



Allstate Revises Way It Sets Premiums

By MICHAEL FECHTER The Tampa Tribune

Published: Feb 16, 2007

Allstate Insurance Company is changing the way it uses a person's credit to set premiums on home and auto insurance policies after a group of black and Hispanic customers argued that the practices led to higher rates for minorities.

The settlement of the class-action lawsuit was finalized this week. The company denies that its practices were discriminatory but agreed to significant changes in its formula.

The settlement of the 2001 lawsuit came in June after two years of negotiation. U.S. District Judge Fred Biery of San Antonio, Texas, gave it final approval on Wednesday, after allowing time for other customers to be notified and for any objections to be considered.

He called it "a powerful settlement for the class." The plaintiffs would have had a difficult time proving discrimination because state regulators are supposed to guard against excessive or discriminatory charges.

In addition, Biery wrote, "undisputed evidence shows Allstate has no knowledge of the race or ethnicity of its customers and does not track such data."

The company argues credit scoring "is an actuarially sound and powerful predictor of insurance losses."

That claim is shared throughout the insurance industry. It is unclear whether the settlement will help a push by Florida regulators to crack down on possibly discriminatory practices.

Insurers challenged new state regulations last year that sought more disclosure to ensure the credit rating process didn't discriminate. An administrative law judge found parts of the new rules were too vague. An amended regulation may be issued this year, said Bob Lotane, spokesman for the Office of Insurance Regulation.

Last week, Insurance Commissioner Kevin McCarty challenged Geico's use of education and occupation as factors in auto insurance premiums. The state found education and occupation could alter premium prices as much as 300 percent. McCarty expressed concern that the factors were "nothing more than a proxy for race-based premiums."

Allstate spokesman Mike Siemienas declined to comment on the settlement, referring to a company news release from the summer. In it, the company said the settlement was good for all of its customers.

"By achieving this settlement Allstate is able to avoid the burden and expense of continued litigation and is therefore able to continue to focus its efforts on providing insurance policies to consumers - including minority consumers - at competitive prices," the statement said.

The company has about 13 million customers, Biery wrote. About 4.76 million are black or Hispanic.

"Allstate denies any discrimination has occurred and contends its use of information from credit reports is a valid and statistically sound predictor of insurance losses," Biery wrote. "Allstate, nevertheless, has agreed to modify its practices."

Those changes include changing the credit formula used in setting premiums. The new formula lessens the emphasis on people with retail installment accounts or pending high credit payments.

In addition, customers who score poorly can appeal their premiums if they can show an extraordinary hardship, such as the death of a spouse or a domestic violence episode, contributed to their score. Allstate customers who may have been overcharged can receive reimbursements of \$50 to \$150 under the deal. Attorneys, led by the Tampa law firm James Hoyer, will divide \$11.7 million in fees.

The firm has similar cases pending against two other insurance companies and is investigating others, lead counsel Christa Collins said.

"We are optimistic that this case is just the beginning," she said.

Although states are charged with policing the insurance companies, 50 state regulators may employ different approaches, Collins said. In this case, a federal civil rights claim was the most direct path to change.

Plant City resident Georgia Harrison was among the six named plaintiffs in the case. She got involved after her auto

insurance premium shot up after her husband's death.

She stands to receive about \$5,000 in the settlement

"I am very proud these changes have come about," Harrison said Thursday. "Everybody is going to get a fair share now. … The scores have changed, and the prices will come down."

Information about the settlement can be obtained from 1-866-817-6514 or www.creditusesettlement.com.

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