

# **State Farm<sup>®</sup>**

**Statement of Domenic (Dom) Pellegrino**

**Special Investigative Unit**

**Team Manager**

**State Farm Insurance Companies**

**Canonsburg, PA Operations Center**

**Before the**

**Pennsylvania General Assembly**

**House Insurance Committee**

**Hearing on**

**House Bills 1736, 1737, 1739, 1740, 1750, and 2041**

**January 28, 2010**

**Testimony of Mr. Domenic Pellegrino, State Farm Insurance Companies**

Mr. Chairman; members of the Committee, my name is Domenic Pellegrino. I am a Claim Team Manager for State Farm Insurance, heading up a Special Investigative Unit. My office is located at our Southpointe Operations Center in Canonsburg, Pennsylvania, near Pittsburgh. My responsibilities include all types of claims throughout nine states in the Northeast. I manage a team of investigators in Pittsburgh, Philadelphia and upstate New York. State Farm is the largest Property and Casualty insurer in Pennsylvania.

State Farm truly appreciates the efforts of not only Chairman DeLuca, but Representatives Godshall and Barbin and all the co-sponsors for their willingness to introduce legislation to enhance Pennsylvania's existing fraud laws.

My team works very hard to identify possible cases of fraud, to gather all relevant information, to work with law enforcement and to help bring these cases to justice. That's because we work for our policyholders – to help them avoid being victimized, and to help keep the costs of their insurance down. We are very proud of the efforts of our team and we invest a great deal in training and other resources to support this effort.

You probably do not need to hear more analysis of these bills from me. But perhaps my experience can add some understanding of why it's important to enhance our insurance fraud laws. Today I would like to address three specific issues that affect insurers in the Commonwealth to effectively manage insurance fraud and its impact on all policyholders.

Immunity: In the investigative world, time is critical. We need information quickly to effectively fight fraud. When a claim is referred to my team for investigation, we are often limited in gathering all the information we might need, especially important information from other Special Investigative Units. We may be presented with files where there has been a major loss immediately after a new policy has been purchased, or there may be other indicators of a suspicious loss. Privacy restrictions and liability concerns make it difficult to share relevant information that could quickly resolve the indicators to the benefit of the customer. In addition, it also hampers our ability to quickly recognize individual customer fraud and organized fraud activity.

While we have access to -- and assist in funding -- the ISO database, this only provides a small snapshot of the claims. When we could really benefit from having a direct conversation with another carrier who might have been subjected to a fraudulent claim, they cannot talk to us about specifics. And if they call us for information, we are prevented from sharing specifics with them. This results in the more time-consuming process of submitting an NICB referral -- which may itself be based on incomplete information -- awaiting their acceptance and opening of an investigation before the needed information becomes available. While we have a great working relationship with the NICB and appreciate their efforts, many times this process delays an investigation and prevents us from getting thorough information that we need, quickly.

The proposed immunity language would help us greatly. It would allow a more open exchange of claim information between insurance carriers, but it will keep the exchange limited to Special Investigative personnel with specialized training for release of specific claim information.

Rate Evasion: Rate evasion, meaning the false reporting of an address to get a lower insurance rate, is a pervasive problem which has a real impact on premiums. We see many instances of rate evasion involving rural areas to larger cities and State to State rate evasion as well. Our agents with offices near our state borders are particularly vulnerable to this activity. When someone dishonestly reports information to get a lower rate, we all end up suffering with higher premiums. Not only is there a shortfall in the collection of the appropriate premium, but in the carrier's obligation to provide and pay other States higher limits of coverage when a loss occurs. Again, this leads to higher premiums for all customers.

For example, in New York, rates are obviously much higher than in the Pocono region of Pennsylvania. When a referral comes into the SIU to determine if rate evasion is occurring, we find an insured listed as a PA resident, but the vehicle may have a history of claims that happened in the Bronx, or another heavily populated New York area. Our field investigation reveals that the policyholder does not actually live at the PA address and none of the neighbors know this person or ever see the vehicle. Our New York investigation reveals that the insured actually lives there – yet the vehicle is identified with the PA plates. Not only does this activity result in higher claims payout and lower premium collection, but there is also the carriers cost of investigation in expenses and man hours to ferret out this activity.

We support legislative language that would strengthen penalties for rate evasion and help our law enforcement officials take decisive action that would send a strong message to others who might be considering this activity.

Towing: The issue of towing is also one where consistency and better control would benefit insurance customers. We recognize that most towing companies operate honestly. Unfortunately, we are still

seeing far too many instances where some towing companies do not adhere to local contact guidelines and others where no guidelines exist at all. These would include listed towing fees and additional fees including winching/recovery, accident debris clean up, and storage fees. We also see many instances of "captive" vehicles where an innocent insured is involved in an accident and is approached by a towing "chaser" who receives a commission for bringing work to a specific body shop. A tow authorization is signed by the insured, wanting to do the right thing at the scene and this turns out to be an authorization to complete the repairs when the insured had no intention of selecting this facility to repair the vehicle. The insurer is then confronted with paying exorbitant fees to get the vehicle released. At times, we must file a legal action called a Writ of Replevin to gain the release. Obviously, this results in higher claim costs which are considered in our rating structure.

We would prefer legislation that would standardize towing fees and associated charges; we realize that this may not be possible at this time but we would at least want to see more active enforcement of standards that are already in place; and we endorse legislation that would address the issues of capturing vehicles and commissions paid out for doing so when documented.

Finally, on a related note, I would like to add that State Farm supports a change to Pennsylvania's current homeowner non-renewal law, Act 205. As you know, our current law is unlike that of any other state – because it restricts insurers' ability to consider excessive loss history as a possible ground for cancelling a homeowner's policy. We believe some property owners are abusing the system and filing claim after claim, way out of proportion to the average. This, too, can be an indicator of fraud. We would ask the Committee to consider this issue as it looks at the overall issue of fraud.

Thank you, Mr Chairman and members of the Committee, for your time and courtesy in listening to our concerns. State Farm stands ready to provide any input or information from our experience as the State's largest insurer. I would be happy to answer any questions at this time.