



FOR IMMEDIATE RELEASE
July 5, 2005

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Blue Cross of California Fined by State for Computer Error Overcharging Customers on Premiums

(Sacramento) – The Department of Managed Health Care (DMHC) has imposed a \$150,000 fine on Blue Cross of California for overcharging a total of \$12 million in premiums to nearly 45,000 debit and credit card customers in early April. The problem was traced to a new computer program, which had insufficient safeguards and generated up to five automatic premium payment withdrawals to each customer.

“This is the second time in recent weeks that we’ve fined a health plan for failing to prevent and detect computer errors,” said Cindy Ehnes, director of the DMHC. “These substantial fines send a message to health plans that we require them to be constantly on guard to protect consumers from computer-related mistakes, such as those that impose unjustified charges or violate their rights to privacy.”

The new billing process was designed to allow Blue Cross to utilize sophisticated information technology when charging premium payments to its members’ credit and debit cards. In this instance, the system stopped working and did not restart properly, causing the multiple withdrawals from both credit and debit account customers.

In assessing the fine, regulators found that the company did not take the proper steps to ensure that the computer system provided mechanisms to prevent and detect overcharges, failed to inform regulators and the public about the problem in a timely manner, and failed to inform its members about complaint procedures available to them through the DMHC’s HMO Help Center. In fact, DMHC officials did not learn of the problem until it was reported in the media nearly one week after the incident.

(more)

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Members have been reimbursed for the incorrect withdrawals. The company is also required to pay all interest and related fees or costs, such as time off from work and insufficient funds bank fees. A total of 43,092 credit card customers and 1,642 debit card customers were affected and will be compensated as a credit on their August 2005 statements.

Charges to credit card customers were reversed within days, although many debit customers had to wait up to three weeks to have the funds returned to their accounts, which is not unusual with this type of financial transaction. In an additional glitch, while trying to fix the prior overcharges, Discover card customers had the original premium taken back entirely and were not charged for their April premium. These customers should have received a corrective double charge on their June 2005 statements.

State regulators also directed Blue Cross officials to take steps to improve its automatic billing process to ensure that the problem does not happen again.

Blue Cross has acknowledged the error, has cooperated with state investigators and will not contest the fine.

The California Department of Managed Health Care is the only stand-alone watchdog agency in the nation, touching the lives of more than 21 million enrollees. The Department has assisted more than 633,000 Californians through its 24-hour Help Center resolve their HMO 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.

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