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Consumer Federation of America

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REPORT: INSURERS CAN MANIPULATE COMPUTER SYSTEMS TO BROADLY UNDERPAY INJURY CLAIMS

Former Industry Executive Details Claims' Tactics That Shortchange Consumers
Newly Released Court Documents Reveal Huge and Questionable Insurer Claims' "Savings"

Washington D.C. -- A new report released today by the Consumer Federation of America (CFA) has found that computerized claims' systems used by most of the nation's largest insurance companies can be easily adjusted to make broad-scale "lowball" claims' payments to injured consumers that are less than what they should receive under their insurance policies. The primary author of the report is an expert on insurance claims' practices and was a longtime insurance executive.

"This report is a wake-up call for consumers and regulators who are not aware of the many ways that computer claims' software can be manipulated to produce unjustifiably low injury payments to consumers and tens of millions of dollars in illegitimate 'savings' for insurers," said Mark Romano, CFA's Claims Project Director. Romano was the "subject matter expert" on the Colossus injury claims' evaluation system at Allstate and Encompass insurance companies for almost ten years. Colossus, which is the dominant claims' system in the marketplace, is sold by Computer Sciences Corporation (CSC).

"When CSC and its competitors talk publicly about computer-based claims' systems, they stress that the programs allow insurers to more consistently evaluate bodily injury claims," said Romano. "Consistency is a legitimate goal, but these companies tell a different story behind closed doors. Software marketing representatives acknowledge that the real reason insurance companies are willing to invest millions in these systems is that they can dial down claims' payments to thousands of consumers at a time, regardless of whether these payouts are fair."

The report, "Low Ball: An Insider's Look at How Insurers Can Manipulate Computerized Systems to Broadly Underpay Injury Claims", details the history of the use of Colossus and similar software products by insurance companies. It provides considerable information about how these programs are set up, "tuned" to reach particular claims' payment monetary goals and adjusted over time. The report also identifies specific techniques that insurers can use to directly and indirectly produce "lowball" claims:

- **Directly reduce payments by a predetermined amount across-the-board**, without determining whether this will lead to unjustifiably low payments for individual claims.
- **Selectively remove higher-cost claims from data used to determine the acceptable range of payments for particular injuries**. This has the effect of lowering payments for all claims of this type.

- **Require insurance adjusters without medical training or credentials to second-guess medical professionals** by altering injury determinations, thus dictating lower payments for certain injuries.
- **Encourage adjusters to downplay or even ignore the likelihood that injured consumers will need future medical treatment or will be permanently impaired**, thus lowering payouts.
- **Encourage adjusters to determine that drivers are partly at-fault for the auto accident that injured them,** even when they may not be.

"Many of the concerns about Colossus and similar programs have focused on the potential for insurers to manipulate these systems directly in order to reduce claims' payouts," said Romano. "But insurers can also use many techniques to unjustifiably lower payments in a more subtle manner, by putting biased or incomplete information into the system."

The report includes excerpts from recently released court records in a major class action lawsuit, *Hensley v. Computer Sciences Corporation*, that reveal disturbing information about how Colossus and similar products are marketed to and used by insurance companies:

- **Insurers could adjust Colossus to produce virtually any claims' payment reduction they wanted, whether or not it was justified**. One CSC executive told the court that Colossus could be "tuned" to potentially achieve a particular level of savings, such as 15 percent, for all claims.
- **CSC claimed insurers could produce huge reductions in claims' payouts, which insurers achieved in many cases.** A CSC executive told the court that Colossus achieved savings of around 19 percent on overall claims payouts for some its insurer clients. Meanwhile, CSC's competitors, like the Insurance Services Office (ISO) claimed that they could maintain even higher savings over time.
- **CSC misled regulators about the purpose of Colossus**, claiming that main function of the product was to achieve consistent payouts rather than enormous claims' "savings," which might be illegitimate.

"These documents show that most of the nation's top insurers used the Colossus system in ways that put millions of American consumers at risk of not getting the claims payments that they paid for with their premiums," said J. Robert Hunter, CFA's Director of Insurance and former Federal Insurance Administrator and Texas Insurance Commissioner. "The documents also reveal, unfortunately, that top executives at these companies violated their obligation to deliver fair claims' payments to their own policyholders on a huge scale, in order to increase profits."

The report offers a number of recommendations to state insurance regulators to better protect consumers from insurers that manipulate Colossus and similar systems to unjustifiably reduce claims' payouts:

1. **Regulate <u>all</u> companies that sell claims' adjustment software products**, such as CSC. Currently, neither the states nor the National Association of Insurance Commissioners (NAIC) does this for all vendors of these products.

2. **Examine and monitor the use of computerized claims' assessment systems by major insurers.** The NAIC should thoroughly investigate methods that all large insurers can or do use to directly or indirectly reduce claims' payouts in an illegitimate manner. (The

NAIC and state-based regulators signed an agreement with Allstate in 2010 that required the company to make a few small changes in how it used Colossus.)

3. **Require insurers to notify consumers in writing that a computerized claims' assessment was used to process their claim and to provide a copy of the report generated by the system.** This will help injured consumers to determine if they received a fair payment.

"The NAIC examination of computer adjustment systems was incomplete and flawed," said Hunter. "They only investigated how a single company, Allstate, which used only one of these systems, Colossus. And their agreement with the company did little to change how Allstate adjusted Colossus to make claims' payments or to protect consumers from potential abuses."

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The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.