

The Policyholder Advocate



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2008 HURRICANE SEASON FORECASTED TO BE MORE ACTIVE THAN NORMAL



April 9, 2008—Today, Dr. William Gray and Dr. Philip Klotzbach of Colorado State University, released their updated 2008 Atlantic hurricane season forecast.

The forecast calls for a season that will have more activity than did their initial 2008 forecast issued last December.

Gray and Klotzbach are forecasting 15 named storms, eight

2008 HURRICANE SEASON FORECASTS: Initial vs. New Predictions

Forecast Parameter and 1950-2000 Climatology (in parentheses)	7 Dec. 2007	9 Apr. 2008
Named Storms (NS) (9.6)	13	15
Named Storm Days (NSD) (49.1)	60	80
Hurricanes (H) (5.9)	7	8
Hurricane Days (HD) (24.5)	30	40
Intense Hurricanes (IH) (2.3)	3	4
Intense Hurricane Days (IHD) (5.0)	6	9
Accumulated Cyclone Energy (ACE) (96.1)	115	150
Net Tropical Cyclone Activity (NTCA) (100%)	125	160

of which will become hurricanes. They predict that four of those hurricanes will be major hurricanes, meaning the storms would reach category 3 strength or greater.

The forecast also says there is an above average chance of a major hurricane striking the U.S. coastline. During the last century, there was an average 52 percent probability for a major hurricane landfall anywhere in the U.S. In 2008, the forecast calls for a 69 percent chance of that occurring.

During the period of 1950 to 2000, the Atlantic basin averaged 9.6 storms per year.

PROBABILITIES FOR AT LEAST ONE MAJOR (CATEGORY 3-4-5) HURRICANE MAKING LANDFALL ON EACH OF THE FOLLOWING COASTAL AREAS:

- 1) Entire U.S. coastline - 69% (average for last century is 52%)
- 2) U.S. East Coast including Peninsula Florida - 45% (average for last century is 31%)
- 3) Gulf Coast from the Florida Panhandle westward to Brownsville - 44% (average for last century is 30%)
- 4) Above-average major hurricane landfall risk in the Caribbean

THE MOTHERLOAD RELEASED BY ALLSTATE

For years, Allstate has held documents prepared by and relating to McKinsey & Co. under lock and key. McKinsey & Co. is a management consulting company hired by Allstate in the 1990s to boost the insurer's profitability by focusing on claims practices. So guarded were these documents that Allstate was willing to rack up tens of thousands of dollars in daily fines levied against it for not producing the documents per court orders.

It took a Florida Court of Appeals' deci-

sion to prohibit Allstate from writing new policies in Florida until the insurer complied with subpoenas ordering Allstate to produce the documents. Allstate finally produced the files and the ban was lifted on May 16th. Allstate is back to selling auto policies.

As suspected, the documents support the rumors that McKinsey & Co. produced a blueprint to cheat policyholders when a claim was filed.

You can access the entire file by [CLICKING HERE](#). POA has linked the Table of Contents with the section. Also, read [this article](#) (page 2) and [this one](#) (page 5).

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Allstate records raise yet more questions

Lawyers and consumer advocates say consultant's documents from Allstate lift the curtain on some of the insurance giant's procedures, but they still would like more details.

BEATRICE E. GARCIA, Miami Herald, 4/20/08

At first glance, Allstate's release of documents it has zealously guarded for more than a decade as "trade secrets" could be seen as an orchestrated move to keep Florida regulators at bay and let the company keep writing new policies.

Earlier this month, Allstate posted on its website 150,000 pages of documents -- mostly PowerPoint presentations and company reports prepared by corporate consultant McKinsey & Co. on how to improve profitability by re-vamping its claims-handling practices.

But that didn't pull the insurer's feet out of the fire.

A suspension of Allstate's license to write new policies in Florida still hangs in the balance. Until a state appeals court rules on its request filed last week for a rehearing, Allstate remains open for business.

But two weeks ago, the First District Court of Appeals upheld the ban on Allstate until the company fully complies with regulators' demand for information and records. If the insurer loses the court battle, the suspension goes into effect.

If anything, Allstate's sudden reversal has made both regulators and insurance industry critics acutely aware of what other documents Allstate could produce.

"There is no blatant smoking gun" in the documents Allstate has released, says Amy Bach, executive director of United Policyholders, a consumer advocacy group in San Francisco.

"Nothing stands on its own in those 150,000 pages. It's like a giant puzzle and you have to put the pieces together and connect the dots," she adds.

E-MAILS

Consumer advocates like Robert Hunter, director of insurance research for the Consumer Federation of America, and David "Birny" Birnbaum, director of the Center for Economic Justice, believe Allstate should also share with regulators and consumers e-mails and memos that show which McKinsey recommendations the insurer had implemented.

Florida's Insurance Commissioner Kevin McCarty did ask for exactly that information in the subpoena delivered to Allstate last October.

Ed Domansky, a spokesman for McCarty, said Allstate hasn't complied with that portion of the subpoena yet, even though the company has delivered a portion of the documents requested by the Office of Insurance Regulation.

State officials won't discuss the substance of the documents Allstate has turned over so far because their investigation is ongoing.

Allstate spokesman Rick Halberg said the documents posted online are exactly the ones the company had turned over to OIR in late January. "We are continuing to provide documents" to comply with the Florida subpoena, he said.

LOSS RATIO

Birnbaum says Allstate is happy to tell investors and Wall Street analysts that its loss ratio -- the amount of money it pays as a percentage of the premiums it collects

-- is much lower than the industry average.

"How does Allstate achieve that? One way is to say 'no' to everyone, or make the customer fight for every penny that they deserve," he said.

Hunter says the practices McKinsey advocated were adopted by Allstate to handle all claims, not just auto claims as the company maintains. Among the documents posted by Allstate, there is a section that refers to the handling of homeowners claims.

Indeed, McKinsey did work for other companies, including State Farm. This insurer said it hasn't used McKinsey's services for more than a decade, according to a State Farm spokesman.

Hunter's 2008 report on industry profits notes that lawsuits have revealed that various insurers have used the same computerized claims settlement software for adjusting bodily injury claims in auto accidents that was the cornerstone of the claims operations that McKinsey designed for Allstate in the mid-1990s.

REPORT

A special report Hunter prepared on Allstate last summer found that Allstate was a leader in using complex pricing systems that made it difficult for consumers to compare rates with other insurers and that "appear to lead to higher rates for poorer and minority consumers." The company also racked up a high number of consumer complaints, most related to what consumers saw as unfair claims settlements and practices.

Chip Merlin, a well-known Florida plaintiffs attorney who heads the Tampa-based Merlin Law Group, says the McKinsey strategy is all about MBAs looking for profits and caring little about the ethics involved in paying claims.

"Insurers aren't supposed to be thinking about profits at the time a claims is presented. It's all about paying a full and fair amount as quickly as possible."

Even before Allstate made the McKinsey documents public, some attorneys had a chance to review some of these documents. David Berardinelli, a Santa Fe attorney, was all too familiar with them after spending two months going through 12,000 documents, reading them and taking copious notes -- some 400 pages worth.

His book resulting from the research, *From Good Hands to Boxing Gloves*, was first geared to trial attorneys. Next month, a consumer version is being published.

'GONE AMOK'

"This is an industry gone amok. It has become so obsessed with profits and money that everything they do is based on cost-benefit analysis," says Berardinelli, who believes the consultant as well as Allstate and other insurers have changed the nature of the insurance business.

"Insurance is a vital social service. It is supposed to take risk from around the country and spread it so insurance will be available and affordable whether you live in earthquake-prone California or hurricane-prone Florida."

They put profit first and last

Herald-Tribune (editorial by Waldo Proffitt) 4/19/08

A few days ago the Sarasota Herald-Tribune, in a textbook example of public service, carried a story about an insurance company increasing profits by reducing the amount it pays out in claims.

The story, by Paige St. John, was based on examination of thousands of documents reluctantly made public by Allstate Insurance Co. under great pressure from the state of Florida.

It told how Allstate, acting on advice from consultants McKinsey and Co., used a computer program called Colossus to provide its agents with a figure for the "fair market value" of injuries suffered in automobile accidents and then to "persuade" victims to accept settlement promptly on Allstate's terms.

Those who refuse to accept or who hire attorneys are subjected to years of litigation. Fear of tangling with Allstate spread within the insurance and legal worlds.

Since adopting this strategy, Allstate has doubled its legal staff, decreased average payouts by 20 percent and racked up record profits, \$4.9 billion in 2006.

I tell you all this as a prelude to explaining why universal health care is not the same thing as universal health insurance by private for-profit companies.

Insurance companies exist to make money, and they make lots of it. They do it by screening out higher risk clients, by prudent investment of the very large reserves they are allowed to accumulate, and by cutting back the amount they pay out in claims.

All insurance companies use all these strategies, but it is the first and the third which offer the greatest payoff and which have the greatest potential for hurting both individuals and the public.

Screening potential clients and closely examining claims are perfectly legitimate, up to a point.

If you want to buy a large life insurance policy, the company will require you to take a physical examination.

If you want to buy homeowners insurance, the company will have several questions, including in coastal areas, the degree of exposure to hurricanes. (Many companies, including State Farm, are refusing to write coverage in high-risk areas and kicking out thousands of long-time Florida customers.)

Health insurance companies try to screen out clients with a possibly risky medical history. And the move to computerized medical records makes it almost certain the health insurance companies will have access to your medical history. The result will be that the people most in need of health insurance will not get it.

At the other end of the process is getting the health care you think you have paid for. Insurance companies are very familiar with the Allstate tactic. I do not mean to tar them all with the same brush but, to mix metaphors, a few bad apples spoil the barrel and in this barrel there are more than a few bad apples.

Health insurance companies in their annual reports, closely studied on Wall Street, use a term called "medical-loss ratio," which is the percentage of premium income "lost" by paying medical bills of clients. Best I can tell with some fairly cursory research, the companies like to keep the medical-loss ratio below 80 percent.

The medical-loss ratio for Medicare is more than 95 percent.

The earnings of six of the seven largest health plans in the U.S. increased in 2007 by amounts ranging from 13 to 69 percent. The seventh saw its earnings decline due to settlement of three large class-action law suits.

Health care insurers hold down "medical losses" by aggressively negotiating prices with doctors, hospitals and other medical providers. When they find doctors or hospitals who refuse to be properly squeezed, they take them off their list of approved providers.

Some health care companies are purposely very slow in paying bills, or make providers jump through a series of hoops, and add to providers' cost by forcing them to hire more people to process claims.

At some point, doctors or hospitals will decline to accept patients insured by these companies. This leads to great inconvenience for clients and may actually cause them to go without necessary care.

Of course, such tactics are not used by all insurance companies, or even a majority. But they are widespread enough

to make it impossible to achieve health care for all Americans through a system which relies on private companies as the source of primary health insurance.

And, of course, private companies that have their nose under the Medicare tent, thanks to some very bad decisions by the Bush administration, are not going to give up this gravy train without one hellacious fight.

Unfortunately, none of the three remaining presidential contenders has a health care plan which would seriously displease private insurance companies.

Waldo Proffitt is the former editor of the Herald-Tribune.

