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## Insurance Claim Delays Deliver Massive Profits To Industry By Shorting Customers

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WASHINGTON -- Unlike many other businesses, the insurance industry is bound by law to act in good faith with its customers. Because of their protective role in the lives of ordinary citizens, insurers have long operated as semi-public trusts. But since the mid-1990s, a new profit-hungry model, combined with weak regulation, has upended that ancient social contract.

"Claims has been converted into a money-making process," said Russ Roberts, a New Mexico-based management consultant and former business professor at Northwestern University who has studied the insurance industry's evolution from a service business to a profit-driven machine.

The change started when consulting giant McKinsey & Company sold Allstate and other leading insurance companies on a new system to boost the bottom line: Rather than adjusting claims the traditional way, which gave claims managers wide latitude to serve customers, insurers embraced a computer-driven method that produced purposefully low offers to claimants.

Those who took the low-ball offers received prompt service, while those who didn't had their claims delayed and

potentially were reduced to bringing expensive lawsuits to fight for their benefits. As former Allstate agent Shannon Kmatz [told the American Association for Justice](#), the trial lawyers' lobby, the strategy was to make claims "so expensive and so time-consuming that lawyers would start refusing to help clients." The strategy was dubbed "Good Hands or Boxing Gloves" by the consultants, riffing on Allstate's advertising slogan.

McKinsey, which was reportedly hired by Allstate in 1992, prepared about 12,500 PowerPoint slides to present its plan. The slides were introduced in litigation in 2005, when the insurer [turned them over](#) under a temporary protective order. David Berardinelli, a New Mexico-based trial lawyer who was working on the case, detailed the slides in his 2008 book, "From Good Hands to Boxing Gloves: The Dark Side of Insurance."

McKinsey's strategy put profits above all. One slide in the McKinsey presentation illustrated this philosophy by painting the insurance business as a zero-sum game: "Improving Allstate's casualty economics will have a negative economic impact on some medical providers, plaintiff attorneys, and claimants. ... Allstate gains -- others must lose."

Allstate has certainly gained: It made \$4.6 billion in profits in 2007, double its earnings in the 1990s. The stunning increase, said Russ Roberts, came through "driving down loss values to an average of 30 percent below the actual market cost" -- that is, paying dramatically less on claims.

"An insurance company can make a lot of money on the small claims," said Jay Feinman, a professor at Rutgers University School of Law, "because if you save a few dollars on a huge number of claims, it's worth more than saving a lot of dollars on a very small number of claims."

Allstate is the best-known user of the McKinsey model, topping the list of the "[Ten Worst Insurance Companies in America](#)" published by the American Association for Justice. But Allstate's rise in profits has led most of the industry to adopt the same approach. McKinsey has worked with State Farm, another insurance giant, and other companies in redesigning their claims systems. Feinman cautioned in his book "[Delay, Deny, Defend](#)" that the two major names "are just the largest players in the industry ... [the ones] whose involvement with McKinsey & Company in the transformation of claims is the best documented."

Roberts told HuffPost that, by his estimate, the companies that take in 70 percent of total insurance profits in the United States now abuse their obligations to their policyholders. When Allstate CEO Tom Wilson [earned \\$9.3 million last year](#), he was not even on the top 10 list of best-paid insurance executives, compiled by New York Law School's [Center for Justice and Democracy](#). (The top 10 list was led by William R. Berkley of W.R. Berkley, who made \$24.6 million in 2010.)

Yolande Daeninck, spokeswoman for McKinsey & Company, said, "In line with our firm's longstanding policy to not discuss our client work, we decline to comment."

## A HOUSE BURNS DOWN

According to an [unpublished Harris Interactive Poll](#) conducted in September, 16 percent of surveyed adults have experienced financial hardship while waiting for an insurance claim to be settled or know someone who has. The same poll found that 59 percent of adults believe that most insurers intentionally delay claims -- and those with an income of \$35,000 or less were more likely to agree.

With 15.3 percent of Americans -- about 46.2 million people -- living in poverty, close to 10 percent unemployment, and roughly 2 million people who've been looking for work for more than two years, Allstate's business model is profiting off many consumers at their most vulnerable. A claim delayed by even a month can spell financial disaster for a family. As a National Bureau of Economic Research study [found](#), about 25 percent of Americans could not come up with \$2,000 in a 30-day period.

Madeleine Burdette, a retiree, is an Allstate customer who reported her experience on the popular website AllstateInsuranceSucks.com. When her Georgia home burned in November 2010, Burdette was in Ohio, where she lives most of the year. She said the fire marshal in Georgia told her that her house would have to be torn

down. "The entire middle of the house was gone," Burdette said. "It took out everything. Just the outside walls were left untouched."

The next day, she said, Burdette's Allstate adjuster told her the house could be repaired. Allstate also said it would have to do a thorough investigation to determine if the fire was caused by arson. If it was arson, the adjuster told Burdette, Allstate would not pay for any damages. According to [former employees](#), such investigations are a common practice at Allstate and are encouraged by supervisors as a way to avoid paying claims quickly.

Burdette, who lives on her Social Security checks, flew from Ohio to survey the damage herself. While in Georgia, she contacted public adjuster Anita Taff. Public adjusters serve as advocates for individuals who feel they need another set of eyes on a claim. Taff met with Burdette at the house, Burdette said, and discussed the damage with the contractor Burdette had hired. Upon returning to Ohio, Burdette spoke with Taff over the phone to find out what her impression was. Burdette said Taff warned her that the contractor might go along with Allstate's insistence that the house could be repaired.

"I believe [delaying claims] is an effort to put the squeeze on policyholders," Taff told HuffPost. She explained that while a claim is being held up, the insurance company may stop paying the policyholder's additional living expenses, forcing the policyholder to cover mortgage and rent entirely out of pocket. "That's something that many people cannot afford to do, so they're forced to take a lower settlement," Taff said.

Burdette said she immediately called the contractor and told him not to go near her house. According to Burdette, she received a phone call within 10 minutes from her Allstate adjuster asking her not to hire Taff or any other public adjuster. "He said, 'If you hire a public adjuster, I'm going to deny and delay this claim for as long as possible,'" Burdette told HuffPost. Taken aback, she then asked if it wasn't in his best interest to settle the claim. "Not really," he replied, according to Burdette.

Although the Allstate adjuster eventually agreed to work with Taff on Burdette's claim, her troubles did not end. The contractor who had been banned from her property nevertheless worked on the house and billed Allstate for \$22,000. Burdette had explicitly told Allstate not to pay the contractor a dime, she said, but the company paid him under her policy anyway. The contractor couldn't be reached for comment.

More than a year later, Burdette's home is still being repaired and Allstate refuses to reimburse the \$22,000. She consulted four different lawyers to see if she had a legal case. While she said they all agreed that she was entitled to reimbursement, she said they also agreed that she lacked the funds to fight the insurance giant. "They told me, 'You'll run out of money,'" she said.

## **NO FLUKES**

Roberts, the management consultant, said that companies like Allstate attempt to pass off claims delays as fluke occurrences. But, he said, they are actually routine and intentional products of the McKinsey system: "The Allstate/McKinsey system for 'lowballing' claims payments ... is driven by the claims performance management and pay systems from the top to the bottom of the organization."

Feinman, the Rutgers law professor, also suggested the deck is stacked against individuals who make claims. "You have an accident or a fire in your house. You call up the insurance company. You describe the circumstances. Maybe they send an adjuster out, and they say it's not covered, or it's covered but here's the dollar amount that we're obligated to pay you," he said. Most people, Feinman said, do not have the expertise "to know whether or not that's right."

Allstate spokeswoman Laura Strykowski said the company can't comment on specific cases because of privacy requirements, but considers its claims process both legal and effective. "Our customers and claimants receive prompt and courteous claim service and our goal is to settle each claim fairly and efficiently," she wrote to HuffPost. "As a regulated company, Allstate's claim practices are available to and regularly reviewed by state departments of insurance."

But experts like Feinman argue that insurance regulation has become little more than a fig leaf. State insurance departments are usually understaffed and overwhelmed. And even if they had the legal firepower to contend with giant insurance companies, Feinman said, "the regulators are closer to the industry than they are consumers." Eleven of the past 15 presidents of the National Association of Insurance Commissioners (NAIC) went on to work for the insurance industry after leaving office, while a [17-year study](#) from two Georgia State University professors found that around half of state-level insurance commissioners did so as well.

When combined with penalties that Feinman described as "laughably low" in many states, this close relationship means that regulation does not provide an effective check on insurance companies. And state governments themselves have incentive to place consumers on the backburner. Because insurance taxes are a major source of revenue for the states, said Roberts, insurance oversight commissions are usually more concerned with keeping companies solvent than resolving the problems of policyholders.

With the exception of the federal Affordable Care Act, insurance is regulated on a state-by-state basis. Although most states set a specific timeline for how quickly an insurance company must initially respond to claims, there is much more leeway when it comes to settling those claims. For example, [in Missouri](#), an insurer must acknowledge receipt of a claim within 10 days and either pay or deny it within 15 days of receiving all necessary documentation. However, if the insurer decides it needs more time to investigate, it may keep delaying as long as it updates the policyholder every 45 days. [In Georgia](#), where Burdette's house burned down, the insurer must notify the policyholder if it will affirm or deny a claim within 60 days. However, the insurer does not have to settle the amount it will pay within that period. Many states have similar provisions that allow insurers to put off paying claims indefinitely.

According to [NAIC data](#), claim delays have long been the most frequent cause of policyholder complaint. As of Nov. 28, 2011, the NAIC had received 11,053 delay-related complaints this year alone, comprising almost a quarter of the year's total complaints. These data only reflect confirmed complaints -- the ones that the state insurance commission has investigated -- so the actual number of delayed claims is likely much higher.

Complaining to state regulators about the insurer's delay is always an option, but its effectiveness is questionable at best. "I have not seen it be successful," said Taff.

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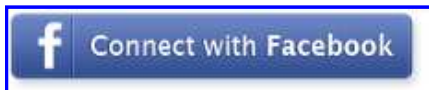


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