

...Allstate Insurance Company Driven by Greed

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Posted by: [Ric Davis](#)

Allstate Insurance Co.'s phenomenal growth in profits is directly tied to its drastic reduction in claims payments: The insurer **offers paltry sums for legitimate claims, counting on its customers' unwillingness to slog through drawn-out litigation.** That's no dark secret or allegation. It's a **company policy called "Claims Core Process Redesign,"** devised by powerhouse corporate consultants **McKinsey & Co.** Its bland-sounding name hides **a relentless drive to maximize shareholder profits at the expense of Allstate's customers.**

Insurance companies regularly plead poverty, blaming trial lawyers, natural disasters, and even their own policyholders for their allegedly falling fortunes. But a look at their ledgers shows **they are misleading the public.** The **industry's profits are skyrocketing,** its **executives are getting huge bonuses,** and **earnings have hit record heights**--all while these **companies deny coverage to their own customers** for everything from Katrina damage to car crashes.

McKinsey's advice



McKinsey told Allstate it could wear down customers by delaying settlements and stalling court proceedings.



The consulting firm said there are winners and losers. Allstate can win by paying out no more than it has to, so it can keep more of its premium income.



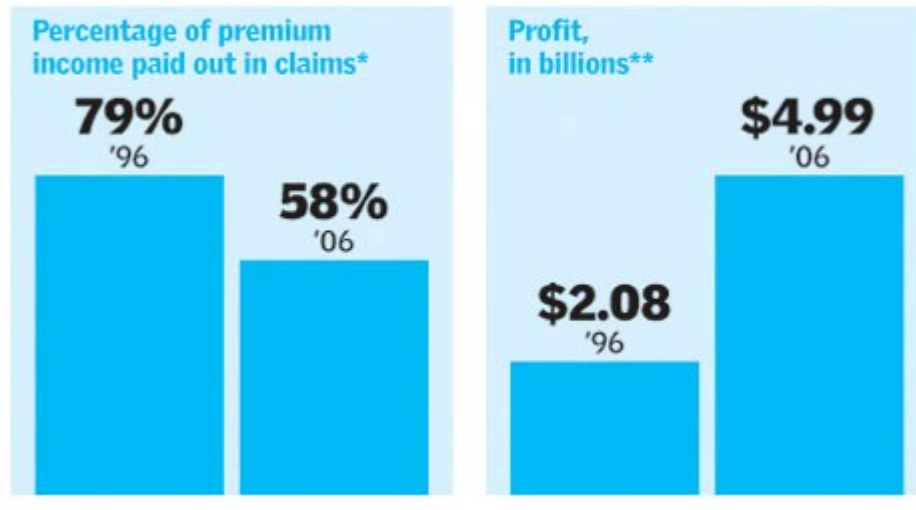
McKinsey suggested Allstate politely make a low offer on a claim. If a policyholder protests or hires a lawyer, the insurer should fight back.

Source: A videotape of a hearing in Fayette Circuit Court in Lexington, Kentucky

BLOOMBERG ILLUSTRATION

Insuring profits

Allstate raised net income by 140 percent from 1996 to 2006 as it paid out less in claims to customers.



*Includes only property-casualty insurance. **For the entire company. Sources: Company, SEC filings

In 'good hands' with McKinsey

Since McKinsey began consulting with Allstate in the early 1990s, the value of the insurer's stock has risen more than fourfold.



Source: Bloomberg

The long fight

Michele and Tim Ray fought with State Farm for almost a year before getting reimbursed enough to rebuild their Tennessee home.

APRIL 7, 2006 A tornado strikes the Rays' home near Hendersonville. The basement and the foundation are damaged.

MAY 15 The third of three adjusters comes to the house. He has State Farm send a check for \$36,000, which the Rays reject.

MAY 20 An engineer from Warren Engineering, hired by State Farm, examines the house. Concluding the storm didn't cause the damage, State Farm offers \$68,000.

JULY 17 A report by the city of Hendersonville's building inspector says that damage to the Rays' basement was likely caused by the tornado.

AUG. 4 A report by Lamb Engineering (hired by the Rays) says the storm caused damage to the basement and foundation. Contractors later estimated it would cost \$254,000 to rebuild the house.

FEB. 28, 2007 Anthony Locke, a second engineer hired by the Rays, also blames the storm for damage to the basement.

MARCH The Rays are still in the house, living under blue tarpaulins that cover the roof. State Farm offers \$97,000 toward the cost to rebuild.

APRIL 2 State Farm says it's sending someone out to look at the house again and review engineering reports. The next day, State Farm tells the Rays it would settle the claim for \$302,000.



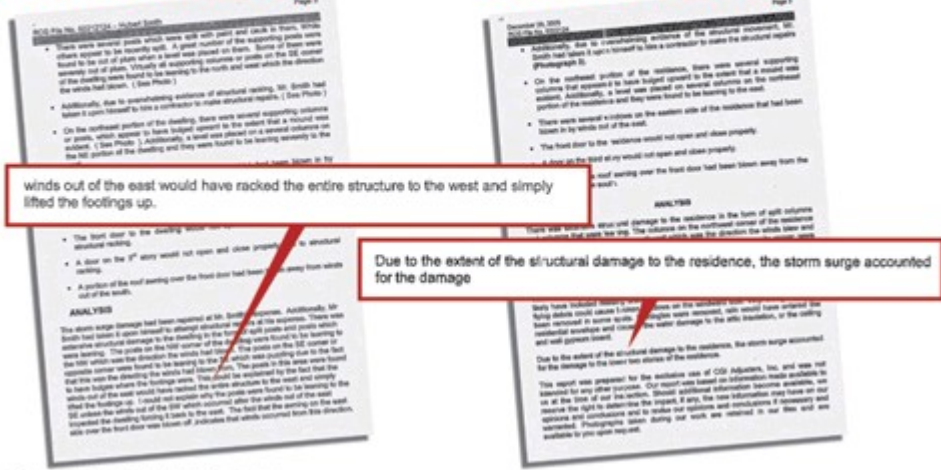
Source: Michele and Tim Ray

Blame it on the rain

Hubert and Joyce Smith found that the engineering report on damage to their Mississippi home had been altered to say that water, not wind, was the cause—which Meritplan Insurance used as the reason to reject their claim.

ORIGINAL REPORT

ALTERED REPORT



Source: Engineering reports obtained by Bloomberg News.

By David Dietz and Darrell Preston
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claim core process redesign - colossus - pace