



# State Farm Faces Criminal Investigation Over Hurricane Claims

**The Alleged Cover-up Relates to Claims for a Common Type of Roof Damage.**

**By MARK GREENBLATT**

**Sept. 7, 2012—**

State Farm Insurance, the nation's largest home insurer, faces a new criminal investigation in Texas related to how it handled potentially tens of thousands of hurricane claims there, ABC News has learned exclusively.

Gregg Cox, who leads the public integrity unit of the Travis County District Attorney's office in Austin, confirmed to ABC News his investigators recently launched the probe after reviewing newly released communications from top State Farm managers in Texas. Some of the same communications have led to lawsuits by customers who say they were defrauded by State Farm Lloyds, the Texas subsidiary of the larger insurance company.

The documents in question relate to an alleged cover-up by State Farm management related to its denial of consumer insurance claims for a common type of roof damage that occurs during high wind events and hurricanes.

Jim Warner, a longtime homeowner in Missouri City, Texas, had been a customer of State Farm Insurance for more than 20 years before finding himself in the center of the now brewing criminal investigation. He says he had never filed an insurance claim until Hurricane Ike in 2008 and had always paid his monthly bills to State Farm on time.

However, Warner filed suit against State Farm after he says the company did not follow through on its slogan that promises, "Like a good neighbor, State Farm is there." Warner always believed his policy would cover all types of damage to his roof, but when he went to file a claim he says he was shocked to learn that was not the case.

Warner's lawsuit alleges that State Farm documents establish a clear internal policy of intentionally denying consumer claims for roof damage similar to what Warner experienced. Warner's attorney, Steve Mostyn, claims the systematic denial of those types of claims may have quietly saved State Farm close to \$1 billion.

Mostyn says State Farm documents obtained in the lawsuit reveal an attempt by managers to hide the company's policy of non-payment from state insurance regulators.

"They absolutely went through an effort to cover it up," Mostyn said. "These emails are coming from the top. They're setting policy. And that policy by their own admission shows conclusively they have not paid thousands of people."

In Warner's case, his problems began after he says the high winds of Hurricane Ike caused the shingles on his roof to become "lifted." Those winds, Warner alleges in his suit, broke the seal under Warner's shingles that normally create a water-tight barrier. Warner says an independent adjuster he hired agreed the damage was extensive and recommended Warner's roof be replaced.

Warner alleges, however, State Farm repeatedly refused to admit the unsealed tabs were damage that should be paid under the policy. So Warner filed a consumer complaint with the Texas Department of Insurance, hoping the regulator could help. However, Warner's lawsuit says it was during that very investigation of his complaint to insurance regulators that State Farm began to cover up its practices of refusing to pay for this kind of damage.

ABC News reviewed documents obtained in the lawsuit including an initial draft of State Farm's response to insurance regulators about Warner's complaint. In that draft letter, State Farm clearly disclosed how the company did not pay for insurance claims related to broken seals on roofs, saying, "Regarding the detached seals, there is no coverage as this condition is not considered a physical loss."

However, when the "catastrophe section manager" for State Farm saw that statement written out, he directed it be removed from what state regulators would be told, instructing, "This letter needs to be revised to delete the reference to unseal tab."

The reference was subsequently removed, and that same catastrophe manager then forwarded the newly revised letter to other unnamed colleagues at State Farm "for your review" before it was sent off to the state.

Attorney Mostyn says State Farm fought hard to keep from having to disclose those and other documents, but lost the fight. He says other documents show the insurer attempting to delete other references to the company's policy of not paying lifted-shingles claims.

Warner's lawsuit alleges that nearly 100,000 people may have had their claims for similar problems wrongly denied, estimating that many additional consumers who did not hire independent investigators to inspect their roofs may be unaware they are actually damaged today and susceptible to problems in future windstorms.

Longtime Texas state Sen. Rodney Ellis reviewed many of the documents and communications.

"The documents are troubling, and very scary," Ellis said. "They tell a story that indicates there is a serious problem. I think law enforcement ought to step in and people ought to be held accountable."

Ellis says he had received many complaints from his own constituents about similar problems and had previously asked the Texas insurance commissioner to launch a widespread investigation of State Farm. While he says that has not happened to date he welcomes the Travis County criminal probe.

Ellis has successfully called other insurance companies to task on the very same issue of not paying for lifted shingles damage. He previously called for a civil investigation by the Texas Department of Insurance against the Texas Windstorm Insurance Agency and its sister company the Texas Fair Plan Association, alleging a similar organized pattern of non-payment of lifted-shingle claims. The resulting investigation ultimately led to enforcement action by the Texas Department of Insurance against both companies. The state regulator required each of those companies to go back and reevaluate claims and pay for, among other things, shingles lifted and unsealed by hurricane force winds on roofs.

ABC News has confirmed grand jury subpoenas have been served to State Farm.

"We have requested a large amount of information from them, and they are complying with our requests," said Gregg Cox of the Travis County D.A.'s office.

State Farm declined an interview request for this story. However, the insurer said in a statement that, "State Farm Lloyds is cooperating fully with the Travis County investigation and has successfully settled the majority of civil litigation involving Hurricane Ike claims. To date, we have paid policyholders more than \$1.5 billion dollars, much of which went to repair or replace roofs. We have been actively working to resolve questions related to roofing shingle claims. We will continue these efforts to maintain the trust of Texas homeowners, of which more than one in six has placed their confidence in State Farm Lloyd's to protect their homes."

State Farm Lloyds says it will soon file papers with the court disputing the claims made in the Warner's recently amended lawsuit.

*The criminal investigation by the Travis County District Attorney's office is focused on State Farm's actions in Texas. ABC News will be looking into stories and complaints from consumers who live in other states. If you have something you would like to share you can email [Mark Greenblatt](#).*

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