

## Allstate records raise yet more questions

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At first glance, Allstate's release of documents it has zealously guarded for more than a decade as "trade secrets" could be seen as an orchestrated move to keep Florida regulators at bay and let the company keep writing new policies.

Earlier this month, Allstate posted on its website 150,000 pages of documents — mostly PowerPoint presentations and company reports prepared by corporate consultant McKinsey & Co. on how to improve profitability by revamping its claims-handling practices.

But that didn't pull the insurer's feet out of the fire.

A suspension of Allstate's license to write new policies in Florida still hangs in the balance. Until a state appeals court rules on its request filed last week for a rehearing, Allstate remains open for business. But two weeks ago, the First District Court of Appeals upheld the ban on Allstate until the company fully complies with regulators' demand for information and records. If the insurer loses the court battle, the suspension goes into effect.

If anything, Allstate's sudden reversal has made both regulators and insurance industry critics acutely aware of what other documents Allstate could produce.

"There is no blatant smoking gun" in the documents Allstate has released, says Amy Bach, executive director of United Policyholders, a consumer advocacy group in San Francisco.

"Nothing stands on its own in those 150,000 pages. It's like a giant puzzle and you have to put the pieces together and connect the dots," she adds.

### E-MAILS

Consumer advocates like Robert Hunter, director of insurance research for the Consumer Federation of America, and David "Birny" Birnbaum, director of the Center for Economic Justice, believe Allstate should also share with regulators and consumers e-mails and memos that show which McKinsey recommendations the insurer had implemented.

Florida's Insurance Commissioner Kevin McCarty did ask for exactly that information in the subpoena delivered to Allstate last October.

Ed Domansky, a spokesman for McCarty, said Allstate hasn't complied with that portion of the subpoena

yet, even though the company has delivered a portion of the documents requested by the Office of Insurance Regulation.

State officials won't discuss the substance of the documents Allstate has turned over so far because their investigation is ongoing.

Allstate spokesman Rick Halberg said the documents posted online are exactly the ones the company had turned over to OIR in late January. "We are continuing to provide documents" to comply with the Florida subpoena, he said.

#### LOSS RATIO

Birnbaum says Allstate is happy to tell investors and Wall Street analysts that its loss ratio – the amount of money it pays as a percentage of the premiums it collects – is much lower than the industry average. "How does Allstate achieve that? One way is to say 'no' to everyone, or make the customer fight for every penny that they deserve," he said.

Hunter says the practices McKinsey advocated were adopted by Allstate to handle all claims, not just auto claims as the company maintains. Among the documents posted by Allstate, there is a section that refers to the handling of homeowners claims.

Indeed, McKinsey did work for other companies, including State Farm. This insurer said it hasn't used McKinsey's services for more than a decade, according to a State Farm spokesman.

Hunter's 2008 report on industry profits notes that lawsuits have revealed that various insurers have used the same computerized claims settlement software for adjusting bodily injury claims in auto accidents that was the cornerstone of the claims operations that McKinsey designed for Allstate in the mid-1990s.

#### REPORT

A special report Hunter prepared on Allstate last summer found that Allstate was a leader in using complex pricing systems that made it difficult for consumers to compare rates with other insurers and that "appear to lead to higher rates for poorer and minority consumers." The company also racked up a high number of consumer complaints, most related to what consumers saw as unfair claims settlements and practices.

Chip Merlin, a well-known Florida plaintiffs attorney who heads the Tampa-based Merlin Law Group, says the McKinsey strategy is all about MBAs looking for profits and caring little about the ethics involved in paying claims.

"Insurers aren't supposed to be thinking about profits at the time a claims is presented. It's all about paying a full and fair amount as quickly as possible."

Even before Allstate made the McKinsey documents public, some attorneys had a chance to review some

of these documents. David Berardinelli, a Santa Fe attorney, was all too familiar with them after spending two months going through 12,000 documents, reading them and taking copious notes — some 400 pages worth.

His book resulting from the research, *From Good Hands to Boxing Gloves*, was first geared to trial attorneys. Next month, a consumer version is being published.

#### ‘GONE AMOK’

“This is an industry gone amok. It has become so obsessed with profits and money that everything they do is based on cost-benefit analysis,” says Berardinelli, who believes the consultant as well as Allstate and other insurers have changed the nature of the insurance business.

“Insurance is a vital social service. It is supposed to take risk from around the country and spread it so insurance will be available and affordable whether you live in earthquake-prone California or hurricane-prone Florida.”