

Pattern of Greed: **HOW INSURANCE COMPANIES PUT PROFITS OVER POLICYHOLDERS**



www.PeopleOverProfits.org



BALANCING THE SCALES
OF JUSTICE

PATTERN OF GREED: **How Insurance Companies Put Profits Over Policyholders**

TABLE OF CONTENTS

	<i>PAGE</i>
INTRODUCTION	2
SECTION 1: INSURANCE COMPANY TACTICS FOLLOWING HURRICANE KATRINA	2
The Wind Vs. Water Controversy: The Insurance Industry Tried to Spin Hurricane Katrina into “The Great New Orleans Flood”	3
Insurance Companies Allegedly Engaged in Fraud	5
One Year Later, Some Katrina Victims are Still Waiting for Assistance	5
The Insurance Industry Posted Record Profits in 2005	6
SECTION 2: INSURANCE COMPANIES’ QUESTIONABLE TACTICS FOLLOWING PAST NATURAL DISASTERS	6
The Northridge, California Earthquake	7
The 1999 Oklahoma Tornados	8
Hurricane Ivan	8
Hurricane Frances	9
Hurricane Andrew	9
APPENDIX	11
Industry Finances	11
Campaign Contributions And Lobbying Expenses	11

INTRODUCTION

It's been a year since Hurricane Katrina swept across the Gulf Coast, leaving historic levels of death and destruction in its wake, and some in the insurance industry still haven't made good on their promise to compensate area residents who find themselves near ruin. While the insurance industry enjoys record profits and bulging bank accounts, too many people are left waiting for the settlements that will help them get back on their feet. It's no surprise. As this report relates, the insurance industry has made a practice of collecting billions of dollars from policyholders over the years and then stiffing them in their time of greatest need. Hurricane Katrina is just the most recent example.

The storm caused an unthinkable \$135 billion in damages, leaving thousands homeless, jobless and bereft of hope. Facing their darkest hour, these survivors find themselves victimized a second time by an insurance industry offering pennies on the dollar, refusing to honor many agreements, and arguing that the destruction was not caused by wind, which is covered under most policies, but by floodwater, which is not. Big Insurance could care less that the floodwaters were created by the wind. It is infinitely more interested in the industry's bottom line than the policyholders it misled.

Mississippi Attorney General Jim Hood maintains that some insurance companies even engaged in fraud, charging that adjusters for some firms tried to trick Katrina victims out of millions of dollars in homeowner claims.

It's not the first time victims of natural disasters have had trouble getting compensated from insurance companies. Over the years, many have found themselves bullied by the industry into accepting less compensation than they deserved or had their claims rejected for apocryphal reasons, all in an effort to boost the big insurance bottom line.

And what a bottom line it is. Insurance companies made more than \$40 billion in 2005, increasing its surplus to more than \$427 billion. With all that money handy, some in the industry still won't make equitable payments to compensate for the damaged dreams of the people of the Gulf Coast.

It is a tragedy on top of a tragedy. This report lays out the facts.

INSURANCE COMPANIES' TACTICS FOLLOWING HURRICANE KATRINA

On August 29, 2005, Hurricane Katrina made landfall as a Category 4 hurricane. Katrina was one of the costliest and deadliest hurricanes to ever strike the United States. The storm killed nearly 1,600 people and caused \$135 billion in damages.¹ Soon after Hurricane Katrina hit, and before anyone could possibly assess the damage, the insurance industry began their spin on the storm calling it the "Great New Orleans Flood."²

¹ "Epsilon blows as hurricane season ends," *UPI*, 11/30/05; "Skeletal remains found in New Orleans home flooded by Katrina," *Associated Press*, 8/1/06

² "RMS Expects Economic Loss to Exceed \$100 Billion from Hurricane Katrina and the Great New Orleans Flood; Initial Hurricane Storm Surge Leads to Second Flooding Catastrophe When Levees are Breached in New Orleans," Risk Management Solutions press release, PR Newswire, 9/2/05, Risk Management Solutions website, <http://www.rms.com/AboutRMS>

The distinction the industry made was important because while wind damage from a storm was covered under homeowners policies – flooding was not.

THE WIND VS. WATER CONTROVERSY: THE INSURANCE INDUSTRY TRIED TO SPIN HURRICANE KATRINA INTO “THE GREAT NEW ORLEANS FLOOD”

Soon after Hurricane Katrina came ashore, and before anyone could possibly assess the damage, the insurance industry began their “spin” on the storm saying “The Great New Orleans Flood” caused much of the damage. The distinction the industry made was important because wind damage was covered under homeowner policies – flooding was not. Despite the claims of the industry, a meteorologist recently testified that hurricane force winds battered the coast for hours before water rushed onto land. This disputed the insurance industry’s claim that flood damage was generally responsible for Hurricane Katrina damage.

- ✓ **Insurance Industry Was Quick To Blame Floods For Katrina Damage, Even Before Assessing Damage In Some Of The Hard Hit Areas In Gulf Region.** Chaos ensued in the days following Hurricane Katrina and prevented insurance adjusters from reaching many of the hardest hit areas. Despite an inability to assess claims, the insurance industry quickly pointed out that most of the damage was caused by flooding. “The definition of flood is fairly ironclad. It's essentially water that comes from below. That fact that a government-run levee fails and creates a flood does not create a liability for private insurers,” said Robert Hartwig, chief economist with the Insurance Information Institute in New York. “I would say in dollar terms, at least among homes, the majority is related to floods,”³ Hartwig added. William Bailey, a coordinator for the Hurricane Insurance Information Center, an industry clearinghouse for storm recovery information, added “Clearly most, if not all, of the damage to their homes is from the floods.”

- ✓ **The Term “Great New Orleans Flood” Originated In An Industry Statement.** According to a search of the Nexis news database, the term “Great New Orleans Flood” first appeared in a press release issued by Risk Management Solutions (RMS) on September 2, 2005.⁴ The release clearly states that damages were the result of “two separate events” – the hurricane and the flooding. According to the company’s website, RMS provides “technology and services for the management of insurance catastrophe risk associated with natural perils such as earthquakes, hurricanes, and windstorms, as well as products for weather derivatives and enterprise risk management for the P&C [Property and Casualty] insurance industry. . . . Our natural hazard risk modeling solutions are used by over 400 insurers, reinsurers, trading companies, and other financial institutions worldwide.” Following RMS’ use of the term, Aspen Insurance used it as well to suggest that Hurricane Katrina and the flooding it caused were two separate events.
 - **Risk Management Solutions Began Labeling Hurricane Katrina As “Great New Orleans Flood” In 2005.** In a 2005 press release Risk Management Solutions labeled flooding caused by Hurricane Katrina as the “Great New Orleans Flood.” According to the press release,⁵ “Risk Management Solutions today announced that the economic loss from Hurricane Katrina and subsequent flooding in New Orleans is expected to exceed \$100 billion. **Losses are resulting from two separate catastrophic events:** first, the landfall of Hurricane Katrina in southeast Louisiana and coastal Mississippi on August 29 causing extensive wind and coastal surge damage; and second, the **Great New Orleans Flood** which has resulted from failure of the levee systems that protect, New Orleans. At least 50 percent of total economic loss is expected to come from flooding in New Orleans, in addition to hurricane losses from wind and coastal

³ “Thousands may lack flood insurance; Insurers may be off hook if damage from flooding,” *Knight Ridder Newspapers*, 9/4/05

⁴ “RMS Expects Economic Loss to Exceed \$100 Billion from Hurricane Katrina and the Great New Orleans Flood; Initial Hurricane Storm Surge Leads to Second Flooding Catastrophe When Levees are Breached in New Orleans,” Risk Management Solutions press release, PR Newswire, 9/2/05, Risk Management Solutions website, <http://www.rms.com/AboutRMS>

⁵ “RMS Expects Economic Loss to Exceed \$100 Billion from Hurricane Katrina and the Great New Orleans Flood; Initial Hurricane Storm Surge Leads to Second Flooding Catastrophe When Levees are Breached in New Orleans”, Risk Management Solutions press release, PR Newswire, 9/2/05; Risk Management Solutions website, <http://www.rms.com/AboutRMS>; emphasis added

surge, infrastructure damage, and indirect economic impacts. ... The 2005 **Great New Orleans Flood** has developed into the most damaging flood in U.S. history. ... “The economic and insurance consequences of the 2005 **Great New Orleans Flood** will depend highly on how quickly authorities can respond to the event,” said Laurie Johnson, vice president of technical marketing at RMS, who is responsible for the company's catastrophe response services and reconnaissance. ... The nearest historic analog to the 2005 **Great New Orleans Flood** is the 1953 flood in the Netherlands, also caused by a major wind driven storm surge that overwhelmed poorly maintained defenses protecting land below sea-level.”

- **Aspen Insurance Used Term “Great New Orleans Flood.”** In a 2005 press release,⁶ Aspen Insurance referred to the flooding caused by Hurricane Katrina as the “Great New Orleans Flood”; “Although we believe the economic loss from the **Great New Orleans Flood** will exceed economic losses from Hurricane Katrina, our preliminary analysis suggests that the flood losses are substantially uninsured. We expect that Aspen's share of the industry's insured flood losses will be modest compared to Hurricane Katrina.”
- **Associated Press Noted Industry’s Use Of The Term “Great New Orleans Flood.”** A 2005 *Associated Press* article noted the insurance industry use of the term “Great New Orleans’ Flood.” According to the *Associated Press*,⁷ “The majority of homes in areas slammed by the hurricane have policies that cover wind and rain damage, but relatively few had extra insurance to cover flooding. Insurers are posturing to limit the amount of damages by saying massive flooding in storm-ravaged New Orleans is a separate event from the hurricane itself. **This distinction could save insurers billions of dollars more from a catastrophe billed as the costliest natural disaster ever to face the industry. Some carriers have even adopted the phrase ‘The Great New Orleans Flood’ in an effort to make that distinction more tangible.** ‘If there is a question at some point as to whether the industry should be held responsible for flood insurance, that would change the whole mechanism of how insurance works,’ said Loretta Worters, a vice president with the Insurance Information Institute, a trade organization sponsored by the property & casualty industry. ‘I understand their plight, and insurers have their adjustors out and see what's going on, but we are compassionate up to the point of the policy,’ she said, ‘but, that's where FEMA has to step in.’”
- ✓ **Meteorologist Testified That Hurricane Force Winds From Katrina Battered The Coast For Hours Before Water Rushed On To Land.** In a recent trial against Nationwide Insurance Company, a private meteorologist testified that hurricane force winds battered the coast for hours before water rushed onto land. This disputed the insurance company’s claim that flood damage was generally responsible for Hurricane Katrina damage. According to *The New York Times*,⁸ “Mr. Scruggs [Attorney Richard ‘Dickie’ Scruggs] addressed that issue on Wednesday by leading a private meteorologist, Rocco Calaci, through a detailed accounting of the movement of wind and waves along the Mississippi on Aug. 29, 2005, as Hurricane Katrina struck. According to Mr. Calaci’s testimony, hurricane-force winds battered the coast for hours before water rushed over the land, knocking down houses and trees. High winds, he said, continued for several more hours after the water had receded. Several people who rode out the storm in their homes testified earlier that, in their neighborhoods near the Alabama border, the water rose slowly and gradually to more than five feet in their homes. That was in contrast to the sudden surge of water, three stories high, that smashed across the beach around Bay St. Louis and Waveland to the west, at the Louisiana border. But all along the Mississippi coast, residents say, their homes suffered heavy wind damage long before the water began to rise.”
- ✓ **Nationwide Insurance Company Facing Lawsuit By 243 Policyholders After Company Refused To Pay For Any Katrina Damage Blaming Damage On Water Over Wind.** Nationwide Insurance Company is facing a lawsuit filed by 243 policyholders who claim they were fraudulently denied coverage for Hurricane Katrina

⁶ “Aspen Announces Initial Assessment of Losses Sustained From Hurricane Katrina and the Great New Orleans Flood,” Aspen Insurance Holdings Limited press release, PR Newswire, 9/8/05; emphasis added

⁷ “Insurers see Katrina as two events”, *Associated Press*, 9/9/05,

http://www.businessweek.com/ap/financialnews/D8CGV10GB.htm?campaign_id=apn_home_up&chan=db

⁸ “Katrina Victims Say Agents Advised Against Flood Coverage,” *The New York Times*, 7/14/06

damage. According to a report in *The Biloxi Sun Herald*,⁹ “The lawsuit says Nationwide reeled in customers with the promise of ‘all-risk’ coverage, including a ‘hurricane deductible.’ The company then refused to pay the policyholders for most, or in some cases all, Hurricane Katrina damage, the lawsuit says...In denying claims, Nationwide cited policy provisions that exclude coverage for water damage and for damage arising from ‘weather conditions’ that may contribute, the suit asserts. Nationwide used a generic report from Haag Engineering to deny claims, the lawsuit says. The report concluded ‘storm surge’ caused all property damage. ‘This report concluded, contrary to every objective scientific and legal source, that the hurricane wind arrived after the storm surge,” the lawsuit says.

INSURANCE COMPANIES ALLEGEDLY ENGAGED IN FRAUD

The insurance industry didn’t stop at using the “wind vs. water” argument to avoid paying claims. It appears that some insurance companies crossed the line and allegedly engaged in fraud.

- ✓ **Mississippi Suit Alleges Insurance Companies Engaged In Fraud; Tried To Trick Hurricane Victims.** Mississippi Attorney General Jim Hood sued five insurance companies in 2005, alleging that adjusters for the companies tried to trick Hurricane Katrina victims out of millions of dollars in homeowner claims. According to *The Houston Chronicle*,¹⁰ “[a]djusters for Nationwide Mutual Insurance and other insurers asked policyholders to sign forms that acknowledged they sustained flood damage, which is not covered by homeowners' insurance, according to Hood. Adjusters have cajoled victims to sign the forms, saying they are necessary to immediately receive a check for living expenses. The companies can use the sentence regarding flood damage against policyholders later, Hood said. The difference is important. Damage caused by wind or water falling into a structure, like through a hole, typically is covered by a homeowner policy. Damage from rising water, however, usually would be covered only by the National Flood Insurance Program, which is run by the Federal Emergency Management Agency. ... The suit, filed in county chancery court, asks for a temporary restraining order to stop the use of such forms. Nationwide, identified by Hood as a lead defendant, did not immediately return a call seeking comment. Hood also sued Mississippi Farm Bureau Insurance, State Farm Fire and Casualty, Allstate Property and Casualty and United Services Automobile Association.”

ONE YEAR LATER, SOME KATRINA VICTIMS ARE STILL WAITING FOR ASSISTANCE

The end result of the industry’s behavior is that many Katrina victims are still waiting for assistance from their insurance companies.

- ✓ **State Farm Refused To Pay For Damage To Mississippi Home Saying It Was Caused By Water Not Wind.** CNN highlighted the story of the Nguyen family of Mississippi who lost their home, along with the rest of their neighborhood, last year in Hurricane Katrina. Their insurance company, State Farm, refused to pay for the damage, claiming that it was not caused by the wind but by the flood, which is not covered under their insurance policy. But there are two reports from an engineering firm that conclude that the damage was caused by wind. The reports even cite two witnesses who saw another house picked up by the wind and thrown into the Nguyens' home. This firm submitted their reports to State Farm, but when State Farm did not like the findings of the reports, the insurance giant recruited another firm to create a report with a more agreeable conclusion: that the damage was caused by flood. The Nguyens have joined a lawsuit alleging that State Farm pressured staff and contractors to conclude that damage was from flood and not from wind, as well as alleging that the company destroyed early engineering reports that had concluded damage was caused by wind.¹¹
- ✓ **State Farm Denied Coverage To Katrina Victim Claiming His “Chimney Was Not Built Properly.”** State Farm Insurance Company denied coverage on much of the damage to Dean Barras’ home in Marrero, Louisiana

⁹ “243 policyholders sue Nationwide; Suit also seeks compensatory damages,” *The Biloxi Sun Herald*, 5/26/06

¹⁰ “Mississippi sues 5 insurance firms over flood forms; Adjusters trying to trick victims, state official says” *The Houston Chronicle*, 9/16/05

¹¹ “Live From...”, *CNN*, 6/1/06, <http://transcripts.cnn.com/TRANSCRIPTS/0606/01/lo1.03.html>

claiming that “the chimney was not built properly.” In a complaint to *ConsumerAffairs.com*,¹² “Barras complained that much of the damage occurred during the two weeks his home was exposed to the elements, without electricity or air conditioning. Among the damage State Farm refused to cover was: a double-pane window with water in it, warped door frames, wooden musical instruments ruined by humidity, furniture and cabinetry swollen by humidity, roof damage from wind-driven debris, a batting cage with a tree on top of it and a houseful of appliances damaged by an apparent electrical surge. ‘Imagine your entire house a steam bath with blown-open doors and exposed to the elements for two weeks,’ Barras said. ‘I paid insurance premiums for 9 yrs. faithfully on this dwelling. Thanks for your ears -- I’m tired.’”

- ✓ **CNN Reported Nationwide Denied Insurance Claim To Katrina Victim Telling Him Damage Was Caused By Flooding – Not Wind.** In the weeks following Hurricane Katrina, CNN reported¹³ that many insurers were already denying claims. Nationwide Insurance Company denied the claim of Biloxi, Mississippi resident Seng Thai, telling him flooding was responsible for the damage to his home – and not wind. “Oh, he already came this morning. Above the water line inside, six feet high, above is covered, below is not covered which is everything below is damaged, the whole thing,” Thai told CNN.

THE INSURANCE INDUSTRY POSTED RECORD PROFITS IN 2005

Even as some in the insurance industry have refused to compensate Katrina victims, the industry as a whole saw record profits in 2005 – the same year Hurricane Katrina struck the Gulf region. *The Los Angeles Times* reported that the industry had a record \$44.8 billion in profits, while the Insurance Information Institute similarly reported record profits of \$43 billion.¹⁴

- ✓ **Insurance Companies Made A Record \$44.8 Billion In 2005; Increased Industry Surplus By More Than \$427 Billion.** According to *The Los Angeles Times*,¹⁵ “The companies that provide Americans with their homeowners and auto insurance made a record \$44.8 billion profit last year even after accounting for the claims of policyholders wiped out by Hurricane Katrina and the other big storms of 2005, according to the firms' filings with state regulators....an 18.7 percent increase over the previous year. ...Besides boosting profits, the industry raised its surplus by more than 7 percent to nearly \$427 billion, according to an analysis of company filings by the National Association of Insurance Commissioners, which represents regulators from the 50 states. The surplus is intended to provide a financial cushion in times of high claims.”

INSURANCE COMPANIES’ QUESTIONABLE TACTICS FOLLOWING PAST NATURAL DISASTERS

The entire country came to the assistance of Hurricane Katrina Victims in an unprecedented fashion, donating a record amount of money. But some in the insurance industry, which has a legal responsibility to pay policyholders what they are due, have abandoned these victims. We shouldn’t be surprised – the insurance industry has a long history of putting their bottom line above the interests of victims of natural disasters.

¹² “Katrina Victims Challenge Insurance Denials – NOLA Flooding Caused by Human Neglect of Levees , One Suit Argues,” *ConsumerAffairs.com*, 9/20/05, http://www.consumeraffairs.com/news04/2005/katrina_scruggs.html

¹³ “Live From...”, CNN, 9/14/05, <http://transcripts.cnn.com/TRANSCRIPTS/0509/14/lol.01.html>; emphasis added

¹⁴ “Commentary on Full-Year 2005 Results,” Insurance Information Institute, http://server.iii.org/yy_obj_data/binary/753200_1_0/Year%20End%202005%20Commentary.pdf

¹⁵ “Insurers Saw Record Gains in Year of Catastrophic Loss; They say the profits are a fluke, but the industry has worked to shift risk to clients and the public,” *The Los Angeles Times*, 4/5/06

THE NORTHRIDGE, CALIFORNIA EARTHQUAKE

On January 17, 1994 an earthquake with a magnitude of 6.7 struck the San Fernando Valley in California. The ground acceleration was the highest ever recorded in an urban area in North America and was the costliest earthquake in United States history. Fifty-seven people were killed, 9,000 were seriously injured and damage was estimated at \$33.8 billion (note: figure adjusted for inflation).¹⁶

- ✓ **Former State Farm Employee Testified That Company Agents Forged Waiver Documents To Avoid Paying Earthquake-Related Claims.** Amy Zuniga, a former State Farm employee testified that officials in Southern California repeatedly forged waiver documents to avoid paying earthquake-related claims. As reported in *The Los Angeles Times*, “A former State Farm Insurance employee alleges in court documents that the company withheld key evidence to fend off lawsuits by policyholders and forged documents to avoid paying out earthquake-related claims. The sworn statements by Amy Zuniga, a former regional claims specialist who said she quit the company's litigation unit last year after an unwanted transfer, are included as evidence in a lawsuit against the firm by a Sherman Oaks couple who contend that they were cheated out of their earthquake insurance coverage... State Farm officials possess signed forms showing that the couple declined to carry earthquake insurance. The couple alleges that the signatures are forged.”¹⁷
- ✓ **California Insurers Refused To Renew Homeowner Earthquake Policies After 1994 Northridge Earthquakes.** In California, insurers refused to renew homeowners' earthquake policies after the 1994 Northridge earthquake that caused \$17 billion of insured losses (in 2002 dollars). This led to the formation in 1996 of a state-run earthquake insurance company, the California Earthquake Authority, with funds for its operation provided by insurers and reinsurers.¹⁸
- ✓ **Insurance Companies Accused Of Mishandling Earthquake Claims Gave \$12 Million To California Insurance Commissioner's Personal Foundation To Avoid Paying Over \$3 Billion In Fines.** California State Insurance Commissioner Chuck Quackenbush allowed insurance companies accused of mishandling claims from the 1994 Northridge earthquake to donate, in lieu of over \$3 billion in fines for improperly handling claims, \$12 million to two non-profit foundations he created. As reported in a *San Francisco Chronicle* column by Reynolds Holding, “After the State Department of Insurance discovered the companies' misbehavior, Insurance Commissioner Chuck Quackenbush called them on the carpet in Sacramento last year. The companies faced fines well north of \$3 billion for their thoroughly documented abuses. But rather than empty their wallets, the companies struck a deal with Quackenbush that allowed the four largest to pay only \$12 million in tax-deductible donations to three non-profit foundations tied to Quackenbush. As the state Legislature eventually learned, with the help of an insurance department whistle-blower, much of the money ended up financing TV ads for the Quack, a football camp for the Quack's kids and other causes far afield of anything related to the Northridge earthquake.”¹⁹
 - **State Farm Among Insurance Companies Who Donated To Insurance Commissioner To Avoid Paying Fines.** State Farm was one of the insurance companies who escaped huge fines for underpaying earthquake victims by donating money to California Insurance Commissioner Chuck Quackenbush.²⁰

¹⁶ “Nature’s Lessons Have Been Learned the Hard Way,” *USA Today*, 9/12/05

¹⁷ “State Farm Accused of Forgery To Avoid Claims; Lawsuit: Charges Are Part of Action Filed by Sherman Oaks Couple Over Earthquake Insurance. Attorney Disputes Them,” *The Los Angeles Times*, 6/4/97, Note: The text of Zuniga’s statement can be accessed on line at: <http://www.monstla.com/zuniga.htm>

¹⁸ “Terrorism Insurance,” 2005 Regulation, 4/1/05

¹⁹ “A Big Corporate SLAPP in Citizens' Faces,” *The San Francisco Chronicle*, 10/22/00

²⁰ “Snake Killer; They call it "Snake Farm." Lawyers like Cal Thur battle State Farm to protect consumers from their own insurance company. Moral of the story: Don't have an accident,” *The Phoenix New Times*, 11/16/00

THE 1999 OKLAHOMA TORNADOS

On May 3, 1999 severe thunderstorms produced a series of large tornados in Central Oklahoma, including the killer storms that ripped through Dover, Shawnee, Perry, Bridge Creek, Moore and southern Oklahoma City. The storms killed 44 people in Oklahoma. The estimated damage from the storms totaled \$1.8 billion (note: figure adjusted for inflation).²¹

- ✓ **Oklahoma Jury: State Farm Acted “Recklessly” And “With Malice” In Handling Insurance Claims.** In 2006, an Oklahoma jury concluded that State Farm Insurance acted “recklessly” and “with malice” when handling claims for dozens of families who owned homes damaged by a series of tornados in 1999. As *CNN* has reported,²² a group of homeowners brought a class action lawsuit against the company, alleging that State Farm hired an engineering firm to internally undervalue tornado damage to homes: “[a]ccording to the lawsuit, State Farm hired Texas-based Haag Engineering, which intentionally undervalued damage to homes or claimed the damage was caused by other factors -- like faulty construction -- instead of tornados. The jury ruled that State Farm ‘recklessly disregarded’ its duty to deal fairly and act in good faith with the Watkinses [the lead plaintiffs in the lawsuit] and that it ‘intentionally and with malice’ breached its duties as the couple’s insurance company. The jury further found ‘clear and convincing evidence’ that State Farm recklessly disregarded its duty to act fairly and in good faith with members of the class action by employing Haag Engineering and its independent adjusters from E.A. Renfro Co. It also said State Farm acted intentionally and with malice in dealing with customers in the use of these two companies.”
- ✓ **When State Farm Was Mishandling Dozens Of Claims From The Tornados They Earned Over \$1 Billion.** In 1999, while State Farm Insurance was mishandling Oklahoma tornado claims, they earned \$1.03 billion after taxes.²³

HURRICANE IVAN

On September 16, 2004 Hurricane Ivan struck the United States near Gulf Shores, Alabama as a Category 3 hurricane. Ivan pounded the coast of Alabama, Florida, Mississippi and finally Louisiana, eventually dissipating on September 24. Ivan was the deadliest storm of 2004, causing 57 deaths and more than \$14.7 billion in damages (note: figure adjusted for inflation).²⁴

- ✓ **State Farm Denied Claim Of 83-Year-Old Victim Claiming Damage Was Concurrent With Flooding, Victim Said Tornado Wind Took House Down.** State Farm Insurance Company denied the insurance claim of 83-year-old Joleeta Treadwell whose home was damaged by a tornado caused by the remnants of Hurricane Ivan. According to *The Asheville Citizen-Times*,²⁵ “Her insurance company, State Farm Insurance, denied the claim after representatives visited the site and declared the damage concurrent with flooding, she said. ‘I was surprised because I felt what had taken down my house was a tornado wind,’ Treadwell said from her other home, in Florida. A State Farm spokeswoman said the first stop for any appeal would be the individual’s agent. ‘There’s often confusion about what is covered under a homeowner’s policy,’ spokeswoman Mary Beth Cramer said. Damage the insurance company deems related to a tornado would be covered under wind, Cramer said.”
 - **While State Farm Was Denying Claim, They Posted Billions In Profits.** In 2004, when State Farm Insurance Company denied Hurricane Ivan victim Joleeta Treadwell’s claim, they posted profits of \$5.3

²¹ “Nature’s Lessons Have Been Learned the Hard Way,” *USA Today*, 9/12/05; “The Great Plains Tornado Outbreak of May 3, 1999,” National Weather Service Southern Regional Headquarters, <http://www.srh.noaa.gov/oun/storms/19990503/intro.html>

²² “State Farm penalized in suit over tornado claims; Verdict could affect similar lawsuits involving Katrina,” *CNN.com*, 5/26/06

²³ “State Farm profit drops 22% in '99,” *The Chicago Daily Herald*, 3/3/00

²⁴ “Nature’s Lessons Have Been Learned the Hard Way,” *USA Today*, 9/12/05

²⁵ “Peeks Creek residents contest insurance denials,” *The Asheville Citizen-Times*, 11/19/04

billion in 2004 - up from \$2.8 billion in 2003.²⁶

- ✓ **Grand Jury Investigated CEO Of Citizens Property Insurance Over Allegations He Took Kickbacks From Firms Awarded Contracts To Handle Hurricane Ivan Claims.** In 2005, the Florida Chief Executive Office Tom Gallagher ordered a criminal investigation into allegations that Paul Hulsebusch, the Chief Executive Officer of the Florida state run Citizens Property Insurance Corp., took a \$28,000 boutique brand motorcycle from a Texas firm in exchange for work they did in Florida handling insurance claims from Hurricane Ivan. According to *Florida Today*,²⁷ “It [Gallagher’s investigation] found resolution of more than 120,034 claims fell to hundreds of freelance adjusters under contractors who answered only to other contractors. Outside companies without contracts paid themselves, hired family members and billed Citizens for pay never passed to their adjusters.” A Florida Grand Jury continues to investigate the case.²⁸

HURRICANE FRANCES

Hurricane Frances came ashore on the central east coast of Florida on September 5, 2004. The storm caused \$8.9 billion in damages.²⁹

- ✓ **Florida Couple Won Lawsuit Against Universal Property And Casualty After They Refused To Pay Claim Saying Damage Was Result Of Termite Infestation And Not Hurricane Frances.** Stuart, Florida couple Patrick and Carolyn Kelso won a lawsuit against Universal Property and Casualty after they refused to pay the couples claim, saying damage to their home was the result of termite infestation rather than Hurricane Frances. As reported in *TCPalm News*,³⁰ “After being hit by three hurricanes in two years, Patrick and Carolyn Kelso are getting ready to put a fourth blue roof on their Stuart home. Unfortunately, that’s the best they can do until their insurance company, Universal Property and Casualty Insurance, pays the \$61,600 a jury awarded them in April after deciding the Kelso home was a total loss. The decision came after almost two years of the insurance company balking at paying for damages to the 1,100-square-foot home, which included foundation damage, stripped siding and a ruined roof. Universal Property and Casualty tried to blame the foundation damage on an old termite infestation and initially refused to pay on those grounds.”

HURRICANE ANDREW

On August 24, 1992, Hurricane Andrew made landfall in South Florida as a Category 4 hurricane. It caused 41 deaths and \$37.6 billion in damages (note: figure adjusted for inflation).³¹

- ✓ **AIG Used Hurricane Andrew As An Excuse To Raise Rates The Day The Storm Came Ashore.** The same day that Hurricane Andrew hit South Florida, and before any damage could be assessed, top executives at AIG passed around an internal memo to senior managers throughout the country touting the opportunity the storm created to raise homeowner rates. “‘This is an opportunity to get price increases now’... The Aug. 24 memo, written by Greenberg’s [Chief Executive Maurice R. “Hank” Greenberg] son, Executive Vice President J.W. Greenberg, but which the senior Greenberg said yesterday conveyed his sentiments ‘completely,’ told company presidents and vice presidents: ‘The industry cannot absorb the loss and cash hit without increasing rates. We have opportunities from this and everyone must probe with brokers and clients. ‘Begin by calling your underwriters

²⁶ “State Farm Posts \$3.2b Profit,” *The Pantagraph*, 2/26/06

²⁷ “Records confirm insurer’s problems,” *Florida Today*, 11/13/05

²⁸ “Gallagher and Crist spar over insurer,” *The St. Petersburg Times*, 5/22/06

²⁹ “Quality of Life Index; Our times as told by statistics,” *The St. Petersburg Times*, 11/14/05

³⁰ “Stuart Couple Still Cope with Storm Damage After Two Years of Delays, Lawsuits,” *TCPalm News*, 5/28/06

³¹ “Nature’s Lessons Have Been Learned the Hard Way,” *USA Today*, 9/12/05

together and explaining the significance of the hurricane. This is an opportunity to get price increases now. We must be the first and it begins by establishing the psychology with our own people. Please get it moving today.”³²

- **AIG Suffered Only A Small Dip In Profits Despite Impact Of Hurricane Andrew.** Despite the impact of Hurricane Andrew, American International Group (AIG) still recorded an after-tax profit of \$344.6 million in the three months to end September, down 8.6 per cent from the \$376.8 million in profits seen in the same period of 1991.³³

³² “Insurer Sees Hurricane As Chance to Boost Rates; AIG Memo Sent Out as Storm Crashed Ashore,” *The Washington Post*, 9/5/1992

³³ “US insurers check impact of hurricane,” *Financial Times (London)*, 11/6/92

APPENDIX

INDUSTRY FINANCES

Over the past seven years the insurance industry has seen its profits nearly double, while adding almost \$100 million to its surplus reserves. According to data provided by the Insurance Information Institute, industry profits increased from \$22.2 billion in 1999 to \$43 billion in 2005. The data also indicates that the insurance industry has seen its surpluses grow by a third – from \$336.30 billion in 1999 to \$427.1 billion in 2005.

Insurance Industry Finances, 1999-2005 (\$ Billions)

	1999	2000	2001	2002	2003	2004	2005	Percent Change 1999-2005
Earned Premiums	282.9	296.8	312.4	348.2	388.1	412.6	417.7	48%
Incurred Losses	222.2	241.6	276.1	282.5	289.8	299.5	311.4	40%
Expenses	80.8	83.9	87	94.3	101.1	106.4	110.3	37%
Policyholder Dividends	3.3	3.9	2.3	1.9	1.9	1.6	1.9	-42%
Underwriting Losses/Gains	-23.4	-32.6	-53	-30.5	-4.6	5	-5.9	-75%
Investment Income	38.6	40.8	37.1	36.7	38.7	39.6	49.5	28%
Operating Gain	13.9	8.8	-15.2	5.3	33.7	44.1	44.5	220%
Realized Capital Gains	13.7	16.9	6.9	-1.1	6.9	9.3	9.7	-29%
Net After-tax Income	22.2	20.2	-7.9	2.9	29.9	38.7	43	94%
Surplus (End of Period)	336.30	319.4	289.6	285.2	347	393.5	427.1	27%

Source: The Insurance Information Institute, <http://www.iii.org/media/industry>

CAMPAIGN CONTRIBUTIONS AND LOBBYING EXPENSES

The insurance industry is one of the most powerful lobbying forces in Washington, DC. According to a study by the Center for Public Integrity, federal lobbying disclosure reports indicate that the industry has spent a total of \$594,211,834 lobbying Members of Congress and federal agencies/departments between 1998 and 2004.³⁴ In addition to these lobbying expenses, individuals and political action committees linked to industry have contributed hundreds of millions of dollars to federal candidates and party committees. In fact, the Center for Responsive Politics has ranked the top 80 industries that have contributed to federal campaigns, and the insurance industry was listed as the 7th biggest contributor since 1989.

Insurance Industry Campaign Contributions (Federal Campaigns and Committees), 1989-2006

Election Cycle	Rank	Total Contributions	Contributions from Individuals	Contributions from PACs	Softy Money Contributions
2006	8	18,580,144	6,923,471	11,656,673	N/A
2004	9	36,153,618	19,757,899	16,395,719	N/A
2002	8	37,610,416	9,159,395	12,334,265	16,116,756
2000	7	41,554,668	13,188,742	12,413,562	15,952,364
1998	6	30,129,585	7,919,554	11,268,084	10,941,947

³⁴ Center for Public Integrity analysis of federal lobby disclosure reports, <http://www.publicintegrity.org/lobby/profile.aspx?act=industries&in=51>

1996	6	32,888,052	10,515,555	11,737,683	10,634,814
1994	5	21,602,510	6,508,807	10,727,340	4,366,363
1992	6	21,652,031	7,280,280	10,653,255	3,718,496
1990	4	12,795,603	3,156,141	9,639,462	N/A
Total	7	252,966,627	84,409,844	106,826,043	61,730,740

Source: The Center for Responsive Politics, <http://www.opensecrets.org/industries/indus.asp?Ind=F09>