IN THE MATTER OF

THE MEGA LIFE AND HEALTH INSURANCE COMPANY
State of Oklahoma

MID-WEST NATIONAL LIFE INSURANCE COMPANY OF TENNESSEE
State of Texas

THE CHESAPEAKE LIFE INSURANCE COMPANY
State of Oklahoma

REGULATORY SETTLEMENT AGREEMENT

This Regulatory Settlement Agreement ("Agreement") is entered into as of this ___ day of December, 2006 by and between The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company and The Chesapeake Life Insurance Company (collectively, the "Company") and the Commissioner of the Massachusetts Division of Insurance.

A. Background and Recitals

1. The MEGA Life and Health Insurance Company ("MEGA") is and has been a licensed insurance company domiciled in the State of Oklahoma.

2. Mid-West National Life Insurance Company of Tennessee ("Mid-West") is and has been a licensed insurance company domiciled in the State of Texas.

3. The Chesapeake Life Insurance Company ("Chesapeake") is and has been a licensed insurance company domiciled in the State of Oklahoma.

4. All three (3) Companies are subsidiaries of Health Markets, Inc. ("HealthMarkets") (formerly known as UICI), a Delaware corporation, with its principal place of business in North Richland Hills, Texas. Any other current or after acquired insurance company subsidiaries or affiliates of Health Markets licensed by the Massachusetts Division of Insurance ("Division") are likewise bound by any continuing conditions imposed on the Company.

5. On November 6, 2003, the Division called a limited scope market conduct examination of MEGA. This examination was confined to review the following standards in small group health insurance: company operations/management, complaint handling, marketing and sales, certificate holder service and underwriting and rating.

6. On January 12, 2005, as a result of the preliminary findings from the examination referenced in the previous paragraph, the Division called a limited scope market conduct examination of MEGA, Mid-West and Chesapeake. This examination was confined to review the claims handling practices in small group health insurance.

7. As a result of the findings from these examinations, the Division engaged in extensive discussions with the Company with respect to the findings, a plan of corrective action by the Company to address those findings for the benefit of the Company's current and former certificate holders, and a means of providing for the enforcement of such a plan. An examination report concerning the limited scope market conduct examination of MEGA's, Mid-West's and Chesapeake's claims handling practices examination is being released concurrently with this Agreement that contemplates the execution of this Agreement.

8. The Company responded in detail to the items identified in the reports as required actions. The Division has reviewed the Company's responses. The Division has not tested the sufficiency or effectiveness of the Company's responses but will do so after the execution of this Agreement.

9. The Company and the Division agree that the Company shall enter into a Plan of Corrective Action to assure compliance with applicable Massachusetts statutes and/or regulations in accordance with Section B below.

B. Plan of Corrective Action (the "Plan")

1. Company Operations/Management

    a. All Company staff and field associates that interact with customers are to identify and convert all customer telephone and other verbal complaints/grievances to writing.

    b. The Company must institute, if it has not already done so, independent internal and external audit programs that report to senior management of the Company with appropriate measurement features to test the effectiveness of these programs and demonstrate that its audit process is performing as intended.

    c. The Company must institute, if it has not already done so, necessary procedures to place appropriate limitations on access to private customer information with appropriate measurement features to test the effectiveness of the procedures and demonstrate that its process is performing as intended.

d. The Company must institute, if it has not already done so, a vendor oversight audit procedure to safeguard customers' Protected Health Information including a measurement structure to test the effectiveness of the procedures and demonstrate that its process is performing as intended.

e. The Company must institute, if it has not already done so, procedures necessary to ensure compliance with Federal Statute 18 U.S.C. Section 1033 with appropriate measurement features to test the effectiveness of the procedures and demonstrate that its process is performing as intended.

2. Complaints/Grievances

a. The Company must assure that all complaints/grievances, forwarded by consumers or the Division, written and verbal, be recorded and logged as required by Massachusetts statutes and/or regulations.

b. The Company must bring all significant or systematic issues that are identified in consumer complaints/grievances or received from other credible sources to senior management in order to institute changes necessary to eliminate sources of repeated complaints/grievances.

c. The Company must review current agent disciplinary procedures and institute, if it has not already done so, disciplinary procedures to address agent-related issues identified in its complaint/grievance records.

d. The Company must ensure that all issues raised in a complaint/grievance are acknowledged and addressed completely in its responses.

e. The Company must conduct a good faith investigation of all allegations of any agent's improper sales practices with appropriate discipline for substantiated infractions and implement additional agent training when necessary to prevent recurrence of improper practices.

f. The Company must comply with the timeliness of response and timeliness of resolution of complaint/grievance as required under Massachusetts statutes and/or regulations.

3. Marketing and Sales

    a. The Company must establish, if it has not already done so, procedures designed to reasonably ensure that all advertising and marketing materials comply with both Massachusetts statutes and regulations and Company written procedures. The Division suggests that the Company consider submitting all such advertising and marketing materials to the Division to review.

    b. The Company has submitted to the Division for its review and approval all application forms currently provided for use by agents in solicitation of certificates of insurance. The Company agrees that all application forms used in the future shall be submitted to the Division for its review to ensure compliance with Massachusetts statutes and regulations relating to required information and disclosures.

    c. The Company will publish, if it has not already done so, written procedures to its agents designed to ensure that agents do not use sales materials that are not approved by the Company. These procedures must provide for appropriate sanctions of agents who use such materials that have not been previously approved. The Company should take special care in efforts to prohibit any reference to the Massachusetts Insurance Partnership Program, the Children's Medical Security Plan, MassHealth or any other state or federal health program, as a selling point.

    d. The Company shall review all consumer and Division complaints/grievances that allege the use of unauthorized sales materials by agents and impose agent discipline according to Company standards regarding the use of unauthorized sales materials.

    e. The Company shall continue to provide a written association group disclosure form to delineate the relationship between the Company and any association(s) that it uses for marketing its products. The disclosure forms should include a definitive statement and disclosure to association group purchasers of health insurance relating to the requirement for membership in the association and any variations on that condition.

4. Certificate Holder Services

    a. The Company shall, in the event of a coverage lapse due to non-payment of a required premium, ensure that it provides coverage in accordance with the grace period provision in the certificate

as well as in compliance with the written notice of termination requirements described in Massachusetts statutes and/or regulations.

5. Underwriting and Rating

    a. The Company shall continue not applying any underwriting criteria to coverages that are guaranteed issue.

    b. The Company must prepare, adopt, and implement, if it has not already done so, a procedure to record the reason or cause for customer-initiated cancellations including a measurement structure to test the effectiveness of the procedure and demonstrate that the process is performing as intended. The procedure should clearly state time frames for the process.

    c. The Company must produce a listing for the Division of all Massachusetts insureds who voluntarily terminated their insurance certificate with the Company on or after January 1, 2002 through the present. This list must include the date the Company received notification of the certificate holder's intention to cancel the certificate as well as the paid to date when the certificate was cancelled.

        1) The Company agrees to review a sample of lapsed and cancelled files to determine that these certificates were processed in a timely manner and to report the results of this review to the Division within 120 days following the execution of this Agreement. The Company agrees to engage an independent firm to conduct this review and further agrees that this firm and the review work plan shall be satisfactory to the Division.

    d. The Company must prohibit the acceptance of altered applications received from the field with a clearly stated procedure. The procedure must provide appropriate time frames and measurement features that will test the effectiveness of the prohibition and demonstrate that the process is performing as intended.

    e. The Company must require that the full cost implications of the "Return of Premium Rider" be disclosed during solicitation.

6. Claims

a. The Company must implement, if it has not already done so, comprehensive written claim adjudication procedures applicable to Company personnel as well as participating vendors that handle claims and correspondence with customers.

b. The Company must develop a means to provide a common claim number for a single claim that exceeds the file contents capacity currently resulting in multiple claim numbers for the same file. The Company will provide claim history data at a film number level which ties multiple claim numbers that are generated from one bill. The Company is in the process of implementing a new claim processing system, planned to be in place by December 31, 2008, that will address this issue for new business after the new claim processing system is implemented. The Company does not plan to migrate existing certificates to the new claim processing system.

c. The Company must assure that claim timeliness is compliant with Massachusetts law.

d. The Company must assure that communications with claimants is compliant with Massachusetts law.

e. The Company must identify and record all instances of customers' communications expressing a complaint/grievance relative to a claim.

f. The Company must revise its Explanation of Benefits statements, beginning no later than 180 days following the execution of this Agreement, to disclose complete information to insureds relative to the type and amount of all applicable deductibles as well as the current status of the deductible following claim settlement.

g. The Company must prohibit the acceptance and subsequent issuance of certificates where unauthorized alterations are found.

h. The Company must contact those insureds, regardless of whether the person is currently covered by a Company small group insurance certificate, whose claims, from the time period January 1, 2002 through December 31, 2004, and, in addition, claims on certificates issued through April 30, 2005 or renewed through July 31, 2005 to the date of their first renewal or lapse,

that were denied without payment based on certain codes identified by the Division, because the service or benefit described in the claim was not covered under the plan. The purpose of this contact is to confirm the consumer's understanding of the product and re-evaluate any claims where the consumer can establish there was a good faith basis for believing that the claims were not processed correctly.

1) Beginning no later than the forty-fifth day following the execution of this Agreement, the Company shall begin mailing notices (set forth in Exhibit 1) to all of the applicable Claimants advising that they may resubmit their claim for further review by the Company. With respect to any Claimants whose mailed notice is undeliverable the Company shall provide the Division with evidence that the efforts to locate Claimants are rigorous and thorough. Such efforts shall include the use of or consultation with third parties or their databases, and additional letter forwarding services offered by the United States Postal Service.
2) Claimants who respond that they would like their claim reassessed will have their response acknowledged in writing within thirty (30) days of receipt of their response.
3) The Company commits to use its best efforts to complete this process by February 1, 2008.
4) The Division shall monitor the claim reassessment process and shall conduct reviews of decisions in the manner and at such internals as it deems appropriate.

C. Other Provisions

1. All of the terms of the Agreement shall be binding upon, and shall inure to the benefit of, the Company or any successor insurer licensed by the Division in which the Company directly or indirectly possesses any ownership interest in, the Division, and the successors and assigns of each of the foregoing.

2. Unless an alternative deadline is specified in the Plan, the Company agrees to complete the required actions in the Plan within ninety (90) days following the execution of this Agreement. The Company shall maintain records of progress in completing the required actions per this Agreement, and shall submit reports of such progress to the Division and its designees. The Company's failure to complete the required actions within this time frame may result in other remedies or penalties assessed by the Division not set forth in this Agreement. Nothing in this Agreement shall be construed as

to waive or limit the right of the Division to seek additional remedies not set forth in this Agreement to the extent additional material information related to the issues set forth in this related examination becomes available to them.

3. The Division will monitor the Company's compliance with this Agreement. It is further expected that the Division will conduct a re-examination of the issues addressed by the Examination Report within twenty four months (24) after execution of this Agreement.

4. The reasonable costs of the Division in monitoring the Company's compliance with the Agreement, including, but not limited to, the cost of conducting any reviews, interim monitoring or re-examination provided for by the Agreement, shall be paid by the Company.

5. Time is of the essence in implementing the provisions of the Agreement, and the times specified may only be extended for good cause and with advance written consent of the Division, but such consent shall not be unreasonably withheld.

6. The Company does not admit, deny or concede any actual or potential fault, wrongdoing, liability or violation of law in connection with any facts or claims that have been or could have been alleged against it, but considers desirable for this matter to be resolved because this Agreement will provide substantial benefits to the Company's present and former certificate holders and insureds.

7. Neither this Agreement nor any of the relief to be offered under this Agreement shall be interpreted to alter in any way the contractual items of any policy/certificate, except to the extent the contractual terms may conflict with Massachusetts or federal law or to constitute a novation of any policy/certificate. Neither this Agreement nor any relief to be offered under this Agreement shall be interpreted to reduce or increase any rights provided by federal statute including the Federal Health Insurance Portability and Accountability Act of 1996 (HIPAA).

8. As a result of the comprehensiveness of the Plan set forth in Section B, the Division will not impose a fine or injunction against the Company unless the Company does not execute and complete the required actions as set forth in Section C.2 or unless additional material information related to the required actions in the Plan becomes available to the Division.

9. In the event that subsequent to the date of the execution of this Agreement, the Company and/or its parent settles with any other State substantially similar allegations on a multi-state basis, the Division is not precluded from participating in any such multi-state regulatory settlement agreement. Such

participation does not void the Company's obligations under this Agreement.

10. This Agreement may be signed in multiple counterparts, each of which shall constitute a duplicate original, but which taken together shall constitute but one and the same instrument.

11. This Agreement shall be governed by and interpreted according to laws of the Commonwealth of Massachusetts.

12. The signatories hereto represent and warrant that they have full authority to execute this Agreement on behalf of the parties herein.

13. This Agreement shall remain in effect until the later of (i) December 31, 2008; or (ii) the completion of the re-examination referenced in paragraph C.3. above. This Agreement and its provisions shall terminate for all purposes pursuant to this paragraph C.13.

D. Remedies

1. The Division reserves the right to pursue any other remedy or remedies for violations of this Agreement. Nothing in this Agreement shall be construed to waive or limit the rights of the Division to seek such other additional remedies.

2. The enforcement of any fine imposed hereunder and the findings upon which any such fine are based shall be subject to judicial review as otherwise provided by law.

3. In addition to the other penalties applicable pursuant to this Agreement, the Division retains the right to impose any other regulatory penalty otherwise available by law, including fines, with respect to the Company's willful violation of the terms of this Agreement or other violation of law.

EXHIBIT 1

[Date]

[name]
[address]
[address]

Re: Certificate No. _____

Dear [personalized]:

As part of a settlement and in cooperation with the Massachusetts Division of Insurance, The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company and The Chesapeake Life Insurance Company ("the Company") have agreed to implement a Claim Reassessment Process, under which certain health insurance claims you submitted and the company denied, have been identified as eligible for the reassessment process. Relevant information regarding your denied claim(s) from previously forwarded Explanation of Benefits is included on the enclosed Claim Reassessment Form. For that reason, if you believe that your claim should have been paid, you are entitled to request that the Company review its decision to deny your claim.

The agreement with the Massachusetts Division of Insurance sets forth the procedures under which the Company will conduct the Claim Reassessment Process. This Process will be monitored by the Massachusetts Division of Insurance. A copy of the agreement is available on the Division of Insurance website at www.mass.gov/doi

You are not required to participate in the Claim Reassessment Process if you believe that your claims were processed according to your understanding of coverage. However, if you elect to participate in the Claim Reassessment Process, you must do one of the following within sixty (60) days of the date of this letter:

- Fill out and return the enclosed Claim Reassessment Form in the envelope provided; OR

- Place a toll-free call to 800.xxx.xxxx and provide your name, current address and certificate number and submit a Claim Reassessment Form within a reasonable period of time.

If you complete and return the Claim Reassessment Form or contact the toll-free number listed above, the Company will acknowledge its receipt of your request for reassessment. The Company will also send you an affidavit that will need to be completed describing the circumstances that you believe warrant reassessment of your claim. The Company will review the claims of those electing to participate in the reassessment based on a first in and first out basis. The Company will rely on information provided by you in your Affidavit when conducting its review of your claim(s).

The Company will contact you if any specific information is still needed for the Company to reassess your claim(s). Once our prior claim decision has been reassessed and any additional investigation is completed, the Company will advise you in writing about the decision and benefits that may be paid. During the reassessment process, all claims will be administered according to the deductible, co-insurance and co-payments set forth in the certificate of insurance you had in force at the time of the claim.

We appreciate this opportunity to serve your insurance needs.

Sincerely,

[Name]
[Title]

Reassessment Letter Number_____

CLAIM REASSESSMENT FORM

NAME: _____

CERTIFICATE NUMBER: _____

[Insert EOB information for each claim here]
[Date of service, healthcare provider, type of service provided, claim amount, date claim filed]

You must complete and sign this form if you believe your claim should have been paid by the Company. You will need to explain why you believe your claim should have been paid. If you believe your claim was processed correctly you do not need to complete this form.

The Company will acknowledge receipt of this form, and, at that time may contact you for additional information, including to request any proof of payment of charges you may have made to a healthcare provider (a cancelled check, or credit card receipt or other valid proof).

I believe my claim should have been paid for the following reasons:

_____

_____

_____

_____

_____

_____

Signed: _____

Dated: _____

REASSESSMENT LETTER NUMBER: _____