

Mississippi Report: State Farm Did Not Defraud Policyholders

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<?xml version="1.0"?>Mississippi Report: State Farm Did Not Defraud Policyholders Chad Hemenway

In the aftermath of Hurricane Katrina, State Farm did "some things right and some things wrong," said Mississippi Insurance Commissioner Mike Chaney, but a two-year investigation of the insurer's claims-handling practices following the unprecedented storm revealed no violations of state law and no plan to mistreat policyholders.

In a statement announcing the completion of the Mississippi Insurance Department's market conduct exam of State Farm, Chaney acknowledged the fact that "not everyone will be pleased with the conclusions in the report" but no proof was found that State Farm intentionally sought to defraud its customers and after hundreds of complaints were received by MID following Katrina, State Farm agreed to reopen all slab cases with oversight by the MID -- a program that resulted in \$88 million paid to policyholders.

"This report confirms what we have always maintained -- that State Farm settled the vast majority of policyholder claims quickly and satisfactorily despite their enormous volume and complexity," said State Farm spokesman Jeff McCollum. "The report clearly shows that examiners found no violation of state law or regulation, allegations of fraud and abuse were baseless, and where mistakes were discovered in claims handling, we corrected them."

MID specifically examined 800 of State Farm's 80,000 Katrina-related claims and found that a majority of complaints resulted from claims involving the wind versus water debate. A standard policy does not cover losses caused by flooding. In some cases "the company initially failed to completely fulfill its policy obligation to some policyholders," the reports states, and "some claims were handled by independent adjusters who lacked the necessary training and skills to adjust the claims." The company's employees also had confusion over the anticoncurrent causation language in policies, the report said.

But the review of some irregularities in engineering and adjusting reports done by State Farm after the storm "revealed that while there may have been questionable decisions made by the company, they did not appear to be a part of any scheme to systematically mistreat policyholders."

State Farm was accused of fraud and abuse of the National Flood Insurance Program following Katrina, driven by prominent attorney Richard "Dickie" Scruggs, now serving time in federal prison for his role in bribing a judge last year. Scruggs had what he called two whistle-blowers, Kerri and Cori Rigsby, who worked for an adjusting firm that helped State Farm with Katrina claims. The sisters alleged State Farm changed engineering reports in order to deny claims.

"The veracity of the specific allegations of widespread fraud and abuse deteriorated throughout the course of the investigation," the report reads. "Many of the specific allegations were investigated and simply could not be substantiated." Investigators were referred to witnesses by the Rigsbys but "none could collaborate the allegations." Instead, the MID investigation revealed inconsistencies in the allegations by the Rigsbys.

State Farm Group currently has a Best's Financial Strength Rating of A++ (Superior).

In 2007, the top five writers of homeowners multiperil in Mississippi, according to A.M. Best Co. state/line product information based on direct premiums written, were: State Farm Group, with a 29% market share; Southern Farm Bureau Group, with 17.4%; Allstate Insurance Group, with 11.6%; Nationwide Group, with 9%; and Farmers Insurance Group, with 6.2%.

(By Chad Hemenway, associate editor, BestWeek: Chad.Hemenway@ambest.com)

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