

State Farm Suspends Doing Business With Engineering Firm in Damage Assessments

BLOOMINGTON, Ill. September 25 (BestWire) — State Farm has placed a moratorium on doing business with Haag Engineering, spokesman Dick Luedke confirmed.

The country's top homeowners insurer has used Haag to perform damage assessments on claims. Luedke said the move is "the result of conflicting judgments in work Haag did for us" after 1999 tornadoes in Oklahoma.

At least two lawsuits were brought against State Farm stemming from the 1999 Oklahoma storms. In one, *Cramer v. State Farm*, the U.S. District Court for the Western District of Oklahoma ruled in favor of State Farm and granted the insurer's motion for summary judgment on the plaintiff's bad-faith claim.

But in *Watkins vs. State Farm*, an Oklahoma jury ruled State Farm must pay almost \$13 million in damages for its handling of tornado claims stemming from the 1999 storms (BestWire, June 1, 2006). The plaintiffs had alleged State Farm acted in bad faith and hired Haag, which allegedly intentionally undervalued damage to homes or claimed the damage was caused by other factors. The claimants accused the insurer of acting in a scheme to "delay, deny and underpay claims."

The tornadoes that struck Oklahoma in May 1999 were described at the time

as "the worst insured catastrophe in Oklahoma's history." (BestWire, May 4, 1999) The tornadoes caused more than \$450 million in losses and more than 52,700 claims (BestWire, Aug. 27, 1999).

Meanwhile, there are pending lawsuits against State Farm in Mississippi in which the insurer is accused of altering Hurricane Katrina-related claims reports to deny claims based on flood damage.

In Mississippi, a grand jury inquiry is being held to see whether there is any basis to allegations that State Farm pressured engineering firms to write reports that would allow the insurer to deny claims based on flood exclusions (BestWire, March 31, 2006).

In late August, State Farm said it continues to cooperate fully with the inquiry and also is cooperating with the U.S. Attorney's Office, which has requested documents. "Our claims associates are committed to the highest service," spokesman Phil Supple said at the time. "We are committed to paying what we owe."

State Farm said it has settled 98% of its Katrina claims in Mississippi.

Allegations that insurers or engineering firms were using altered engineering reports to deny Katrina claims surfaced when prominent plaintiffs' lawyer Richard "Dickie"

Scruggs told Mississippi newspapers an insurance company insider had turned whistleblower and was helping him build a case against insurers (BestWire, March 22, 2006)

Scruggs, known for his successful litigation against tobacco companies, said his informants have leaked internal company reports to him allegedly showing that engineers' reports were changed so the claims could be denied. In August, Scruggs' informants were revealed on television news programs to be former independent claims adjusters. Scruggs also has lawsuits pending against insurers over the use of flood exclusions in claims where the hurricane's storm surge damaged property.

State Farm Group currently has a Best's Financial Strength Rating of A++ (Superior)

(By Rick Cornejo, associate editor, BestWeek: rick.cornejo@ambest.com) BN-NJ-09-25-2006 1704 ET #



Defense expert, Timothy Marshall of Haag Engineering, was found by a jury to be completely "bought and paid for" by State Farm. His testimony that winds did not cause damage during tornados and hurricanes enables insurance companies to deny legitimately covered claims.

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For more information about Haag Engineering and their enabling of bad faith, read POA's coverage of Haag at this link:

http://www.policyholdersofamerica.org/newsletter/Aug_2006/3.pdf