Health Insurance Companies Refund Requests and the Law

Health care providers, such as doctors, hospitals, chiropractors, and others, receive most of their income in the form of payments from health insurance companies. Usually the insured (the patient) will assign benefits to the provider so that the insurance company will make the payment for services directly to the provider. To be reimbursed, the provider submits a claim to the insurance company. The insurance company then processes the claim, and pays the claim according to the health insurance plan coverage description, and sends payment to the provider. Many times the payment is made in error. Some of the more common reasons for error, and ensuing refund requests include: the member's coverage terminated before the date of service; claim paid as primary carrier when the member has coverage with insurance; the services rendered are not a covered benefit under the plan.

The contract for health care benefits is between the insured member and the insurance company. The provider is the third party creditor. That is, the member as the insured creditor assigns his benefits under the policy to the provider. This makes the provider the third party creditor.

Is the provider legally obligated to reimburse the monies back to the insurance company when the provider renders the services to the member in good faith and expects to be paid for the services? Is it unjust enrichment if the provider refuses to return the money?

There are several factors the courts have considered when determining liability to repay an overpayment. The first is the Restatement of Restitution that states, "Equitable concepts of unjust enrichment dictate that when a payment is made based upon a mistake of fact, the payor is entitled to restitution unless the payee has, in reliance on the payment, materially changed its position. (Rest., Restitution (1937) § 1.)"[1] As discussed below, there can be exceptions to this rule including which party is responsible for the

[1] City of Hope Nat. Medical Center v. Superior Court, 8 Cal. App. 4th 633, 637 (2d Dist. 1992)

error; was there unjust enrichment; did the provider act in good faith; and was there misrepresentation on the part of the provider.

In Federated Mutual Ins. Co. v. Good Samaritan Hosp.[2], Federate Mutual Insurance sued Good Samaritan Hospital for an overpayment it made to the hospital. In this case the overpayment was made solely due to the insurance company's own mistake and lack of care; the hospital made no misrepresentation to induce the overpayment; and the hospital acted in good faith without prior knowledge of the mistake in receiving the overpayment. The court ruled the hospital did not have to reimburse the insurance company, citing Section 14(1) of the Restatement of Restitution, which provides an exception to the general rule of restitution for payment made under mistake of fact:

> "A creditor who has innocently received payment of a debt from a third party is under no duty to make restitution to the third party if it is later discovered that the third party had no responsibility to make the payment and payment was made solely because of the third party's mistake." The court in determining who should suffer the loss, placed the burden the insurance company because it was the only party in a position to know the policy provisions and its liability under the contract."[3].

In St. Mary's Medical Center v. United Farm Bureau[4] ("UFB"), the insurer, UFB, paid St. Mary's Medical Center ("SMMC") for outpatient services provided to Elizabeth Munford. After paying the claim, UFB discovered that Munford's coverage had terminated two months prior to the date of service and requested a refund from SMMC. SMMC refused, stating exception to the rules of restitution because they were a third party creditor. The court ruled in the hospital's favor because the payment was made due to UFB's mistake, the hospital made no misrepresentation to induce payment, there was no unjust enrichment, and SMMC acted in good faith without prior knowledge of UFB's mistake. The court held that the hospital was an innocent third party creditor of

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[2] 214 N.W. 2d 493(Neb. 1974)
[3] Rstmt. Torts, Restitution, § 14(1), p. 55 (1937)
[4] 624 N.E. 2d 939 (Ind. App. Ct. 1st Dist. 1993)

the insured (Munson) and was not responsible to pay back the money. The insurer was obligated to seek restitution from Munson.

The court found for the provider in City of Hope National Medical Center v. Superior Court,[5] as well. In this case, the insurance company, Western Life Insurance, paid for services rendered to their insured, Dominic Constanti, and then later decided that his treatment at the City of Hope was experimental, and therefore, not covered under the plan. The court held that the hospital was not required to pay the money back because there was no fraudulent conduct by the hospital, the hospital did not make misrepresentations to the insurance company and because it had no notice of the payor's mistake at the time payment was made.

In Lincoln National Life Insurance Co. v. Brown Schools, Inc.,[6] the insurer paid for services rendered after the insurance policy had expired. The court found for the provider stating that "the hospital has no responsibility to determine if an insurance carrier is properly tending to its business."[7] The court also stated, "This exception to the general rule allowing restitution for money paid under mistake of fact is simply an equitable limitation that places the loss, as between two innocent parties, on the one who has created the situation and was in the best position to have avoided it. "[8]

In National Benefits Administrators v. MMHRC[9], the court again ruled in favor of the provider. The court concurred with the Lincoln court, citing "as between two innocent parties, on the one who has created the situation and was in the best position to have avoided it. [The insurer], possessing the policy and the knowledge of its terms, made the mistake and…it must bear the loss."[10]

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[5] 8 Cal. App. 4th 633 (2d Dist. 1992)
[6] 757 S.W. 2d 411 (Tex. App. Ct. 1988)
[7] Id. at 414
[8] Id. at 466
[9] 748 F. Supp. 459 (S.D. Miss. 1990)
[10] Id., quoting Lincoln Nat'l Life Ins. Co. v. Brown Schools, Inc., supra, 757 S.W.2d at 415.

Summary

When a health care provider renders services to an insured and files a claim for payment for those services with the insurance company, it becomes the third party creditor. Through the assignment of benefits the insurer is obligated to pay the provider. If the insurance company pays the claim and later determines it made that payment in error, it cannot seek reimbursement from the provider when the provider made no misrepresentation to induce the overpayment; acted in good faith; had no prior knowledge of the mistake when the overpayment was received; and there was no unjust enrichment. Under the exception to the Restatement of Restitution, the provider is a third party creditor and is not liable to repay the overpayment as the contract to provide insurance coverage is between the insurer and the insured patient.