

**Exhibit Number: 3**

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Protecting Montana's consumers through insurance and securities regulation

STATE BUSINESS & INDUSTRY  
EXHIBIT NO. 3  
DATE 2/15/05  
Act SB 380

# Montana Medical Care Discount Card Act SB 380

## *Protecting Montanans from medical discount card fraud*

### **Background:**

The rising cost of health care has caused the medical discount cards and pharmacy discount cards market to explode in recent years. Discount cards are attractive to people searching for affordable healthcare because they can offer savings on visits to healthcare providers (doctors, dentists etc.) and on prescription drugs. The problems begin when the sellers of these cards mislead consumers on who accepts the cards, and the amount of savings and services the cards provide. Some solicitors mislead consumers into believing the cards are a substitute for health insurance. What happens then? Consumers pay for discounts they do not receive. Consumers do not receive the services they expect, and are often still left paying full price for all their medical expenses.

### **Bill Details:**

This legislation is designed to reduce the occurrence of medical discount card fraud in the state of Montana. It gives the State Auditor greater regulatory authority over the solicitation and sale of the medical discount cards so that consumers in Montana are better protected from such scams.

Under the new law, discount card providers would comply with the following regulations:

### **Medical discount card providers:**

- Before marketing, promoting or selling discount cards in Montana providers will register as a medical discount card supplier with the State Auditor.
- The discount card providers will provide the State Auditor with a list of solicitors authorized to sell or distribute its products.
- The discount card providers must maintain a surety bond in the amount of \$500,000 to pay for any damages caused, or fine levied, against supplier for violations.

### **Medical discount card and pharmacy discount card suppliers will:**

- Not mislead consumers about the discounts offered by the card, doing so will be considered fraud and a deceptive practice, resulting in fines and possible restitution to victims.
- Inform consumers that cards are not a substitute for insurance.
- Provide consumers a list of services offered by the card and contact information of the nearest providers that honor the card, before selling the card.
- Provide consumers with a 30-day right to cancel.
- Make available all contact information of all providers who honor the card.
- Provide their contact information with State Auditor's Office.

To enforce the new law, the State Auditor may issue cease and desist orders and fine violators.

## Illegal Insurance Transactions SB 114

### *Protecting Montanans from fake insurance and scams*

#### **Background:**

The General Accounting Office reported 144 fake health insurers sold more than 200,000 bogus policies between 2000 and 2002, resulting in \$252 million in unpaid claims. During this time period the number of fake insurers almost doubled. Many of these insurers operate across state borders.

In Montana, hospitals such as Saint Vincent Healthcare in Billings have reported seeing hundreds of these. Further, complaints about fake insurance have been received from Sidney to Libby. As of July 2004, the Montana State Auditors office had issued cease and desist orders on 15 entities.

Frequent targets of unauthorized insurance plans are the elderly and small businesses looking to reduce insurance costs. Fake insurance is attractive because it is typically less expensive than legal policies.

During 2004, two small contractors were victimized by a fake surety entity that sold fake bid bonds. One of the contractors only discovered the fraud after the bid had been accepted and work had begun on a project partially funded by federal dollars. When it was discovered that his bond was issued by a fake surety entity he was in a position to have the contract cancelled. It could have been a business-ending situation for this small business.

#### **Bill Details:**

This legislation aims to reduce the number of fake insurance scams in the state, by increasing penalties on these criminal acts.

- The National Association of Insurance Commissioners is beginning the process of drafting model legislation. The model is not yet adopted, but because of the level of activity here in Montana this past year it's important that this bill pass now to protect our citizens.
- The selling of insurance without authorization from the State Auditor's office will be considered insurance fraud and a felony offense.
- Soliciting insurance or selling insurance in any other state or county from within the state of Montana, without specific authorization from the Montana State Auditor's Office, will be considered a felony offense.
- Selling fake insurance and all other forms of insurance fraud will be punishable under deceptive practice statutes.



**Consumer Alert**

**MORRISON ISSUES CEASE AND DESIST AGAINST SHONTO SECURITY,  
INC. FOR SELLING FAKE SURETY BONDS, ACCUSED ARRESTED IN  
CALIFORNIA**

**HELENA, Mont., February 15, 2005** – Montana State Auditor John Morrison issued a Cease and Desist Order against Shonto Security, Inc. for participating in a scam that used insurance certificates and fake contractor bonds to win bids of public works projects. The man, Robert Joe Hanson, 47, of Las Vegas Nevada uses the company name Individual Surety, LTD and is not licensed in the State of Montana. Several small contracting companies in Montana have already been victimized by this scam. Cease and Desist orders have also been issued in Washington, Nevada, Florida and Georgia against Hanson and Individual Surety, LTD. Hanson was recently arrested on a warrant for insurance violations in California. Those proceedings are pending.

“Criminals will go to great lengths to commit fraud,” said State Auditor John Morrison. “I will continue to fight these illegal insurers to protect Montana’s small businesses.”

Hanson is accused of acting as an unlicensed insurance producer and selling fraudulent surety insurance, bid and performance bonds to small contractors in Montana. The majority of solicitations were made in the in the Butte and Kalispell areas for construction projects at three locations in the State of Montana. Hanson illegally sold surety bonds for construction bids, which totaled over \$4 million in bond value in Montana.

“The best way to fix this situation is to make it a felony to sell illegal insurance plans in Montana,” said Morrison. “As Montana State Auditor, I have been working with legislative leaders to try to pass such legislation this session. We recently introduced SB 114 which would give my office the tools we need to prosecute these types of criminals.”

Investigators believe there are more Montana victims. Robert Joe Hanson’s last known address was 2867 Destino Lane, Henderson, Nevada and Individual Surety, LTD was last listed at 6402 McLeod Dr. #5, Las Vegas, Nevada. He has previously done business as Millennium Bonding, Global Bonding and Individual Surety. Prior to setting up Shonto Surety, Hanson operated a business called I.S., a Native American Corporation.

If you have been contacted, or have information concerning any of these entities, please contact the Investigations Unit at the State Auditor’s Office at 1-800-332-6148.

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Dear Sirs,

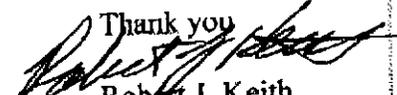
I am writing this letter today with the intention of helping to inform you of the need for tougher penalties for company's operating outside of the laws of the State of Montana. You see I was a victim of one of those companies. I am an owner of a security company here in the state and I was trying to get a substantial job for my company. This job required a bid bond as well as a construction bond. I contacted several bonding companies' here in the state and was told that I might not have enough time to get a bond in place by the deadline. Several months prior to that I had received a letter from a company outside of Montana that advertised bonding so I gave them a call and proceeded to get my bonding through them. I sent them a check for approximately \$1000.00 for the bid bond and received documentation that led me to believe that I was bonded. I was successful in my bid and sent them another check for almost \$10,000 and received all of the legal looking paperwork necessary.

I had just finished purchasing all of the equipment for the job and had started into the wiring stage when the State of Montana Auditors office informed me that the bonding company was not legitimate. Montana's Auditors office put a cease and desist order on the project. It seems that not only were they not licensed in the state but didn't have the funds to back the bond to start with. I was in a predicament to say the least. Not only was the job put on hold but also I was still liable for the product purchased from my suppliers. Parts were already installed and I was responsible for the job.

I put a stop payment on the second check and was lucky that the bonding company hadn't cashed it but I still had a large problem. I was not bonded and was unable to proceed with the project until legitimate bonding was obtained.

There is a good ending to the potential tragedy. Thanks to the Montana Auditors office and my people being able to perform in a crunch time I was able to obtain the necessary bonding and was able to proceed and ultimately complete the job. However it was at some expense. I know that if I was not notified of this bogus company as early in the project as I was that I most likely would have lost the job and ultimately possibly my business. The state needs to take this very seriously! I am sure that most of you are aware of the struggles of a small business and how difficult it is to survive. I also know that fraudulent activity takes place every day and I feel that one way to curb this behavior is to make the penalty substantial. If the penalty is not substantial we are in essence inviting that type of activity to our state.

I may seem a little long-winded with this letter but that is only because of how strongly I feel about this. If we don't have strong punishment for this crime then we are doing our state and ourselves a grave injustice.

Thank you  
  
Robert J. Keith