



Consumer Federation of America

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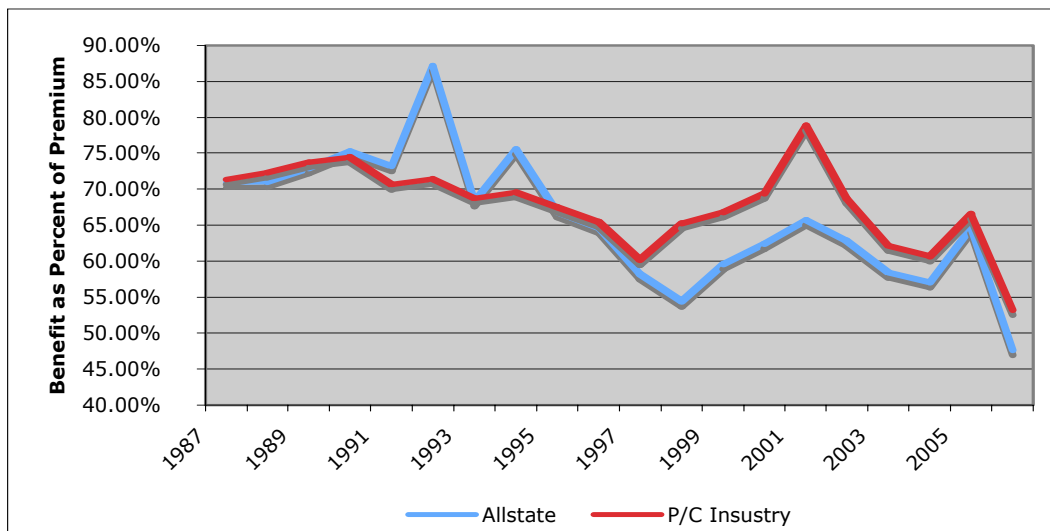
NEW STUDY CITES ALLSTATE AS A LEADER IN ANTI-CONSUMER INSURANCE PRACTICES

The Allstate Corporation has been at the forefront of the insurance industry in unjustifiably raising home and automobile insurance rates relative to the amount paid out in claims, in using questionable practices to settle claims and in attempting to shift costs to taxpayers, according to a detailed new study released today by the Consumer Federation of America.

“Allstate is certainly not the only insurer pursuing these anti-consumer practices, but it has been in the vanguard in developing and implementing many of them,” said J. Robert Hunter, CFA’s Director of Insurance and former Texas Insurance Commissioner and Federal Insurance Administrator.

CFA’s report, entitled “The Good Hands Company or a Leader in Anti-Consumer Practices?” identified several significant problems with Allstate’s home and automobile insurance practices:

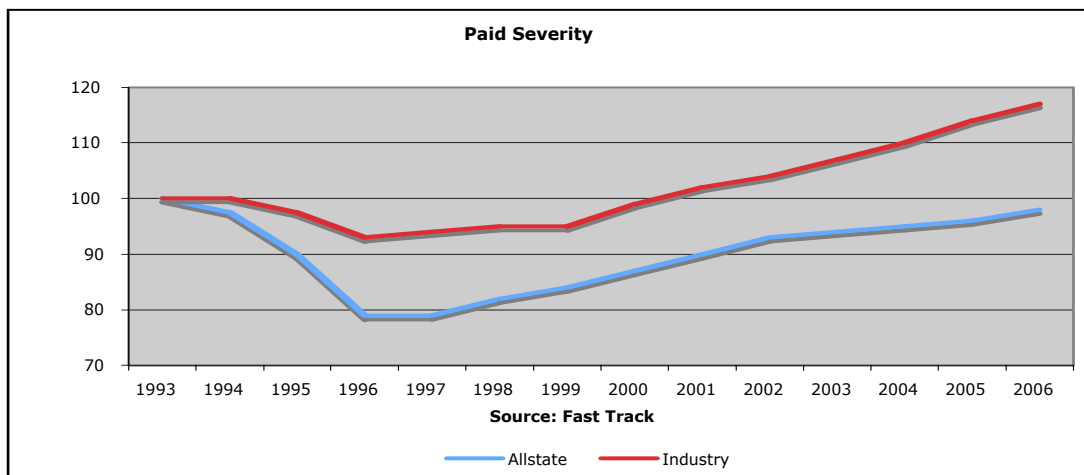
1. **Excessive rates and profits, compared to the low level of claims that Allstate has paid out to consumers.** From 1987 to 1996, property-casualty insurers overall paid out 70 percent of premiums as benefits. From 1997 to 2006, the payout was only 65 percent, a decline of 7.1 percent in value to consumers for the typical insurance product. In the late 1980s and early 1990s, Allstate’s insurance products were of slightly greater value per premium dollar to consumers than those of other insurers. However, the company’s property-casualty products have become less valuable than the industry average in recent years. Allstate paid out 73 percent of premium in benefits from 1987 to 1996 and a startlingly low 59 percent from 1997 to 2006, a decline of 19.2 percent in the value of Allstate’s product to consumers (see below.)



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As the consumer value of Allstate’s policies has declined, their profits have increased. Allstate’s profits were consistently higher than that of the overall industry during this period, averaging about 6 percent more. Allstate’s current return on equity of 25.8 percent is also significantly higher than the returns it earned in the late 1980s.

2. **Questionable claims settlement practices**, resulting in unjustifiably low claims payments. Allstate was one of the first major insurers to adopt claims payment techniques designed to systematically reduce payments to policyholders without adequately examining the validity of each individual claim, such as an automated payment system called Colossus. It adopted these techniques after being told by a consultant that these systems would put them in a “zero-sum game” with claimants, including their policyholders who filed claims, in which Allstate shareholders would benefit financially at the expense of policyholders.



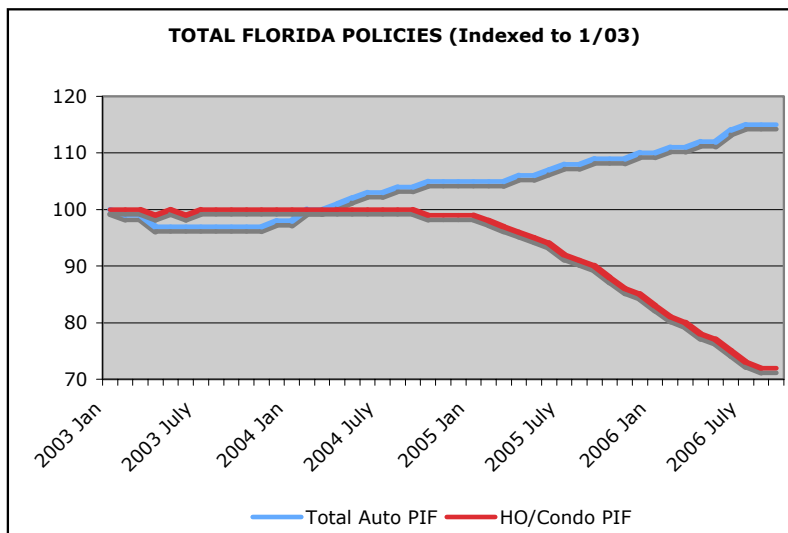
This graph, based on information produced by Allstate,¹ offers significant evidence of a pattern of underpayment. It shows that Allstate has consistently paid out lower claims for bodily injuries relative to the rest of the property-casualty insurance industry over more than a twenty year period. (It is indexed to 1993, which is listed as “100.”) From 1993 to 1996, Allstate’s paid severity dropped by 21 percent to 79, while industry-wide payments dropped to 94. Since 1996, Allstate’s paid severity has slowly increased to about 98, while the industry increased to 117. Overall, Allstate reduced its payouts on these claims by almost 20 percent relative to the industry result.

3. **Mistreatment of consumers throughout the country in the aftermath of Hurricane Katrina.** Allstate has proven to be a fair weather friend for many policyholders. It has dropped coverage for hundreds in many coastal areas around the country. In 2005 and the first half of 2006, Allstate abandoned thousands of Floridians it had insured, dropping about thirty percent of its book of business in that short period of time.²

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¹ May 16, 2007, Dan Hale, Chief Financial Officer of Allstate, presentation to the UBS 2007 Global Finance Services Conference (At Slide 6).

² Allstate’s non-renewal effort at this time appears to have been more severe than the actions taken by other leading insurers.



Yet, they actually increased their market share for automobile insurance in Florida during 2006.³ This chart⁴ shows how Allstate cut policies for homes in Florida in 2005 and 2006, while increasing the number of auto policies it sold in the state.

4. **Unfair rating and underwriting practices.** Allstate has been a leader in developing complex and difficult to understand pricing systems, using credit scores and multiple rate “tiers” not clearly related to the risk of their customers. These trends make comparison shopping for consumers more difficult and appear to lead to higher rates for poorer and minority consumers.
5. **High consumer complaints.** Complaints filed against Allstate are greater than almost all of its major competitors. Many of these complaints relate to claims settlement practices consumers have perceived as unfair. According to data collected by the National Association of Insurance Commissioners, Allstate’s “complaint ratio” was the second worst of thirteen major automobile insurers in 2005 and 2006 (tying with Farmers Insurance.) Allstate had the second worst complaint ratio among eight major home insurers in 2005, and the lowest ranking in 2006.
6. **Shifting costs to taxpayers.** Allstate is an industry leader in seeking taxpayer subsidies for its riskier insurance coverage, especially in Congress. In the wake of Hurricane Katrina, Allstate and other major insurers have been criticized by state officials and policyholders for underpaying claims for wind damage and shifting these costs to the flood insurance program, which is supported by tax dollars. A newspaper investigation found that Allstate might also have charged the government more for materials used to repair flood damages paid for by taxpayers than Allstate pays for the same materials to repair wind damages.

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³ Bear Sterns June 21, 2007 Report on “Meetings with Management” of Allstate, shows that market share in auto insurance rose from 12.8 percent to 13.0 percent from 2005 to 2006. However, Bear Sterns warned that the reason may be linked to clever selection by Allstate of which homeowner policyholders to non-renew to keep their auto insurance portfolio growing: “Our one remaining concern is that the initial non-renewed customers were primarily mono-line homeowners, while the next batch of non-renewals will have both auto and home policies.”

⁴Based upon a PowerPoint Presentation of the then Allstate CEO Edward M. Liddy to the Credit Suisse Insurance Conference, November 17, 2006, Slide 16.

Allstate's practices reflect the significant but not always highly visible changes that property-casualty insurers have made in recent years in the way they assess risk, set rates and manage claims. The aftermath of Hurricane Katrina exposed the harmful effects of many of these changes on policyholders, especially lower income and minority consumers. For example, insurers have changed policy language to hollow-out the coverage offered, particularly for home insurance, and dramatically increased consumers' out-of-pocket costs. Many insurers have used egregious and misleading anti-concurrent-causation language in some policies, which causes consumers to lose wind coverage if flood losses occur, even if the losses caused by flooding are distinguishable from and occur after wind losses.

"The anti-consumer trends that Allstate has often been a leader in implementing do not appear to be justified by any increase in financial risk borne by property-casualty insurers," said Hunter. "In fact, a detailed analysis of the investment performance of Allstate and other property-casualty insurers shows that they represent a below-average risk for investors, as measured by standard measures of risk for investment. Allstate has, indeed, had remarkable results for its investors, returns that are well above what is required for this low-risk insurer."

"We urge consumers to pay close attention to the concerns we have identified with Allstate's practices before purchasing home and auto insurance from Allstate or renewing a policy," said Hunter.

"We also urge action by state insurance departments, the National Association of Insurance Commissioners, and the federal government to study and correct Allstate's practices and to consider taking steps regarding other insurance companies that pursue the anti-consumer practices detailed in this report," said Travis Plunkett, CFA's Legislative Director. [A fact sheet showing some of the actions recommend in the report follows.]

A copy of the report can be found at:

http://www.consumerfed.org/pdfs/Allstate_Report_07/18/07.pdf. CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.

RECOMMENDATIONS

Advice for Consumers

CFA urges consumers to carefully consider the following CFA findings when making any decision to buy or renew an insurance policy with Allstate.

First, Allstate has a history of precipitously dropping large numbers of customers in areas that it suddenly perceives to be of greater risk. For example, hundreds of thousands of consumers in coastal areas lost their coverage in 2005-2006 when Allstate was earning record profits.

Second, Allstate's policies are often a poor consumer value. Allstate's rates are high given the value of the claims that it pays out. Allstate uses an array of consumer "classes" (developed with factors like credit scoring) to determine rates that frequently appear to be less related to the financial risk represented by its customers than to its marketing strategies. As a result, some consumers, particularly lower income and minority consumers may be asked to pay rates that are unjustifiably high. Moreover, Allstate, like many insurers, has inserted ambiguous "anti-concurrent causation" clauses in some homeowner's policies that may unjustifiably revoke coverage that Allstate claims to be offering.

Third, Allstate has been a leader in adopting highly questionable claims processing procedures that may result in unjustifiably low payments. The use of automated claims settlement systems like Colossus by Allstate and other insurers means that insurers are more likely to make "lowball" offers are not reflective of the actual losses for which consumers should be compensated under the terms of the policy.

CFA advises consumers not to settle any claim that does not seem fair. Advocate strongly for a fair settlement amount. If the insurer resists a fair settlement, consider seeking legal advice. Ask if your claim was estimated using computer programs and, if so, how that program calculated your claim amount. Ask specifically if management adjusted the computer to produce savings in claims payments for the insurer.

If a consumer receives either a small rate hike or notice of a renewal with no reduction from Allstate, you should shop around to see if Allstate's price is competitive. Allstate seems to think that consumers will not shop around unless they see a large rate increase, so it may not be following the lead of other insurers in lowering prices.

Actions the States Should Take

CFA urges the National Association of Insurance Commissioners to undertake a market conduct examination of Allstate to look into the anti-consumer actions documented in this report. The exam should focus, at least in part, on how Allstate is able to pay 20 percent less than it used to in claims, as compared to the rest of the property-casualty insurance industry. The NAIC should also undertake a review of underwriting and tier placement factors (such as credit scoring) used by Allstate, including determining the impact of these factors on low-income and minority consumers. States should also determine if the rates charged by Allstate in each state for each line of insurance are too high, given Allstate's unusually high profits and low cost/benefit ratios.

CFA also recommends that state insurance commissioners undertake similar reviews of other companies that appear to be following Allstate's lead with such anti-consumer practices as setting excessive prices, using questionable classification systems and using claims systems that might be geared to underpay claims.

Actions the Federal Government Should Take

Congress and the Federal Emergency Management Agency (FEMA) should act to ensure that Allstate and other WYO insurance companies are not unjustifiably enriching themselves at the expense of taxpayers who fund the flood insurance program. Among the several serious problems that must be dealt with by Congress are:

- Did Write Your Own (WYO) insurers illegally shift costs to taxpayers after Hurricane Katrina by falsely determining that wind losses that should have been paid by insurers were flood losses?
- The use of anti-concurrent causation (ACC) clauses by WYO insurers may lead to significant shifting of private wind claims to taxpayers who fund the NFIP. Congress should prohibit the use of policy clauses such as the ACC by WYO insurers that might increase taxpayer costs.
- Compared to the costs of the WYO program, would a return to a flood insurance program where claims are paid directly by the government save federal money and remove the claims conflict-of-interest that WYO insurers have?