



for what happens next

**Statement on Compliance with
Administrative Simplification Provisions of
The Health Insurance Portability and Accountability Act of 1996**

This is a statement pertaining to compliance with the Administrative Simplification provisions of The Health Insurance Portability and Accountability Act of 1996 (HIPAA). Colonial has reviewed the HIPAA law and related final regulations to achieve timely compliance of Colonial's systems and procedures with applicable HIPAA requirements.

Privacy

Colonial has reviewed the *Standards for Privacy of Individually Identifiable Health Information* (and the modifications of that rule) promulgated by the Department of Health and Human Services (HHS) pursuant to HIPAA and is in compliance with these regulations for impacted products. Most health plans and health care providers that are covered by the regulations must comply with the new requirements by April 14, 2003.

Please note that the majority of Colonial's products are exempt from HIPAA mandates. For example, Disability, Life, Accident and other products that do not pay for the cost of medical care are excluded from the HIPAA privacy regulations. However, certain products are covered including expense-based cancer, intensive care and hospital confinement products (hereafter, "covered products").

For products covered under the HIPAA privacy regulations, Colonial has taken action steps to meet the compliance deadline. These actions include amending service provider contracts, developing and distributing a privacy notice, and developing an information accounting system for those products impacted by the privacy regulations. The accounting system will allow us to track and report certain disclosures of personal health information. We will also be revising our claim and application authorizations for all of our products to facilitate collection of health information from healthcare providers who are covered under HIPAA.

Security

Colonial and its parent company are in the process of enhancing our system security framework. This will provide us with a unified security framework that will provide the direction to ensure the availability, integrity and accuracy of company assets, customer data, and personally identifiable information. The framework will provide the foundation that enables secure access to company assets by employees, customers and business partners any time from anywhere. "Components include, but are not limited to:"

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- Security Policies, procedures and guidelines
- Security Awareness and training
- Risk Assessment and management
- Data Classification
- Security monitoring and reporting
- Incident Response/Management
- Security Consulting
- Security Auditing
- Implementation/utilization of the security tools of the trade.

We are using the Information Security Standards of the ISO 17799 as well as HIPAA security requirements as guides to the development of this framework. Our goal is to be in compliance with these standards by the compliance date.

Electronic Data Interchange

HHS has established “Standard Transactions and Code Sets”, which are standards for data elements, code sets and formats to be used by certain entities (“covered entities”) when those entities use *electronic data interchange* to conduct certain transactions (“covered transactions”) within covered products. “Covered entities” include certain insurers to the extent their insurance products are covered products. “Covered transactions” are certain HHS defined transfers, via electronic media, of information to carry out financial or administrative activities related to covered products.

Colonial is currently undertaking an extensive review and inventory of its products and data transfers to verify those that are within the scope of the HIPAA definitions. We are in the process of developing policies and procedures so that covered transactions conducted by Colonial with respect to our covered products will use the mandated Standard Transactions and Code Sets on or before the compliance deadline set by HIPAA. We have filed with HHS, an extension request based on the model form promulgated by the Centers for Medicare & Medicaid Services. That filing has extended to October 16, 2003 Colonial’s deadline for compliance. The extension does not apply to trading partners, policyholders or insureds under Colonial insurance policies, and such entities should contact their own HIPAA advisors as to their compliance obligations.