failed to adhere to its own established underwriting guidelines and rated policies up or issued exclusionary riders without conducting a prerequisite investigation into the proposed insured's medical records.

The Company was found to have been assessing pre-issue ratings or exclusion riders to individual health policies based upon answers contained on the application without conducting an investigation of medical records prior to the policy being issued. In 15 or 19% of the 79 rescission files reviewed, no evidence was noted that the Company had made any further investigation into the medical records to confirm the severity, accuracy or completeness of the information provided by the applicant prior to assigning a policy rating or exclusion rider to the policy.

The Company was issued a general criticism under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices for failing to implement its own underwriting guidelines to conduct a prompt investigation when assessing pre-issue ratings and/or exclusion riders the imposition of which may directly or indirectly determine the level of claim liability under the coverage afforded by the policy.

3. Application Language

The review of sixty or 76 % of the 79 applications for health insurance reviewed produced a general criticism. The Company was cited under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices. In the sample files reviewed, the applicants responded "yes" to one (1) or more medical question on the application but the application contained insufficient or incomplete details regarding the proposed insured's medical conditions. Although the Company stated that it used a variety of methods, including the health questionnaire on the application, phone interviews, prescription history reports, portamedic exams, medical records etc., the file review did not produce any evidence that the Company reviewed medical records during the pre-issue underwriting process. In addition, the Company's Underwriting Workflow illustrated that medical records should be reviewed during the pre-issue underwriting process when additional information was required.

A general criticism was written under 215 ILCS 5/143(1) for failure to comply with the "medically underwritten" language in the state-approved application. The application form filed and approved for use in the State of Illinois contained the following language, "I understand this application will be medically underwritten". The Company should have fully medically underwritten each application that had "yes" responses to medical questions when complete details of the medical conditions were insufficient or not provided. Without a review of the applicant's medical records prior to policy issuance, the Company cannot fairly or adequately verify the accuracy and reasonableness of the applicant's responses to determine whether the applicant met the Company's underwriting criteria and was insurable. When the Company issued the policies without reviewing the medical records, it failed to comply with the verbiage in the state-approved application.

The medical records the Company used to rescind the policies during the post-claim or post-issue underwriting were available to the Company during the pre-issue underwriting process but were not requested.

4. Adherence to Underwriting Procedures

A review of the Company's underwriting procedures resulted in a general criticism written under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices resulting from failure to comply with one (1) or more of the Company's Individual Underwriting Screening and Processing of New Applications procedures or Underwriting Workflow guidelines.

Prior to issuing the policy, the Company failed to document compliance with one (1) or more of the Individual Underwriting Screening and Processing of New Applications procedures or Underwriting Workflow guideline which required a review or investigation of a prescription profile, medical records, age limitations or the existence of a previous policy with the Company. The Company's failure to conduct prompt investigations as outlined by its own established procedures did directly or indirectly determine the level of claim liability under the coverage afforded by the policy.

5. Short-Term Major Medical Expense Policies

In seven (7) or 9% of the 79 sample rescission files reviewed consisted of short-term major medical expense policies. A general criticism was written under 50 Ill Adm. Code 2005.40 for using a "pre-existing condition" or "pre-existing illness" as grounds for denying the claim or rescinding the policy for the particular disease, illness, sickness, malady or condition.

The rescission files reviewed disclosed a practice in which individuals were issued multiple short-term major medical expense policies. The Company ultimately rescinded the coverage although the Company knew or should have known the applicant's medical conditions since the Company had previously processed numerous claims on short-term policies previously issued to the individual.

A general criticism was written under 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) for engaging in unfair acts or practices resulting from failure to comply with the disclosure provided to applicants. The short-term application included the following disclosure, "*The policy that I am applying for is not a renewal or extension of any previous coverage and does NOT cover any condition for which benefits were paid under a previous policy.*" The Company used "pre-existing conditions" or "pre-existing illnesses" as grounds for denying the claim or rescinding the policy even though the Company knew or should have known the medical history of the applicants when they issued subsequent policies as the Company possessed this information in its database.

The practice of issuing coverage without verifying the applicant's existing medical history on its database may be an indicator of a systemic problem regarding lack of operational and management controls.

6. Application Signature

A review of the 79 sample rescission files produced one (1) criticism. An individual criticism was written under 215 ILCS 5/359a(2) as the applicant's signature on the "Applicant's Signature" page differed from the signature on the Authorization to Obtain Protected Health Information page. As this issue involves a signature on the Authorization to Obtain Protected Health Information page and the potential implications of obtaining personal/medical information without proper authorization; the issue is presented as a potential indicator of a lack of management oversight related to proper verification of application signatures.

7. Coverage of Subjects of Abuse

A review of the 79 sample rescission files produced one (1) criticism. An individual criticism was written under 215 ILCS 5/155.22a.(a)(1) for rescinding a health insurance policy in which the post-claim underwriting records cited a diagnosis and history of serious physical or sexual abuse which was confirmed by the insured's physician.

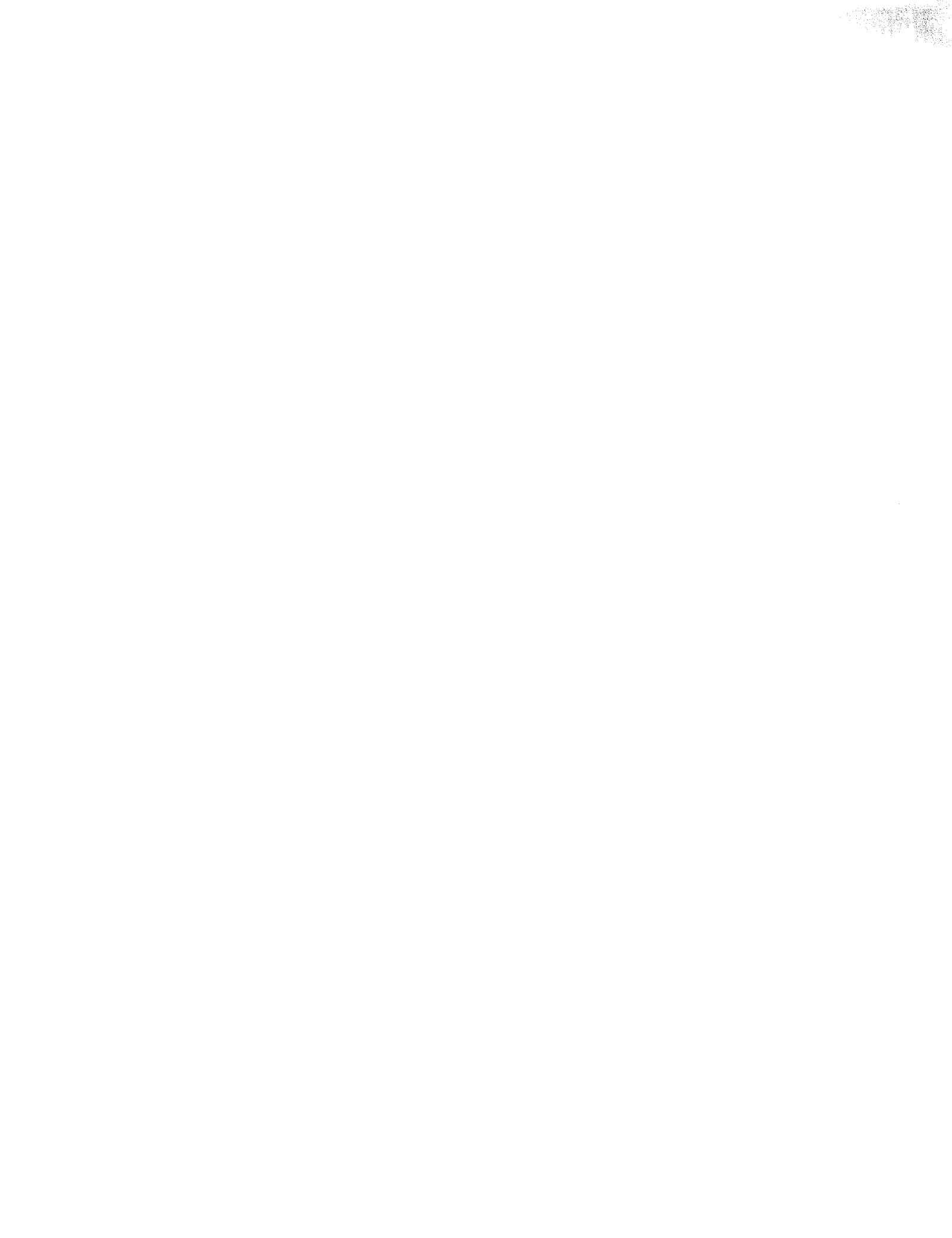
The Company also indicated that the underlying cause of the diagnosis is not considered during the underwriting process which may indicate that the Company's policies, procedures and management controls are insufficient to comply with the Illinois Insurance Code.

The medical records the Company used to rescind the policy during the post-claim or post-issue underwriting were available to the Company during the pre-issue underwriting process but were not requested.

V. APPENDIX

Error Ratios Chart

Finding #	Number of Files with Findings	Files Reviewed	Error Ratio
1	64	79	81%
2	15	79	19%
3	60	79	76%
4	60	79	76%
5	7	79	9%
6	1	79	1%
7	1	79	1%





Illinois Department of Insurance

PAT QUINN
Governor

MICHAEL T. McRAITH
Director

September 1, 2010

Mr. James Gerber, Director of Receiverships
American Community Mutual Ins. Co.
39201 West Seven Mile Road
Livonia, Michigan 48152-1094

Re: Market Conduct Examination Report
Stipulation and Consent Order

Dear Mr. Gerber:

Pursuant to the Director's authority as provided under Article VIII 1/2, Section 131.21 and 132 and Article XXIV, Sections 401, 402, 403 and 425 of the Illinois Insurance Code, a Market Conduct Examination of American Community Mutual Insurance Company was conducted by authorized representatives of RSM McGladrey, Inc. for period of January 1, 2007 through June 30, 2009.

In accordance with Section 132(3) and Section 132(4), your copy of the report is enclosed. Section 132.5 affords a reasonable opportunity of not more than 30 days to make a written submission or rebuttal with respect to any matters contained in the examination report.

As provided by Section 132(4) of the Illinois Insurance Code, you are hereby notified that you may request a Hearing within ten (10) days after receipt of the above Report, with reference to facts and other evidence contained therein, by giving the Director of Insurance written notice of such request together with a statement of your objections.

IF NO WRITTEN SUBMISSION OR REBUTTAL IS RECEIVED WITHIN THE THIRTY (30) DAY PERIOD, THE EXAMINATION WILL BE PROCESSED FOR FILING AS A PUBLIC DOCUMENT.

Also enclosed are two copies of the Stipulation & Consent Orders resulting from the Market Conduct Examination of American Community Mutual Insurance Company.

These have been completed based on discussions with this Department.

If you or an official representing American Community Mutual Insurance Company would sign both copies in the indicated spots, have them notarized, and return both copies to us, we will forward them to the Director for his signature and return one signed copy to you for your file.

Thank you for your attention to this matter.

Very truly yours,



James J. Morris
Assistant Deputy Director
Market Conduct and Analysis Section

JJM:bw

Enclosures



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
ANDREW S. LEVIN, ACTING DIRECTOR

KEN ROSS
COMMISSIONER

RECEIVED

September 22, 2010

SEP 27 2010

James J. Morris
Assistant Deputy Director
Illinois Department of Insurance
320 West Washington St.
Springfield, IL 62767

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SPRINGFIELD, ILLINOIS

RE: American Community Mutual Insurance Company Market Conduct Examination Report

Dear Mr. Morris:

I am in receipt of the Market Conduct Examination Report and proposed Stipulation and Consent Order with regard to American Community Mutual Insurance Company (ACM). Please be advised that ACM entered rehabilitation on April 8, 2010. Commissioner Kenneth Ross has been appointed the Rehabilitator, and Michael Hogan and I have been appointed the Special Deputy Rehabilitators with regard to ACM. Since that time, our efforts have been focused on winding down ACM's business, which includes working to move ACM's policyholders to more secure carriers. ACM's market presence and policy count has decreased dramatically in all the states it does business in, including Illinois. As an example, in Illinois, on March 31, 2010, there were 545 group certificates and 4095 individual policies in Illinois; however, on August 31, 2010 only 127 group certificates and 1709 individual policies remained. Since rehabilitation, no new business has been written in Illinois.

At this point, Commissioner Ross is considering liquidation of the company or implementing a HIPAA pullout in all of the states ACM has remaining policyholders. I expect a decision will be forthcoming soon. Regardless of which decision he makes, it is expected that ACM will wind down its operations and will not return to the marketplace as an insurance carrier.

Given the reality of ACM's situation, in my opinion it does not appear to be a good use of the limited assets of the company as well as the limited remaining personnel to respond and/or contest the findings of the Market Conduct Examination Report and the proposed fine. As a result, I would respectfully request that the Department withdraw its request for a response to the Report as well as the proposed Consent Order.

Should you wish to discuss this matter further, please do not hesitate to contact me. My direct dial is (734) 591-8103.

Respectfully,

James Gerber
Special Deputy Receiver
American Community Mutual Insurance Company



AMERICAN COMMUNITY
MUTUAL INSURANCE COMPANY®

October 19, 2010

Timothy C. Sullivan
Executive Director
Illinois Comprehensive Health Insurance Plan
320 West Washington Street, Ste 700
Springfield, IL 62701-1150

Re: Withdrawal of Coverage in the Individual and Small Group markets

Dear Director Sullivan:

Please let this correspondence serve as notice that American Community Mutual Insurance Company (ACM) intends to withdraw from the Individual and Small Group health insurance markets in Illinois and terminate coverage as permitted by federal and state law. Please note that only medical and prescription drug coverage will be terminated. Ancillary coverage (i.e. dental, vision etc . . .) has been transitioned to Security Life Insurance Company of America.

As you may know, an order of rehabilitation of ACM was entered on April 8, 2010. This action is necessary due to ACM's loss experience in both lines of business.

ACM will be mailing notices to all policyholders, plan sponsors, participants, beneficiaries and covered individuals (covered individuals) on or about January 20, 2011. This will provide at least 180 days' notice before coverage will terminate on their next anniversary date. Most Illinois covered individuals will have in excess of 180 days' notice since notices for all Illinois policyholders will be sent out at the same time, regardless of anniversary date.

As of August 31, 2010, ACM had 1709 Individual policies and 127 Small Group certificates in Illinois. It is expected that the number of policyholders/certificate-holders affected by this action will be less than these amounts since ACM's enrollment has declined significantly in recent months and ACM expects this trend to continue before the mailing of notices is implemented.

ACM is currently in discussions with Golden Rule Insurance Company and expects that it will reiterate its previous offer to issue guaranteed coverage to Individual policyholders without underwriting, at the

39201 Seven Mile Road, Livonia, Michigan 48152-1094
(800) 991-2642 (734) 591-9000
www.american-community.com

standard rate, and with no exclusion for pre-existing conditions. This offering would not be made to insureds who are age 65 or older (since offering coverage that would duplicate benefits under Medicare is illegal) or those insureds who reside in states where Golden Rule does not have any products available¹.

Small Group policyholders will be able to obtain coverage from other carriers in the Small Group market since coverage is required to be guarantee issue.

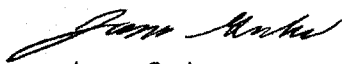
A sample copy of the letters to be sent out is enclosed with this correspondence. The letter to Individual policyholders and dependents assumes that Golden Rule will make an offer of guaranteed coverage to covered individuals. If this does not occur, the reference to Golden Rule will be removed.

ACM has sent notice of its intent to withdraw to the Illinois Department of Insurance.

Please note that ACM will be withdrawing from the Individual and Small Group markets in the following states: Arkansas, Arizona, Illinois, Iowa, Missouri, Nebraska, Oklahoma, Ohio, South Carolina, Tennessee, Texas and Wisconsin. There is the possibility that some covered individuals with policies from those states may be residing in Illinois. We believe this would involve a small amount of covered individuals.

Should you have any questions or concerns do not hesitate to contact me at 734-591-8103.

Sincerely,



James Gerber
Special Deputy Rehabilitator

Enclosures

¹ Golden Rule does not offer insurance products in the following states: California, Hawaii, Idaho, Maine, Massachusetts, Minnesota, Montana, New Hampshire, New York, North Dakota, Oregon, Rhode Island, Utah, Vermont and Washington.



Illinois Department of Insurance

PAT QUINN
Governor

MICHAEL T. McRAITH
Director

October 26, 2010

Mr. James Gerber
Special Deputy Receiver
American Community Mutual Insurance Company
39201 Seven Mile Highway
Livonia MI 48152-1094

Re: **American Community Mutual Insurance Company ("ACM") Market
Conduct Examination Report**

Dear Mr. Gerber:

This is in response to your letter of September 22, 2010 on this subject. Your letter was received by this Department on September 27, 2010. Your September 22, 2010 letter contains the following paragraph:

Given the reality of ACM's situation, in my opinion it does not appear to be a good use of the limited assets of the company as well as the limited remaining personnel to respond to and/or contest the findings of the Market Conduct Exam Report and the proposed fine. As a result, I would respectfully request that the Department withdraw its request for a response to the Report as well as the proposed Consent Order.

I have also reviewed your HIPAA withdrawal letter of October 19, 2010 and spoken to the individual whose responsibilities include HIPAA withdrawals. The Department recognizes that ACM is no longer underwriting new business in Illinois, that significantly fewer Illinois residents are currently insured by ACM than during the period covered by the Examination and that the number of Illinois residents insured by ACM will in all likelihood continue to decline until ACM completes its withdrawal from the Illinois market. Nevertheless, it is possible, if not probable, that Illinois residents will continue to be insured by, and be submitting claims to, ACM until 2012.

In recognition of these facts, the Department has revised the Stipulation and Consent Order. You will find two (2) copies of the revised Stipulation and Consent Order attached. Several of the matters addressed in the revised Stipulation and Consent Order relate to underwriting new business, specifically Orders number 1, 2, 4, 5, 6 and 7. The revised Stipulation and Consent indicates that ACM is only required to comply with these Orders "In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated". Complying with these Orders, at this time, would not require a use of ACM's limited assets and limited remaining personnel.

On the other hand, Orders number 3 and 8 in the revised Stipulation and Consent Order relate to claims handling. It is important that claims submitted to ACM by Illinois insureds be handled in accordance with the requirements of Illinois law and regulations. The practical impact of ACM's agreeing to the revised Stipulation and Consent Order would be that ACM agrees to adhere to Illinois law and regulations relating to claims handling. In the Department's view, that does not constitute an unreasonable or excessive use of ACM's limited assets or its limited remaining personnel.

While Illinois Insurance Code Section 132(4) does provide that ACM may request a hearing together with a statement of its objections to the Report, ACM is not required to respond to the Report. The Department would accept as proof of compliance required by Order number 9 a statement from you that ACM is complying with Orders number 3 and 8.

Your HIPAA withdrawal letter will be responded to separately.

Yours Truly,



James J. Morris
Assistant Deputy Director
Market Conduct and Analysis
312-833-5582 mobile
217-557-8463 fax
james.j.morris@illinois.gov



Department of Insurance

IN THE MATTER OF:

AMERICAN COMMUNITY MUTUAL INSURANCE COMPANY
39201 WEST SEVEN MILE ROAD
LIVONIA, MICHIGAN 48152-1094

STIPULATION AND CONSENT ORDER

WHEREAS, the Director (Director) of the Illinois Department of Insurance (Department) is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, American Community Mutual Insurance Company (Company) was authorized under the insurance laws of this State and by the Director as a foreign stock company, to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by duly qualified examiners of the Department pursuant to Sections 131.21, 132, 401, 402 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425); and

WHEREAS, the Department examiners have filed an examination report as an official document of the Department as a result of the Market Conduct Examination; and

WHEREAS, said report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, the Company was placed in rehabilitation by Order of the Circuit Court for the 30th Judicial Circuit, Ingham County, State of Michigan, on April 8, 2010; and

WHEREAS on May 26, 2010, the Director issued an Order of Suspension (the Order of Suspension") suspending the Company's Certificate of Authority to transact insurance business in the State of Illinois, "effective immediately, for a period of two (2) years or until such a time that the Company can demonstrate to the Director that it is not in violation of 215 ILCS 5/119"; and

WHEREAS, the Director's May 26, 2010 Order of Suspension ordered the Company to "write no new policies in Illinois, nor shall any existing policies be renewed, except upon the demand of a policyholder exercising a unilateral guaranteed right of renewal under a policy issued prior to the date of this Order. The Company shall so nonrenew, after giving the appropriate notice to policyholders as required by statute or by contract, all in force Illinois policies: except those which are guaranteed renewable, or noncancellable, or required by statute to be renewed due to failure or inability to provide adequate notification that its Illinois Certificate of Authority has been suspended and to inform such policyholders of their options to continue coverage under such contracts."; and

WHEREAS, consistent with the provisions of the Order of Suspension set forth in the preceding two (2) recitals, the Company may continue to have Illinois policyholders, and the Company's Illinois Certificate of Authority may at some point in the future be reinstated; and

WHEREAS, nothing herein contained, nor any action taken by the in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company.

WHEREAS, the Company is aware of and understands its various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407 and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS agreed by and between the Company and the Director as follows:

1. That the Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and/or Department Regulations; and
2. That the Director and the Company consent to this order requiring the Company to take certain actions, consistent with the provisions of the Order of Suspension, to come into compliance with provisions of the Illinois Insurance Code and/or Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall :

1. In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/423 by refraining from engaging in any unfair acts or practices, by conducting prompt investigation of medical records prior to issuing an insurance policy in instances in which the application for health insurance failed to contain sufficient or complete details of the medical condition(s) acknowledged by the applicant.
2. In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/423 by refraining from engaging in any unfair acts or practices, such as assessing a rating or exclusion rider, based upon the applicant's "yes" response to medical questions on the application, without evidence of a investigation or review of medical records prior to issuing the policy when such a review is necessary to determine the severity, accuracy and/or completeness of the information provided by the applicant.
3. Consistent with the provisions of the Order of Suspension, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/423, 215 ILCS 5/424(4) and 215 ILCS 5/154.6(c) by refraining from engaging in any unfair acts or practices such as using a "pre-existing condition" or "pre-existing illness" as grounds for denying a claim or rescinding a policy in which the Company knew or should have known the medical history of the applicant because the Company possessed this information as a result of prior issuances of short-term medical insurance policies to the applicant.
4. In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated, institute and maintain procedures whereby the Company complies with 50 Ill. Adm. Code 2005.40 by fully investigating all incomplete, ambiguous or inconstant details of the medical condition(s) acknowledged by the applicant prior to issuing the insurance policy and refraining from using a "pre-existing condition" or "pre-existing illness" as a grounds for denying the claim or rescinding the policy for the particular disease, illness, sickness, malady or condition without conducting such an investigation.
5. In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/423 by refraining from engaging in any unfair acts or practices by following the Company's own established individual underwriting screening, processing of new applications procedures and/or underwriting workflow guidelines.

6. In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/143(1) by complying with the "medically underwritten" language in the state-approved application.
7. In the event that the Company's Illinois Certificate of Authority is at some point in the future reinstated, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/359a(2) by not processing a health insurance applications in which the signature of the applicant in the "Authorization to Obtain Protected Health Information" section of the application appears to be different from the applicant's signature on the application's signature line.
8. Consistent with the provisions of the Order of Suspension, institute and maintain procedures whereby the Company fully complies with 215 ILCS 5/155.22a.(a)(1) by refraining from rescinding a health insurance policy in which the post-claim underwriting records cite a diagnosis and history of serious physical or sexual abuse.
9. Submit to the Director, within 30 days, proof of compliance with the Order #3 and #8.
10. American Community Mutual Insurance Company is levied a civil forfeiture in the amount of \$100,000, with the payment of the amount levied to be held in abeyance pending resolution of the rehabilitation proceedings in the State of Michigan.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code, including but not limited to levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of American Community Mutual Insurance Company:

James E. Geiber
Signature

James E. Geiber
Name

Deputy Rehabilitator
Title

Subscribed and sworn to before me this
6 day of Jan. A.D. 2010 2011

Dorothy M. Petro
Notary Public

**DOROTHY M. PETRO
NOTARY PUBLIC WAYNE CO., MI
MY COMMISSION EXPIRES NOV. 25, 2012**

DEPARTMENT OF INSURANCE of the
State of Illinois;

DATE 24 January 2011

Michael T. McRaith
Michael T. McRaith
Director



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

April 30, 2012

James Gerber
Deputy Rehabilitator
American Community Mutual Insurance Company
39201 West Seven Mile Road
Livonia, MI 48152-1094

Re: Stipulation and Consent Order
American Community Mutual Insurance Company
NAIC # 60305

Dear Mr. Gerber,

Attached for your records is an original Stipulation and Consent Order which has been executed on behalf of both your Company and this Department. (The attached was recently returned to me by our mail room. I am not sure why it was not sent to your Company at the time it was executed.) I call to your attention Order Number 10 which reads:

American Community Mutual Insurance Company is levied a civil forfeiture in the amount of \$100,000, with the payment of the amount levied to be held in abeyance pending resolution of the rehabilitation proceedings in the State of Michigan.

This Department will be closing its file on this examination until the resolution of your Company's Rehabilitation proceedings in the State of Michigan. Please contact me if you have any questions.

Yours Truly,

James J. Morris
Assistant Deputy Director
Market Conduct and Analysis
Illinois Department of Insurance
320 West Washington Street
Springfield IL 62767
312-833-5582 mobile
217-557-8494 fax
james.j.morris@illinois.gov