Allstate, State Farm, Other Bad Faith Insurance Companies Rack up Record Profits by Cheating Customers

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Bad faith insurance companies like Allstate and State Farm systematically lowball claims, delay paying on them or arbitrarily change the terms of homeownersâ€™ insurance policies in order to limit the amount of money they spend on claims. According to an article on Bloomberg.com, these practices have left thousands of homeowners in dire financial straits, while at the same time theyâ€™ve fattened the wallets of the bad faith insurance companies.

Once upon a time, <"http://www.yourlawyer.com/articles/read/12964">insurance companies were committed to getting homeowners back on their feet when disaster struck. Families who had paid insurance premiums could be confident that their claims would be paid in timely manner. But that has all changed, and now insurance companies are more interested in raising their stock price than in taking care of their customers, thus their new nickname â€œBad Faith Insurance Companiesâ€. According to the Bloomberg article, the insurance industry started to change in 1989, after Hurricane Hugo. That storm cost the insurance industry $4.2 billion in claims. It was shortly after Hugo that the insurers started to look for ways to limit their financial responsibilities to homeowners.

In 1992, the well know insurance company Allstate hired McKinsey & Co., a consulting firm, to overhaul the way it handled home damage claims. McKinsey developed several strategies for Allstate. For instance, it recommended that Allstate initially make low offers to settle claims. If the insured accepted the offer, Allstate would live up to its â€œGood Handsâ€ slogan, and assist the homeowner as much as possible. However, if the homeowner balked at accepting the first offer, McKinsey said that Allstate should trade in its â€œGood Handsâ€ for â€œboxing glovesâ€, and make life as difficult for the customer as possible.

Another tactic McKinsey recommended to Allstate was known as the â€œalligatorâ€. McKinsey recommended that the insurer â€œwait like an alligatorâ€ â€“ delay paying claims as long as possible. Not only would desperate homeowners be more likely to accept a much-delayed lowball settlement offer, but Allstate could continue to collect interest on the insurance payment while the money was still in the companyâ€™s possession.

Other tactics highlighted in the Bloomberg article included the use of computer programs to manipulate payout formulas in a way that lowered settlements. There are even examples of insurance companies leaning on adjusters to lie to customers about the meaning of policy clauses and damage estimates. In the end, these tactics often mean that insurance companies only pay 30-60 percent of the cost of repairing or rebuilding a home.

Nowhere were these practices more apparent than in the case of Hurricane Katrina claims. In order to avoid paying claims, both Allstate and State Form used all of these tactics. One engineer who examined damaged Gulf Coast homes for insurance companies told Bloomberg that some of his reports were altered by the companies to say that homes were damaged by flood, and not by wind. Normal insurance policies do not cover flood damage, so by altering these reports, the insurance companies saved tens of thousands of dollars. In response to this despicable behavior, more than 1000 Katrina homeowners have sued their insurance companies over claims, the largest number of lawsuits ever to follow a natural disaster in the US.

Insurance companies use these tactics for one reason â€“ they work. Last year, the insurance industry reported profits of $73 billion dollars, up nearly 50 percent from 2005. While thatâ€™s great for insurance company shareholders, itâ€™s a raw deal for the 60 million US homeowners who pay out $50 million in insurance premiums each year.

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