



Allstate settles suit on pricing

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Allstate Insurance Co. entered a national class-action settlement Friday in a San Antonio federal court in an effort to resolve long-standing allegations of pricing discrimination against Hispanics and African Americans.

U.S. District Judge Fred Biery gave preliminary approval certifying the class and granting permission to give notice to potential class members — essentially all Hispanic and black Allstate customers whose premiums for automobile or homeowner's insurance could have been affected by credit scoring over the past six years.

Allstate spokesman Michael Treviño said the company has no idea how many customers are affected because ethnicity is not documented when new policies are issued.

Allstate has 35 million policies in force nationwide.

"This is a very important settlement," said Christa Collins, the Tampa Bay, Fla.-based lead attorney for a group of consumers who took Allstate to court in 2001. "Credit information is used extensively throughout the entire insurance industry. Allstate has agreed to change the way it uses credit information to price insurance.

"We believe this change significantly benefits Allstate's minority customers," Collins said.

Allstate denied any discrimination occurred and throughout the proceedings contended its use of credit reports is a statistically sound predictor of insurance loss. However, the company agreed to substantial changes in its treatment of minority customers.

Treviño said the settlement lets the company "avoid the burden and expense of continued litigation" and "continue to focus its efforts on providing insurance policies to consumers — including minority consumers — at competitive prices."

Under the settlement, Allstate agreed to:

A new credit scoring formula that has undergone extensive testing from plaintiffs' experts.

An appeals process for people whose credit score is affected by an extraordinary circumstance such as divorce, catastrophic illness, a death in the family or identify theft.

A credit education program designed to increase minority customers' understanding of the use of credit.

A 15 percent increase in Allstate's national media spending directed toward minority communities for 2006-08.

Cash payments to eligible class members of \$50 to \$150, depending on the length of time the consumer held a policy.

The lead plaintiff in the case, an elderly Somerset man, received national media attention when a series of articles focused on credit scoring's effects on minorities.

Jose C. DeHoyos, 69, had filed only one claim on his car in 26 years and had only two late payments as blemishes on his credit history when his policy jumped 25 percent in May 2001.

Allstate fought to deny certification of the class, but Biery found it met the criteria and the Fifth Circuit Court of Appeals agreed. Final approval of the settlement will be considered at a fairness hearing in Biery's court Dec. 18.

From July 2 to Sept. 4, notifications will be printed in national magazines and newspapers to advise people of their potential eligibility.

In some cases, credit information was used in the late 1990s to divert persons deemed a higher risk into policies issued by Allstate Indemnity Co., which had higher rates, Treviño said.

But the majority of eligible African American and Hispanic customers are persons who held policies after the start of 2000.

"The scoring model, for purposes of pricing, was more prevalent in 2000, and it was rolled out on a state-by-state basis for new customers, not existing customers," Treviño said.

The new credit formula will also be rolled out on a state-by-state basis and will be in effect for at least two to three years from the date it's approved by each state regulator.

Costs of the settlement include as much as \$11.7 million in plaintiffs' attorneys' fees, \$2.1 million for the summer notification program, and a \$250,000 donation to Consumer Credit Counseling Services to fund a credit education program.

Treviño said the company could not estimate how much would be paid out in claims.

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