

First Enron - - - Now State Farm

the Gramm Connection !

Branson West, MO. Oct 25,2002 - Wendy L. Gramm is the wife of Texas Senator Phil Gramm, (R-Tex). Sen. Gramm fathered the Gramm, Leach, Bliley Financial Modernization Act of 1999 that allowed banks to go into the insurance business and insurance companies to go into the banking business.

Mrs. Gramm was given a position on the Board of Directors of State Farm Mutual Auto Insurance Company where she served from 1994 until March, 2002. During approximately the same period of time Mrs. Gramm was also on the Board of Directors of Enron.

While on the State Farm board, Mrs. Gramm was charged with the responsibility of overseeing State Farm's internal audit activities. While on the Enron Board, Mrs. Gramm was charged with the same responsibility.

State Farm is a mutual insurance company. This means that each policyholder is a part owner of the company. When the premiums State Farm collects is greater than what is necessary to cover policyholder claims, operating expenses and appropriate reserves to cover foreseeable and unforeseeable catastrophic losses, the excess funds (premium overcharges) are to be returned to State Farm policyholders.

State Farm's internal audit department, by and through Mrs. Gramm, is charged, among other things, with seeing to it that the rights of State Farm policyholders are protected and that appropriate premium overcharges are refunded. These duties are just like those of the Enron internal audit department. Simply replace the word "Policyholder" with the word "Stockholder", and the words "Premium Refunds" with the word "Dividends" and you have a parallel correlation.

It now appears that Enron's "creative accounting" motives have been embraced by State Farm.

State Farm had been withholding approximately \$12.6 Billion of premium overcharge refunds from its policyholders; this figure was projected in a story addressing property and casualty insurance issues, released in November, 1999 by the Insurance Consumer Advocate Network (iCan), a web-based consumer advocacy effort (www.iCan2000.com). At that time, iCan calculated State Farm owed each of its 50 million policyholders a premium refund of \$252.00.

On September 11, 2002, Los Angeles Superior Court Judge Charles W. McCoy, Jr certified as class action a lawsuit brought against State Farm alleging the insurer had withheld as much as a \$50 billion premium overcharge refund from its policyholders. If accurate, that would mean State Farm could be required to refund \$1,000 to each of its 50 million policyholders.

The case is entitled (short version) Hill, et al. vs State Farm, et al. and bears case number BC-194-491.

This suit's 2nd amended complaint lays an extensive foundation for identifying four separate causes of action: breach of contract, breach of good faith, unlawful and deceptive business practices, and accounting fraud. This suit doesn't currently allege any violations of RICO statutes. If the jury makes a finding of bad faith, the potential exists for punitive damages. If that were to happen, State Farm could well be ordered to refund more than the projected \$50 billion to its policyholders.

This complaint references financial statements, sworn to by State Farm and filed with the department of insurance, wherein State Farm defines the need for a 2:1 ratio of premium to surplus in order to maintain

financial stability. The complaint goes on to clearly demonstrate State Farm has maintained a 2:3 ratio of premium to surplus. In short, State Farm appears to have withheld \$3 in surplus for every \$1 it swore was necessary.

The conduct that led to the growing surplus happened in preparation for (and through) the point at which it became legal for insurance companies to venture into the banking business. If the allegations in this suit are found to be factual, it would appear that State Farm, by and through their wholly owned for-profit subsidiary State Farm Bank, is charging interest for loaning State Farm policyholders their own money.

These revelations come to light at a time when State Farm, with the occasional assistance of Texas Department of Insurance regulators, is involved in a public relations campaign trying to convince the general public that unprecedented premium rate increases are necessary. When a State Department of Insurance denies State Farm the rate increases they desire (New Jersey, Florida), State Farm simply wields its political power to get what it wants.

Premium Rate Increases are Not Necessary !

If State Farm were to put the excess surplus back on the books, it could afford to continue every policy it has in force, free of charge, for approximately two and a half years and still be financially solvent (calculation based upon State Farm's own sworn financial statements).

How Can This Happen ?

A simple question that actually has a simple answer. The insurance industry's influence over the political process is almost without limits. State Departments of Insurance are often headed by individuals that come from the insurance industry with plans to return to the insurance industry. More often than not, the insurance industry hand-picks these regulatory leaders much the same way State Farm hand-picks its board members. If bureaucrats actually exercise their authority to deny insureds what they want, these individuals are simply replaced, see the New Jersey and Florida cases.

Leadership in the insurance regulatory departments in the various states is often subject to what is euphemistically referred to as the "revolving door policy." State Farm, as the biggest player in the arena, seems to have the uncanny ability to follow regulators into a revolving door and come out ahead of them.

This political influence even extends to the Justice Department and attorney general's office in Washington D.C.. In 1963, then Attorney General Robert F. Kennedy charged the property and casualty insurance industry with illegally conspiring to artificially suppress insurance claim settlements in a coordinated plan to inflate profits. The suit, brought by the Justice Department, was resolved with a Consent Decree which said "We deny we ever did that and promise we'll never do it again." Consumer advocacy groups, like iCan, regard the 1963 Consent Decree as Robert F. Kennedy's legacy for consumers.

That promise has been broken. Insurers' conspiracy against consumers, alluded to in 1963, continues to this very day. Enforcement of promises made in the 1963 Consent Decree is left to the Justice Department and US Attorney General's Office. Were the Decree to be enforced, it would not impair the financial stability of insurers. It would simply cut into the excess surpluses currently being enjoyed by insurers. Despite years of consumer advocates providing documentation to the Justice Department, the terms and conditions of the 1963 Consent Decree (defined and approved by Robert F. Kennedy) continue to be ignored by insurers and our US attorney general.

Those wishing to review the actual Decree document are invited to go onLine and point their web browser to www.iCan2000.com and then click on the "1963 Consent Decree" link.

Policyholders' Bill of Rights . . .

The Insurance Consumer Advocate Network was founded by J.D. (Dennis) Howard. Howard has over 37 years experience helping consumers in their relationship with property and casualty insurers. He has created the Policyholders' Bill of Rights which according to Howard, if enacted, would greatly reduce the existing opportunities for insurer fraud and consumer abuses.

Those wishing to review the policyholders' Bill of Rights are invited to go onLine and point their web browser to www.iCan2000.com and then click on the "Policyholders' Bill of Rights" link.

Tort Reform - A Warning . . .

The property and casualty insurance industry is going to use the \$50 billion fraud class action case to continue their agenda of calling for tort reform. Insurers, by and through their "talking heads," will try to get consumers to believe their threats of "We'll have to raise premiums."

Tort reform, in what we've seen so far, does nothing but strip consumers of their current rights for the express purpose of enhancing the excess surplus accounts of our nation's insurers. It would strip what little corporate accountability is now in place and would devastate the lives of those consumers insurers choose to abuse.

The Insurance Consumer Advocate Network has published a position statement on the issue of tort reform. That statement can be viewed online by pointing your web browser to the web address referenced above and the clicking on the "Tort Reform" link on the web site home page.

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