Former Allstate claims manager offers insight into computerized auto injury payouts

Insurers say computerized claims valuation systems help them make fair payments; ex-manager says system can be manipulated

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Mark Romano can remember the moment in October 2010 that his life changed.

He was in his North Aurora home, on the Internet, Starbucks coffee in hand, when he saw the news about the outcome of a multistate investigation into Allstate Corp.'s methods for handling injury claims after automobile accidents. The Northbrook-based insurer agreed to pay $10 million as part of a settlement into its use of computer software to help determine payments to policyholders.

Having an insider's knowledge about industry practices, the former claims project manager was disappointed by what he believed was an incomplete examination and a financial slap on the wrist.

"At that moment, I knew that I could no longer remain silent and would have to find a way to warn consumers and the regulators of what had gone on," recalled Romano, who had taken an early retirement package from the nation's second-biggest auto insurer in August 2009.

For its part, Allstate says its claims handling complies with state laws and helps give "customers and claimants fair payments in a timely manner." The company said that its settlement with state insurance regulators found that the industry's use of software in claims handling "can provide significant benefits to the public in increased objectivity and efficiency." The settlement also stated that examiners found no systemic underpayment of bodily injury claims through Allstate's software, called Colossus.

The investigation, however, determined "the need for enhanced management oversight of Allstate's use of the" software program.

Romano insists such software programs can be manipulated, including by omitting the costliest incidents from settlement calculations, to produce low-ball offers to consumers.

Romano should know. His claims job at Allstate included working on the injury software that he is now criticizing.

"This is an admission that I did not feel that many of the things I was directed to do were proper and that I was hurting policyholders and claimants," he told the Tribune recently.

Today Romano is a whistle-blower of sorts, as the insurance claims projects director for nonprofit watchdog Consumer Federation of America.

In December, Romano spoke to the National Association of Insurance Commissioners in National Harbor, Md., about what he believes were flaws in the group members' 2010 settlement with Allstate. At the event, Romano, 54, was flanked by Robert Hunter, the federation insurance director whose work has been backed by consumer activist Ralph Nader.

"Mark Romano is a guy who knows from the inside what happens with claims," Hunter, 76, also a former Texas insurance commissioner, said in a recent interview.

The issue of claims payments takes on new resonance with superstorm Sandy, which pounded the East Coast last fall. A Staten Island couple whose home was damaged in the storm recently complained that Allstate had skimped on their claims payments while featuring their property in a feel-good advertisement.

In June, Romano and Hunter co-wrote a report for the consumer rights group titled "Low Ball: An Insider's Look at How Some Insurers Can Manipulate Computerized Systems to Broadly Underpay Injury Claims." Years ago, the payment of bodily-injury claims was based mostly on the knowledge of adjusters, but now many insurers increasingly rely on computer-based assessments.

Here's how such systems work, according to the "Low Ball" report: When an insurer buys the software, it conducts a "benchmark session" in which, with help from adjusters familiar with certain areas of the country, hypothetical claims are used to set the initial "tuning." The system that Allstate uses, Colossus, has about 600 codes representing various types of injuries, each of which has a dollar value settlement range. Periodically, an insurer might modify the software, perhaps removing or excluding certain outlying claims or settlements from the database. Those might include cases in which an insured driver has a major disfigurement.

By excluding that data, the recommended dollar settlement range to consumers is lower. The low end of the range is usually 20 percent less than the value of the claim being studied, Romano said.

Romano, a Tampa, Fla., native who has a bachelor's in risk management and insurance from Florida State University, began working at Allstate in 1999, when it acquired a unit of CNA Financial, his previous employer.

Romano, in an interview and in his "Low Ball" report, says he was Allstate's top Colossus expert. His work included "tuning" Colossus, upgrading the system, training employees on it, analyzing trends, and representing the company at industry conclaves about Colossus.

"Skewing occurred initially upon the installation of the product and continued via various methods," including subjective data scrubbing in which outliers were removed or in which adjusters picked injury codes that yielded lower settlement values, he told the Tribune.