

STATE OF MISSISSIPPI



JIM HOOD
ATTORNEY GENERAL

Attorney General Reaches Settlement with State Farm in State Court Insurance Lawsuit

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Jackson, MS--"After months of heated negotiations, I am happy to announce that our office has reached a settlement agreement with State Farm in our state court litigation," said Attorney General Jim Hood. "The settlement agreement will give Coastal policyholders an expedited alternative to waiting for a jury trial. In this litigation my goals were to require full disclosure of information in the claim files to the policyholders, change State Farm's unfair claims handling practices, require the reevaluation of the claims without the use of adjusters and engineers previously used, make a minimum offer to the slab owners and a new offer to those with lesser damage, provide an administrative process of arbitration where the arbiters are chosen fairly by both sides, and preserve the option of policyholders to opt out of the process and file a suit in court."

State Farm has agreed to the following demands in the Settlement Agreement filed in the Chancery Court of Hinds County: (1) upon request of the policyholder, provide full disclosure of all documents in their claim files, including multiple engineering reports; (2) upon request of the policyholder, independently reevaluate claims based on terms in our state court agreement without using previous adjusters and engineers; (3) in approximately 1,000 claims involving slabs, make a minimum offer equivalent to 50% of the structural policy limits, less payments previously made; (4) pay the costs of arbitration conducted by arbiters chosen by both sides; and (5) provide annual notice to policyholders that clearly explains that storm surge is not covered by homeowner or windstorm residential policies.

This administrative process will be carried out in a class action settlement under the supervision of the Honorable Judge L. T. Senter in the United States District Court for the Southern District of Mississippi. The process will require State Farm to send out a notice of the class, an opt out form, and a table showing the percentage of policy coverage limits a policyholder may receive based upon the amount of damage to the structure. The notice will clearly provide that the policyholder will receive \$200 for simply returning a registration form. The policyholder may opt out without the loss of any rights and pursue a remedy in court.

If the policyholder chooses to stay in the class, then State Farm will reevaluate the claim following the requirements set forth in our state court Settlement Agreement and make a new offer based upon the percentage of damage and the policy coverage limits. State Farm will not assert as a ground for the total denial of a claim that water contributed to the loss if wind damage occurred. State Farm will be required to show by a preponderance of the evidence that any damage denied was caused by an excluded peril. We believe that Judge Senter will enforce this standard based on his prior rulings.

Where only a slab or piers remain, then State Farm shall make a minimum offer of an amount equivalent to 50% of the structural policy limits. If the policyholder accepts the offer, then payment is made immediately. If the policyholder rejects the offer, then the case will quickly proceed to binding arbitration before fairly chosen arbiters. In cases where policyholders do nothing or fail to send back the opt out form, they will then be included in the class; however, they may later opt out, but lose their right to seek punitive damages.

State Farm has agreed to pay out a minimum \$50 million dollars to the members of the class. There is no cap on the amount that may be awarded. A rough estimate indicates that the minimum offers on the slabs alone will cost State Farm approximately \$80 million. State Farm will pay all costs associated with the arbitration process, except that policyholders will be required to pay their own expert and attorney fees.

"I hope that this settlement with State Farm will encourage other insurers to join the settlement, so that we can get a quick flow of capital into our Coastal Counties at this critical time," said Attorney General

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Hood. "This will help stabilize our economic recovery and the insurance market on our Coast, so that we can rebuild the lives, hopes and dreams of our beloved Coastal families and businesses. I just pray it all works quickly!"

The criminal investigation of State Farm's claims handling practices is now complete. "Although their activities warranted criminal investigation, our career prosecutors found that the matter would be better handled in civil court and in the United States Congress," said Attorney General Hood. "I believe that the election of the Democratic Congress forced the insurance industry to the bargaining table. I am confident that Congressmen Bennie Thompson, Gene Taylor and Barney Frank, along with Senator Trent Lott, will conduct a full Congressional investigation with hearings and hopefully pass a National Insurance Reform bill."

"We will continue to closely monitor how well State Farm handles the claims process," said Attorney General Hood. "Should any violation of the Settlement Agreement occur, then we will seek to enforce the terms in court."

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