

Lott, 'Scorned' After Katrina, Targets State Farm, Allstate

By Brian Faler, Bloomberg
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"Are you kidding me?" says Senator Trent Lott, a Mississippi Republican, when asked why he's so critical of insurance companies.

Lott, 65, launches into a critique of the industry, peppering it with words such as "arrogant" and "mean-spirited," statistics about company profits and executive pay and angry questions about why its lobbyists are fighting a clutch of bills he is pushing -- including one that would strip companies such as State Farm Mutual Automobile Insurance Co. and Allstate Corp. of their 62-year-old exemption from federal antitrust laws.

The Senate's No. 2 Republican has become the industry's No. 1 critic in Congress ever since he lost a house to Hurricane Katrina in 2005. While Lott recently settled with his insurer, State Farm, after a year-long court battle, he is continuing the fight in the Senate. His experience, the senator says, has convinced him that an industry he defended his entire career is in need of reform.

"I'm like a woman scorned," Lott says. "I'm prepared to continue to kick their fanny until the last day I'm alive on this Earth because they have mistreated too many people."

Robert Hartwig, president of the Insurance Information Institute, says Lott's proposals would make it harder for companies to operate.

Record Claims, Record Catastrophe

"The most important story here is that the insurance in-

dustry paid, without insolvency, a record number of claims in a record catastrophe year to a record number of people," says Hartwig, whose New York-based organization represents insurance companies including Allstate, State Farm and Nationwide Mutual Insurance Co.

The industry, which between 1990 and 2006 gave almost two-thirds of its campaign donations to Republicans, might have expected increased scrutiny after Democrats won control of Congress in last year's elections. The criticism from Lott is even more surprising given his long-time alliance with insurers.

Lott traces his support back more than 35 years to when he worked for a Mississippi law firm that defended insurance companies. Since he was elected to the Senate in 1988, no industry has contributed more to his campaigns, according to the Center for Responsive Politics, a nonpartisan group in Washington that tracks political donations.

Lott was Senate majority leader until December 2002, when he resigned under fire for praising former South Carolina Senator Strom Thurmond's 1948 segregationist campaign for president. Lott returned to the Republican leadership last year when he was elected minority whip.

Winds or Water?

His insurance fight began with a dispute with Bloomington, Illinois-based State Farm, the largest U.S. home and auto insurer, over whether it was Katrina's winds or water that flattened his beachfront home in Pascagoula. Most private insurers don't cover flooding because it's difficult to predict, leaving that instead to the government's National Flood Insurance Program.

Lott's case was particularly tough because the storm left nothing of his home -- "zero," he says -- that might have helped investigators. Lott became one of tens of thousands of Gulf Coast homeowners whose claims were rejected when State Farm decided the damage to his house was caused by flooding. Lott calls the decision "total bull."

Trial Lawyers

Lott, a longtime critic of trial lawyers, went to court with the aid of his brother-in-law, Richard Scruggs, who in 1998 wrested a \$206 billion settlement out of the tobacco industry.

State Farm settled Lott's case last month for an undisclosed amount. Meanwhile, the senator opened a second front on Capitol Hill. Charles Chamness, the head of the Indianapolis-based National Association of Mutual Insurance Companies, which represents 1,400 insurers, including State Farm and Nationwide, says Lott told him he was dedicating the term he won last year to "bringing down State Farm and the industry." Lott acknowledges he may have said something "comparable."

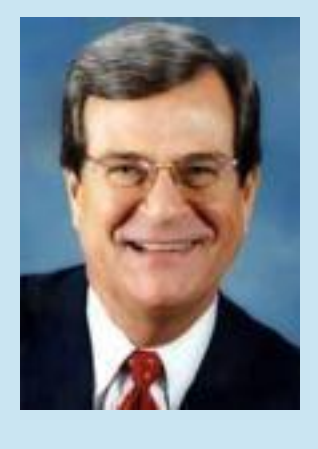
The senator's legislative assault began last year when he added provisions to a homeland-security spending bill requiring the government to investigate whether insurers shifted costs to taxpayers by classifying hurricane damages as water- rather than wind-related.

Allstate, the second-largest U.S. home and car insurer, and Nationwide, the fourth-largest U.S. home insurer, said earlier this month that the Department of Homeland Security has told them to expect subpoenas as part of the probe.

HOW'S THIS FOR POLITICS UNUSUAL?

"I'm prepared to continue to kick their fanny until the last day I'm alive on this Earth because they have mistreated too many people."

Trent Lott, Republican U.S. Senator from Mississippi and an unlikely ally to the policyholder.



Last April, Lott settled his case against State Farm (covered in a previous issue of this publication). At that time, POA advised its readers that Lott's true character will become apparent AFTER his settlement.

We are proud to report that Lott is a man of his word and POA applauds his efforts.

Lott says his efforts have "a lot" to do with his personal experience with State Farm, he denies he is simply seeking revenge. "It's about getting an industry to do the right thing," he says. He said he settled with State Farm largely so critics wouldn't question whether he was pushing legislation as a negotiating tactic in his court case.

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Cooperating

Dick Luedke, a State Farm spokesman, said the company has been cooperating with the agency's inquiry for months. Kate Hollcraft, a spokeswoman for Northbrook, Illinois-based Allstate, didn't respond to a request for comment. Eric Hardgrove, a spokesman for Columbus, Ohio-based Nationwide, also didn't respond.

Lott also is sponsoring legislation that would require insurers to provide "plain English" summaries of what their policies do and don't cover. "They don't want you to know what you really have covered," he says.

Hartwig says Lott's proposal would leave companies more vulnerable to lawsuits. "Insurers have to be very, very precise," Hartwig says. "Every word that is in there is in there for a reason."

Lott is also teaming up with the Senate's top Democrat, Majority Leader Harry Reid of Nevada, along with the Senate Judiciary Committee's Democratic chairman, Patrick Leahy of Vermont, and ranking Republican, Arlen Specter

of Pennsylvania, to push a bill that would subject the industry to federal antitrust laws. It currently is regulated at the state level.

'Going to Happen'

Lott says the changes are needed to ensure companies aren't conspiring to fix prices, deny coverage or divvy up markets. Lott says the legislative team assembled this year makes the measure's passage likely. "You think if the majority leader calls its up, it's not going to happen?" he says.

While Lott says his efforts have "a lot" to do with his experience, he denies he is simply seeking revenge. "It's about getting an industry to do the right thing," he says. He adds that he settled with State Farm in part so critics wouldn't question whether he was pushing legislation as a negotiating tactic in his court case.

Luedke, the State Farm spokesman, says the company's decision to settle had nothing to do with Lott's position.

"We don't treat U.S. senators any differently than we do customers who may be taxicab drivers or newspaper reporters," Luedke says.

Settling Claims

In March, State Farm agreed to pay a minimum of \$50 million in reconsidering as many as 35,000 claims in Mississippi. Nationwide announced a similar deal in April, covering as many as 500 Mississippi homes. About 2 percent of the 487,000 insurance claims filed in the state after the storm remain disputed, according to Donna Cromeans, a spokeswoman for the Mississippi Insurance Department.

Lott says the insurers are "refusing to pay claims" and at the same time posting "historic profits." The industry earned a record \$44.2 billion in 2005, then earned even more -- \$63.7 billion -- in 2006, according to the Insurance Information Institute.

Lott's campaign has earned him kudos from Democrats. "Disasters make for strange bedfellows," says Senator Mary Landrieu, a Louisiana Democrat who is cosponsoring the antitrust legislation.

Lott says he is willing to work with the industry, though his words would seem to leave little room for compromise.

"These are venal people," he says. "I'm embarrassed for them."

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