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ALLSTATE AGREES TO \$10 MILLION REGULATORY SETTLEMENT OVER
BODILY INJURY CLAIMS HANDLING PROCESSES

New York gets \$1.2 million; Multi-state review examined claims handling software

Allstate has agreed to pay New York \$1.2 million as part of a \$10 million regulatory settlement, New York State Insurance Superintendent James J. Wrynn announced today. The agreement follows an 18-month targeted National Association of Insurance Commissioners (NAIC) multi-state market conduct examination of Allstate's claims handling practices. "Allstate has agreed to implement procedures to ensure transparency and fairness for consumers who have bodily injury claims," Wrynn said. "The new processes ensure that claims will be handled consistently in different regions of the country, and consumers will have the right to get the information they need in order to understand how Allstate evaluates their claims and make sure they are fairly treated."

The NAIC examination, for which New York was one of the lead states, focused primarily on Allstate's use of claims handling software, particularly the software program, Colossus. Colossus is a software program Allstate used to guide its settlement offers for bodily injury claims after automobile accidents. The computer would consider various variables and come up with fixed settlement amounts that would guide settlement negotiations and many times force cases to trial. The examination found inconsistencies in Allstate's management and oversight of the Colossus software program. In particular, the examination found that Allstate had failed to modify or "tune" the software in a uniform and consistent manner across its claims handling regions.

Under the settlement agreement, Allstate agreed to make a number of changes to its claims handling process, including:

1. Providing notice to claimants that the Colossus software program may be used in the adjustment of their bodily injury claims;
2. Enhancing its management oversight of Colossus to ensure that it adheres to established criteria and a uniform methodology in selecting claims to be used to "tune" or modify the software to reflect recently settled claims;
3. Strengthening its internal auditing of Colossus and bodily injury claims handling to ensure adherence to written guidelines and procedures;
4. Consolidating its bodily injury claims handling practices into a single claims handling manual; and
5. Not establishing a policy or rule requiring claims adjusters to settle bodily injury claims solely on the value recommended by Colossus and not providing incentives for claims adjusters to settle claims at or near the value recommended by Colossus.

"This settlement shows how state insurance regulators work together to protect consumers," Wrynn said. "The four lead states – Florida, Illinois, Iowa and New York – worked cooperatively to conduct this examination and will keep working with the other 41 states that have signed on to this agreement to ensure it is fully implemented and consumers are properly protected." Allstate's payment will be used to establish a regulatory fund. The fund will be used by the 45 signatory states, to the extent consistent with applicable state laws, to develop and train

examiners to review and monitor the property/casualty industry's use of software technology in adjusting claims.