

# The Policyholder Advocate



Policyholders of America

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## INSURERS TO POLICYHOLDERS: DO AS I SAY; NOT AS I DO.

### POA-STYLE FREE MARKET MYTH BUSTING

Insurers and their mouthpieces always revert to the same old argument when trying to justify rate increases – the free market argument. They claim that if only government would leave them alone (English translation: unleash them from pesky regulatory requirements) the free market system would work, rates would stabilize and there would be plenty of carriers jumping into under-served markets.

For those who have embraced their free market argument, this article will bust your bubble.

According to Wikipedia, a free market is defined as “a market in which prices of goods and services are arranged completely by the mutual consent of sellers and buyers. By definition, in a free market environment, buyers and sellers do not coerce or mislead each other nor are they coerced by a third party.”

If this definition of the free market system was accurately applied to the insurance industry, it wouldn't pass the smell test.



Today, insurers adjust claims using a coercive tool that regulates and caps or “fixes” prices required for repairs and/or replacement of items damaged by perils covered by the policy – a skewed pricing software program called Xactimate.

Xactimate represents everything loathed by proponents of a free market system – price fixing and vendors (suppliers) who are forced upon customers.

#### Free market 101:

Like millions of other unsuspecting homeowners, John and Susan Sterling of Omaha, got an unsolicited economics lesson from their insurer when they recently filed a claim. Their damage was covered by their policy and the insurance adjuster, using Xactimate software, allowed them \$5,400 to repair all of the drywall, wood paneling and carpeting in their damaged family room. Not knowing any better, the Sterlings took the bait, cashed the check and then proceeded to locate a contractor capable of making the much needed repairs. Contractors busted

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## RIGHT-SIDE/LEFT-SIDE BRAIN QUIZ: ARE YOU LOGICAL OR ARTSY?

[Click here](#) and look at the dancer. If she is turning clockwise (right), the left side of your brain is dominant and you tend to be more analytical and logical;. If she is turning counter-clockwise (left), the right side of your brain is doing most of the work and you are more artistic and intuitive.



If you turn your head sideways, her direction will change but the dominant side of your brain won't.

**FREE MARKET MYTH BUSTING...**

guts with laughter at the \$5,400 budget and countered with bids ranging from \$42,500 - \$51,800.

The Sterlings disputed the laughable payment of \$5,400 and the insurer sent out one of their "preferred vendors". Preferred insurance vendors are typically those contractor characters who charge the insurer a fee to provide "back up" estimates that support the insurer's lowballed Xactimate-generated estimates.

The Preferred Vendor submitted a bid for \$6,200 but the scope of repair work was far from equal to the repairs recommended by the legitimate contractors. The legitimate contractors' bids called for the removal and replacement of all of the wet drywall, wet sub-floor, wet carpeting and carpet pad - all of which is the standard of care. The Preferred Vendor's bid called for fans to be used to dry out everything - a move that even industry trade groups say is

inadequate.

The Sterlings asked each of their hand selected (legitimate) contractors if they would agree to make the repairs recommended by the insurer's Preferred Vendor and all refused to do so because of liability.

Given this, the Sterlings had a tough decision to make: do they knowingly hire a contractor (the Preferred Vendor) who would not repair the property correctly or do they fight? They opted to use the Preferred Vendor to make the inadequate repairs and immediately put their home on the market before the underlying damage became apparent.

This scenario is one that is more common than not. And, the Sterling's experience demonstrates how insurers use Xactimate pricing software to fix prices and constrict competition by forcing policyholders to use insurance company proxies - Preferred Vendors.

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**Controlled Market conditions**

According to Wikipedia, the opposite of a free market is a controlled market. In a controlled marketplace, "government directly or indirectly regulates prices or supplies, distorting market signals." Isn't this what insurance companies have done? If we use the typical claim represented by the Sterlings, insurers, with the blessing of state regulators, have directly fixed prices using Xactimate while their Preferred Vendors have limited supplies of willing contractors. Just one of these acts distorts the market but together they spell disaster for the free market system.

**The REAL slogan of the industry**

The slogan of the entire insurance industry should be: "We take YOUR money and OUR experience and turn it into OUR money and YOUR experience."

**QUOTE OF THE MONTH:**

A government which robs Peter to pay Paul can always depend on the support of Paul.

-George Bernard Shaw

**New allegations ...**

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State Farm offered policyholders a different explanation for multiple engineering reports. The company in April began notifying Coast policyholders that they could have their claims re-evaluated. State Farm explained, according to the lawsuit: "At times, inadvertent duplicate assignments were made on a single property and/or follow-up on engineering reports was necessary, resulting in some cases, in multiple engineering reports."

Insurance Commissioner George Dale, who recently lost his re-election bid after eight terms, ordered the re-evaluation. But Attorney General Jim Hood has sued State

Farm for failing to live up to an agreement he reached with the company in January. That agreement said any multiple reports would be revealed to policyholders.

State Farm says it has lived up to its promises through the re-evaluation, maintaining the agreement with Hood was part of a proposed global settlement with policyholders that a federal judge rejected.

The insurance company and Hood are currently embroiled in a federal court dispute. State Farm is asking a judge to stop a criminal investigation by Hood, claiming he filed it to harass the company.

State Farm and Scruggs also are battling because Scruggs engaged whistle-blowers, as

he did in successful lawsuits against Big Tobacco, to glean information about the company's Katrina claims adjusting. The FBI served a search warrant Tuesday on Scruggs law firm, but an attorney for the firm, Joey Langston, said agents were seeking a single document that would be "ancillary" to Katrina litigation. Langston said he does not believe the document exists and the firm is cooperating with investigators.

Also, the U.S. Attorney's Office in Jackson has indicated it is investigating State Farm's Katrina claims handling practices and will decide by January whether to prosecute a lawsuit the whistle-blowers have filed against the company, also in U.S. District Court in Jackson.



State Farm does not dig the fact that whistle-blowers have come forward to spill their guts about the lying and cheating that occurred to avoid paying legitimate claims.