
# "From Good Hands to Boxing Gloves"
## The Dark Side of Insurance

*Review by Anthony J. Skemp*

I am one who believes that insurance companies are "full of it." They thrive on misinformation and cultivate a culture of cynicism in order to poison the jury pools; they hire highly respected actors to spew their outwardly magnanimous advertising slogans only to perpetuate lies about trial attorneys and lies about the system; they abandon their policyholders in their time of need by denying, defending and delaying legitimate claims. They do all of these things with one goal in mind – to inflate their own profits. One company notorious for acting in this fashion is Allstate Insurance. Such is the focus of this book by David J. Berardinelli.

This book focuses on Allstate's retention of the consulting firm McKinsey & Company in the early 1990's and how McKinsey subsequently changed Allstate's business model from one that served its policyholders into one that focuses on rewarding upper management and shareholders to the detriment of its policyholders. It is a scathing commentary on the procedures instituted by Allstate and a must read not only for any personal injury attorney who has any doubts about whether the calling they have chosen is a just one, but for any policyholder who is naïve enough to believe that their insurance carrier has their best interests in mind when evaluating claims and/or setting premiums.

For those of us not familiar with McKinsey, it was the same consulting firm hired by Enron and the same consulting firm that worked with numerous insurance companies who sought to increase their profits. McKinsey is also the entity that recommended the implementation of the computer evaluation system "Collosus." In short, McKinsey's insidious business practices created a Gordon Geko "greed is good" mentality at Allstate and other insurance companies that, according to the author, still exists today.

Prior to examining several slides that were included in McKinsey's initial presentation to Allstate; slides advocating treating policyholders, claimants and plaintiff attorneys with "boxing gloves," the book contains some interesting tidbits about Allstate's history. For example, did you know that Allstate debuted at a card table at the Chicago World's Fair in 1931? Since Allstate's original parent company Sears Roebuck received such an overwhelming response, it decided to begin putting agents inside its stores. Sears also created Allstate's motto, "You're in Good Hands," in an attempt to convey the "satisfaction guarantee" that built Sears into an American retailing icon.

Allstate built its business on that motto, and continued to operate responsibly under that motto until Sears restructured and spun-off Allstate in an attempt to raise capital. Allstate subsequently became the nation's largest publicly traded personal lines insurance company. This now meant that the value of Allstate's stock – and the stock options received by Allstate executives – was tied directly to Allstate's ability to increase its net profits and build the value of Allstate stock. Allstate subsequently hired McKinsey to help it achieve these goals. Unfortunately, caught in the middle of McKinsey's Gordon Geko "greed is good" business model were the Allstate policyholders – this new business model meant nothing more to them than excessive premiums combined with drastically reduced claims payments.

During its initial presentation, McKinsey proposed that Allstate completely revamp its claims process based upon an unproven assumption: that Allstate was, in fact, overpaying claims. McKinsey was confident that its plan could immediately reduce claims payouts by 5% to 15% "without too much grief from unsuspecting policyholders or ambivalent regulators." McKinsey knew that "only a fraction of Allstate's policyholders would ever come face-to-face with its new claim-handling tactics," so they would continue to pay higher-than-average premiums with little question, relying on Allstate's "carefully crafted illusion of trust and protection" that it had built up over the years.

McKinsey also knew that 80% of the claims payments Allstate made were for small to mid-sized claims worth between $1,500 to $15,000. Thus, McKinsey knew that Allstate could increase its net profits by "forcing *millions* of claimants to accept $3,000 to $4,000 less on claims worth between $8,000 and $12,000. McKinsey knew that this savings would add up to billions in extra profits for Allstate and its shareholders."

By revamping the claims process and implementing a zero sum "whatever it takes" mentality to increase profits – and by attempting to treat Allstate, an insurance company, like any other ordinary business – McKinsey created direct competition between Allstate's shareholders and its policyholders. Instead of putting the policyholder's (and the public's) interest of having legitimate claims paid fairly and promptly, McKinsey put the private interests of the shareholders first; a violation of both the indemnity and fiduciary principles of insurance – which the book discusses in further detail. Thus, according to the author, "[a]ny insurer who uses the claim process to take extra operating profits from the policyholder's claim fund is not doing its job honestly or charging a fair premium. It is shortchanging its policyholders and violating the public trust under which it is licensed to operate." Proof of this assertion can be found in Allstate's handling of the Katrina crisis and how it has since cancelled or refused to renew homeowner policies in several states.

Every time I see "Pedro Cerrano" telling me about Allstate's magnanimous "stand" for its policyholders, my stomach turns. This book fuels the proverbial "fire in the belly" that we as Plaintiff's lawyers must have if we are to zealously advocate on behalf of our injured clients. This book is an easy read and substantiates everything we as Plaintiff's lawyers know about the insidious nature of insurance companies and how they are currently handling claims and lawsuits. It also examines "Collosus" and suggests ways that we as Plaintiff's lawyers can "redefine the game" to put the policyholders back to where they belong. In short, this book should validate your decision to represent injured individuals and solidify your distrust of insurance companies. I respectfully submit that if this book does not evoke these thoughts and feelings, then you should be in another line of work.