



DEPARTMENT OF INSURANCE  
**State of North Carolina**

P.O. Box 26387  
RALEIGH, N.C. 27611

JIM LONG  
Commissioner of Insurance

Managed Care &  
Health benefits division  
(919) 715-0526  
FAX (919) 715-0198

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To: North Carolina Health Insurers and Other Affected Entities

Subject: Health Insurance Portability and Accountability Act - Transaction and Code Set Standards

The Transactions and Code Sets (TCS) standards under the Administrative Simplification provisions of the federal Health Insurance Portability and Accountability Act (HIPAA) went into effect on October 16, 2003. The scope of changes to claims filing and other electronic transactions set out in these regulations demands an unprecedented degree of cooperation and communication among and between thousands of diverse entities. While the North Carolina Department of Insurance ("Department") is not the enforcement authority for these federal regulations, we share the concerns of many that inadequate preparation on the part of HIPAA covered entities could result in serious financial hardships to health care providers, undue criticism of payors, and most importantly, disruption in access to healthcare for North Carolina citizens.

Over the past several months we have strongly encouraged payors, providers and other covered entities to prepare for compliance with the TCS standards, recognizing that there is no effective substitute for direct communication and testing between and among the trading partners. On the Department's website, we have posted links to resources that can assist covered entities with their readiness efforts, and we continue to endorse the work of the North Carolina Healthcare Information and Communications Alliance ("NCHICA"), a leading local and national resource helping payors, providers, vendors and other healthcare entities prepare for the TCS regulations and for HIPAA Administrative Simplification in general.

While these federal regulations clearly have a sweeping impact on electronic claims filing and certain other electronic transactions, it is important to emphasize that North Carolina insurance laws also remain in force. With respect to claims processing in particular, the processing turnaround times, notification requirements and other obligations set out in North Carolina's Prompt Pay Law (NCGS 58-3-225) are unaltered by these federal regulations, and enforcement by the Department will not be affected. The Prompt Pay Law does not shelter providers or payors from compliance with the TCS regulations, nor do the federal regulations preclude payors from complying with the Prompt Pay Law.

The Centers for Medicare and Medicaid Services (CMS), the agency responsible for enforcement of these federal regulations, announced on September 23, 2003, that it was implementing a contingency plan to accept non-HIPAA compliant electronic transactions for Medicare during a transitional period. It cannot be assumed, however, that other payors are adopting similar contingency plans for the receipt of non-compliant electronic claims. Providers must contact payors to learn whether contingency plans have been established.

All parties must recognize that the magnitude and complexity of the changes called for in these regulations can reasonably be expected to result in some disruption to business transactions. Furthermore, successful implementation by all covered entities will not likely be accomplished in one day, but more likely, over time. It is incumbent, therefore, upon all participants in the health care financing and delivery system to work cooperatively to come into full compliance with HIPAA TCS standards in order to minimize disruptions and reach the ultimate goal of true administrative simplification. The Department will continue to enforce North Carolina insurance laws, and we fully expect insurers to remain compliant with North Carolina insurance laws while doing their part to meet HIPAA TCS standards.