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Allstate settles suit on credit score use

By Becky Yerak
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In a setback for insurance companies that use credit scoring to help determine prices, Allstate Corp. has reached a settlement with plaintiffs in a 2001 Texas case who alleged that black and Hispanic customers were discriminated against by being charged higher premiums based on their financial histories.

The case, alleging the violation of federal civil rights laws, was brought by seven Allstate Insurance Co. customers who sought to represent a nationwide class of black and Hispanic customers.

Allstate spokesman Michael Trevino said Friday that he does not know how many customers might be eligible for the settlement because the Northbrook-based company doesn't know how many of its customers are black or Hispanic.

He noted that potential class members will have to take steps to join a settlement program and will have to have been an Allstate customer, among other criteria.

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

Insurers' use of credit scoring has long come under attack by consumer advocates.

"Allstate has agreed to change the way it uses credit information to price insurance," said Christa Collins, of law firm James, Hoyer, Newcomer & Smiljanich, which represented Allstate's minority customers. "We believe this change significantly benefits Allstate's

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minority customers."

The settlement calls for, among other things, class members to receive a one-time monetary payment. Also, Allstate will adopt an appeals program under which customers who experience extraordinary events that blemish their credit histories can potentially obtain premium reductions.

Other settlement provisions call for Allstate to make its new insurance scoring algorithm publicly available.

The settlement received preliminary approval from a U.S. District Court judge.

Allstate pointed out that the court has made no ruling on the merits of the claims, and the company denies that it discriminates.

Separately, Allstate formally announced that it would stop providing earthquake coverage nationwide as customers' policies come up for renewal. Nationally, Allstate sells 407,000 earthquake policies, including 29,565 in Illinois, mostly in the southern part of the state, a spokeswoman said.

At its annual shareholder meeting last month Allstate announced its intentions to reduce its exposure to potential earthquake losses.

Allstate spokesman Mike Siemienas said four states require the company to offer earthquake coverage, but it is in various stages of talks with regulators in them. He said the states are Kentucky, Connecticut, Rhode Island and Florida.

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