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Insurance News

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Free state program helps with Ike claims

The Texas Department of Insurance has launched a free mediation program to help consumers resolve claims disputes relating to Hurricane Ike, though many claimants may not be eligible because their insurers aren't participating.

Insurers don't have to participate, and only three are: Allstate, Farmers and AAA Texas, which together write a little over a fourth of the state's property insurance.

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More than 20,000 Ike-related claims were pending earlier this year, the Insurance Department estimated in a request for proposals from prospective contractors to run the program.

But since launching the program Sept. 1, the department has received only nine requests for mediation.

"It's a new program. People aren't used to it being available to them. So there's a startup curve," department spokesman Jerry Hagins said. "We might learn from this pilot about the need to raise awareness."

For now, the department is relying on insurers to notify qualifying policyholders.

Allstate has sent out 174 letters so far, and Farmers has sent 92, representatives for the companies said. AAA Texas couldn't say how many it has sent out.

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Hagins said the insurance department isn't publicizing the program because many homeowners aren't eligible because of the limited participation by insurers.

“Outreach through insurers seemed to be the most efficient way to do that,” he said.

A flaw in the plan?

But leaving the informational job to insurers risks allowing them to cherry-pick whom they notify of the mediation opportunity, said Alex Winslow, executive director of Texas Watch, a consumer advocate in Austin.

“Any time we give the insurance industry discretion about things like this, it leads to heartburn,” Winslow said. “Who are they sending these letters to, and who isn't being notified?”

Insurers said the number of letters is probably small because they've already closed many claims.

The program is free to consumers, but their claims must be for more than \$1,000 and the amount disputed must be more than \$500 unless the insurer agrees to mediate smaller claims.

Any signed agreements reached are binding, but customers can get them rescinded within three days if they haven't cashed or deposited payments from the insurer.

The Truce Dispute Resolution Firm of Dallas is administering the program for the state and will get a \$39.60 fee for each case mediated. Insurers will pay \$300 per case to cover the mediator's fee.

Mediation could be faster than the insurance department's complaint process and cheaper than an appraisal process. In the latter approach, the policyholder and the insurer hire separate damage appraisers to review the company's offer and to choose a third appraiser to make a binding ruling.

Two key players stay out

Texas Windstorm Insurance Association, which received more than 90,000 claims after Ike, and State Farm, the state's largest insurer, are not participating.

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The windstorm association reviewed the program but decided not to participate because of concerns about fairness, said Jim Oliver, executive director of the state-backed insurer.

“We didn't feel the program could be properly administered in the format that it was in and be fair to both parties,” he said, declining to specify what the association found unfair.

In a letter to the insurance department, TWIA suggested a mediation program should include a fee for consumers, give insurers the right to refuse to mediate a claim, only consider claims with a minimum dispute of \$1,500 and bar consumers from renegeing on a signed agreement.

The association has about 2,900 claims still open.

May take part later

Spokesman Kevin Davis said State Farm went to meetings about the pilot program.

“We have not ruled out participation in such a program in the future, and we are among those companies interested in the pilot's results,” he said.

The program could be beneficial for some, said Winslow of Texas Watch, but insurers could use this process to try to persuade consumers to accept settlements that aren't in their best interest.

“I would encourage any consumer that is entering into a settlement negotiation of this type to consult with an attorney first,” he said.

The program can be an effective alternative to litigation for consumers with small claims, said Deeia Beck, head of the Office of Public Insurance Counsel, which represents consumers before the Insurance Department.

“I'm happy with the companies who are participating and wish more had,” Beck said. “For consumers, this is a free shot to get this resolved. It's a good deal for both sides.”

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