How State Farm fought through the second storm

http://www.pantagraph.com/business/local/article_49ce08d8-abd4-11df-9fe7-001cc4c…

BLOOMINGTON — It’s been five years since Hurricane Katrina devastated the Gulf Coast, killing 1,800 people and causing $41.1 billion in insured damage — a single-loss record for the insurance industry.

Katrina’s impact still ripples through the region today, and through Bloomington-based State Farm Insurance Cos., the largest home insurer in the U.S. The company fought through a second storm in the years since, attacks on its carefully crafted good-neighbor image — led in part by a now-discredited trial lawyer — over accusations it was trying to avoid paying out claims.

State Farm notes it faced around 400,000 reported claims — nearly 100 percent of them resolved — and paid out more than $3.8 billion, not counting payments to National Flood Insurance Program policyholders. Still, the company concedes it learned from Katrina and the other destructive storms of 2004-05 — namely that it was overexposed in coastal areas.

“We were perfect? No, we’re humans,” said spokesman Phil Supple. “Every time we deal with something like this, we learn something new.”

Wave of litigation

Less than 2 percent of homeowner claims in hardest-hit Louisiana and Mississippi were disputed through mediation or litigation, but that’s still thousands of cases.

For State Farm and other insurers, the key legal question was

whether a flood-exclusion clause — common in homeowners' policies — meant wind-driven, storm-surge damage was not covered.
Eventually, insurers won almost every major case and protected that concept.
"State Farm and other insurers had to engage in this litigation," said Robert Hartwig, president of the Insurance Information Institute. "If the trial lawyers had won, policies would be far less available and far more expensive in coastal areas."
After numerous complaints and accusations by policyholders in Mississippi, State Farm agreed in 2007 to reopen around 35,000 "slab cases" — a home stripped to its slab by the storm — eventually paying out an additional $88 million.
"It was a win-win for State Farm, the state and the courts," said Mississippi insurance commissioner Mike Chaney, who monitored the mediation program. A probe of State Farm's claims handling by his department found questionable decisions and irregularities, but no elaborate scheme or illegal actions, he said.
State Farm is known for taking a broader view of each disputed case than other insurers, said Chip Merlin, a Florida attorney who said he's handled hundreds of Katrina claim cases, including many State Farm customers.
"It's about what the case) might mean not just today, but five years from now," said Merlin, who only has a half-dozen cases still pending. "They're very worthy adversaries."
Arguably State Farm's highest-profile pending case involves the Rigsby sisters, who worked for a State Farm contractor on damage assessments. They sued State Farm, alleging it manipulated claims to shift responsibility to the National Flood Insurance Program. The case is set for trial Dec. 1.
State Farm denies the charges, noting the sisters allegedly provided thousands of pages of stolen records to former attorney Richard "Dickie" Scruggs, its leading critic until his guilty plea in a judicial bribery case.
Making changes

The 2004-2005 storms led to higher homeowner premium costs, especially for coastal residents. In Mississippi, State Farm won rate increases of 33 percent to 48.5 percent in coastal areas in 2008, and 19.5 percent in 2009, Chaney said. State Farm says there are so many variables in policy-writing introduced since Katrina that comparing 2005 rates to 2010 is tricky.

Another rate hike is pending review this year, though Chaney said “when you look at the rate increases of other companies, State Farm is not that far out of line.”

“Insurers don’t shy away from risk,” said Hartwig. “They only shy away from situations where they’re not allowed to charge an appropriate premium to assume that risk.”

That’s what happened in hurricane-prone Florida, which State Farm threatened to leave after being denied a 47.1 percent premium rate increase. In a deal with
regulators that gives it only a 14.8 percent hike, State Farm Florida is now in the process of dropping 125,000 of its 714,000 homeowner policyholders.

State Farm stopped writing new policies in Mississippi in 2008, Chaney said. In June, the company said it plans to stop handling — but will still write — claims for the National Flood Insurance Program because NFIP’s frequent reauthorization problems drain company resources.

State Farm’s pullback hasn’t been all bad news for residents. New competition has sprouted up in places such as Mississippi, where 107 new property-casualty companies were licensed since 2005, said Chaney.

“The more diverse you are, the more companies you have writing policies, the better off you are,” said Jim Harris, spokesman and executive secretary of the Coalition to Insure Louisiana, conceding high premiums remain a problem there.

The PR front

State Farm was forced to defend itself from a barrage of

criticism after Katrina, so intense that a Mississippi congressman
once likened insurance executives to child
molesters.
By May 2006, the company brought on new communications chief
Mike Fernandez, who became the company's
Katrina voice to a large extent. The company then fired back at media outlets such as Bloomberg, PBS and
ABC News over their critical reporting of the company. Fernandez
conceded in a 2006 interview that State Farm should have
spent more time with news media early on talking up the company's
efforts.
"'No comment' will not cut it," he told HispanicBusiness Magazine this year.
Fernandez left the company this month for a job at Cargill. State Farm says its Katrina
communications "never fell to one person.")
Eventually, State Farm came to see much of the attacks as an
apparent "orchestrated PR onslaught" by those connected with
Scruggs, Supple said. Knowing it "had a good story to tell,"
company officials began meeting with newspaper editorial boards and
others, he said. But even today, the company will not concede any
specific missteps in its handling of Katrina.
"We put a human face on this company," Supple said. "We just
wanted people to know: we're listening."
While its Florida withdrawal isn't doing it any PR favors, State
Farm at least appears to have worked harder than competitors like
Allstate to please customers, said Amy Bach, executive director of
United
Policyholders, a consumer-rights group that worked Katrina.
"They don't have quite the same war-like mentality toward
customers," she said.
The insurance industry's reputation nationally has actually been
relatively steady since 2005, said Nicolas Boyon of research firm
Ipsos Public Affairs, which began studying the issue after Katrina.
Ipsos' monthly survey of 1,000 Americans showed in July only 19

percent had a favorable view of the insurance industry — better than Big Oil but worse than the pharmaceutical industry, Boyon said.
But that's steady, and companies themselves fare much better, he said. The best way for insurers to improve their reputation is to leverage their own customers, he said, like State Farm's recent TV advertising campaign stressing word-of-mouth. He declined to say if State Farm is an Ipsos research sponsor.)
"The industry overall has an image problem. The individual companies really don't," Boyon said.
Supple said State Farm feels "deeply for the misery and sorrow" of those impacted by Katrina. In the early days of the recovery, the company flew claims staff in and out of Baton Rouge, La., each day to leave hotel rooms for displaced residents — something it learned during earlier storms in Florida, he said.
"This was a historic natural disaster, and we did our best," he said. "With this event, and many before it and those to come, lessons are learned, and we're better for it and our customers are better for it."
By the numbers
A look at Hurricane Katrina, which made landfall in Louisiana on Aug. 29, 2005:
$41.1 billion: Total of insured damages in six states
$16.1 billion: Losses from flooding insured by the National Flood Insurance Program
$3.8 billion: Katrina claims paid by State Farm Insurance Cos., not including NFIP payments
1.7 million: Total claims filed related to Katrina, including State Farm
5,600: State Farm employees and independent adjusters assigned to impacted Gulf states
99: Percentage of the 1.2 million total

personal-property claims settled by August 2007
10: Percentage of Americans who have flood
insurance policies
SOURCES: State Farm, Insurance Information Institute