THREE KEYS TO CCPR SUCCESS

- Learn, understand, believe the fact base

- Learn understand and apply the processes with integrity and vigor

- Model/demonstrate the behavior with passion through relentless measurement, work ethic and positive rewards and recognition

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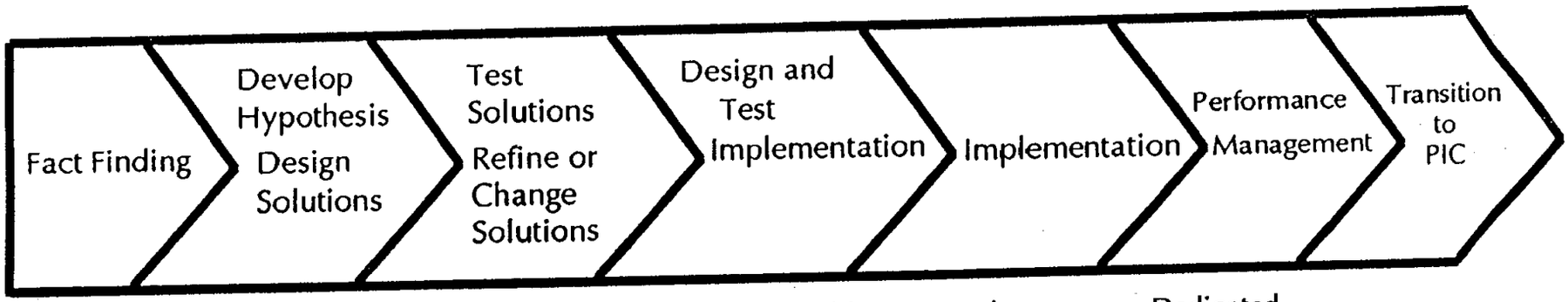
- Critical that you understand... Throw out old thinking

CCPR METHODOLOGY



- Reviews
- Reinspections
- Focus groups
- Customer interviews
- Employee interviews

- Debriefs
- Potential solutions
- Front line/ CCPR

- Front line based
- Structured analysis

- Highly structured
- Consistent
- Front line based

- Dedicated leadership
- Measurement
- Compensation
- Recognition

Fact Based

Design and Develop at Front Line

Proven Approaches

High Involvement

Relentless

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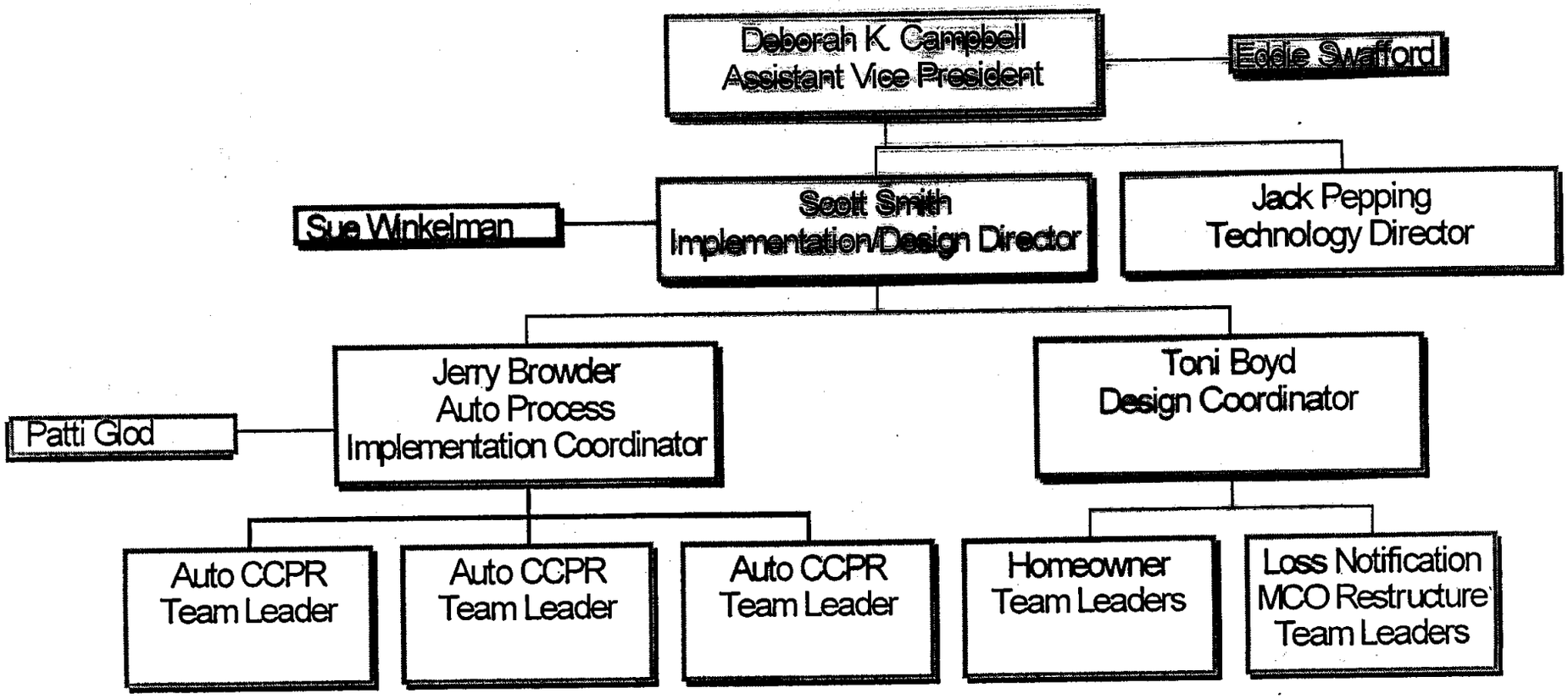
P-C CLAIM SERVICE ORGANIZATION
CLAIM CORE PROCESS REDESIGN



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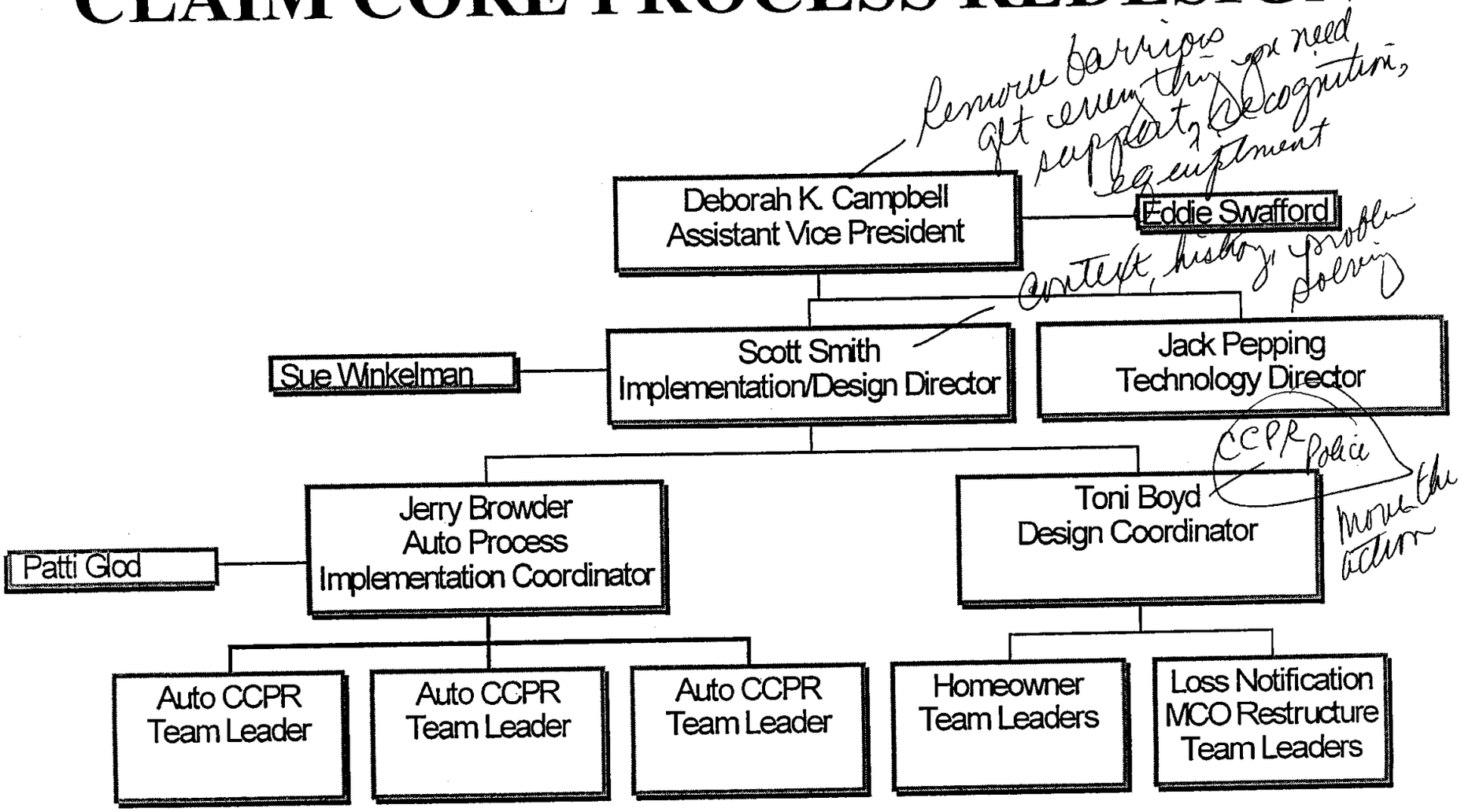

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ALLSTATE PERSONAL LINES – CCPR BENEFIT PROJECTIONS

$ Millions

		1995	1996	1997	1998	1999
50% opportunity captured	Casualty	76	182	265	319	345
	Auto PD		76	216	352	425
	Owners		37	86	120	139
	Gross savings	76	295	567	791	909
	Expense	15	59	97	102	108
	Net savings	61	236	470	689	801

		1995	1996	1997	1998	1999
67% opportunity captured	Casualty	102	244	355	428	463
	Auto PD		102	289	472	570
	Owners		50	115	161	186
	Gross savings	102	396	759	1,061	1,219
	Expense	15	59	97	102	108
	Net savings	87	337	662	959	1,111

Key assumptions

- Includes casualty (BI/UM coverages), auto physical damage, homeowners
- Auto PD and homeowners implementation timelines tracks casualty experience

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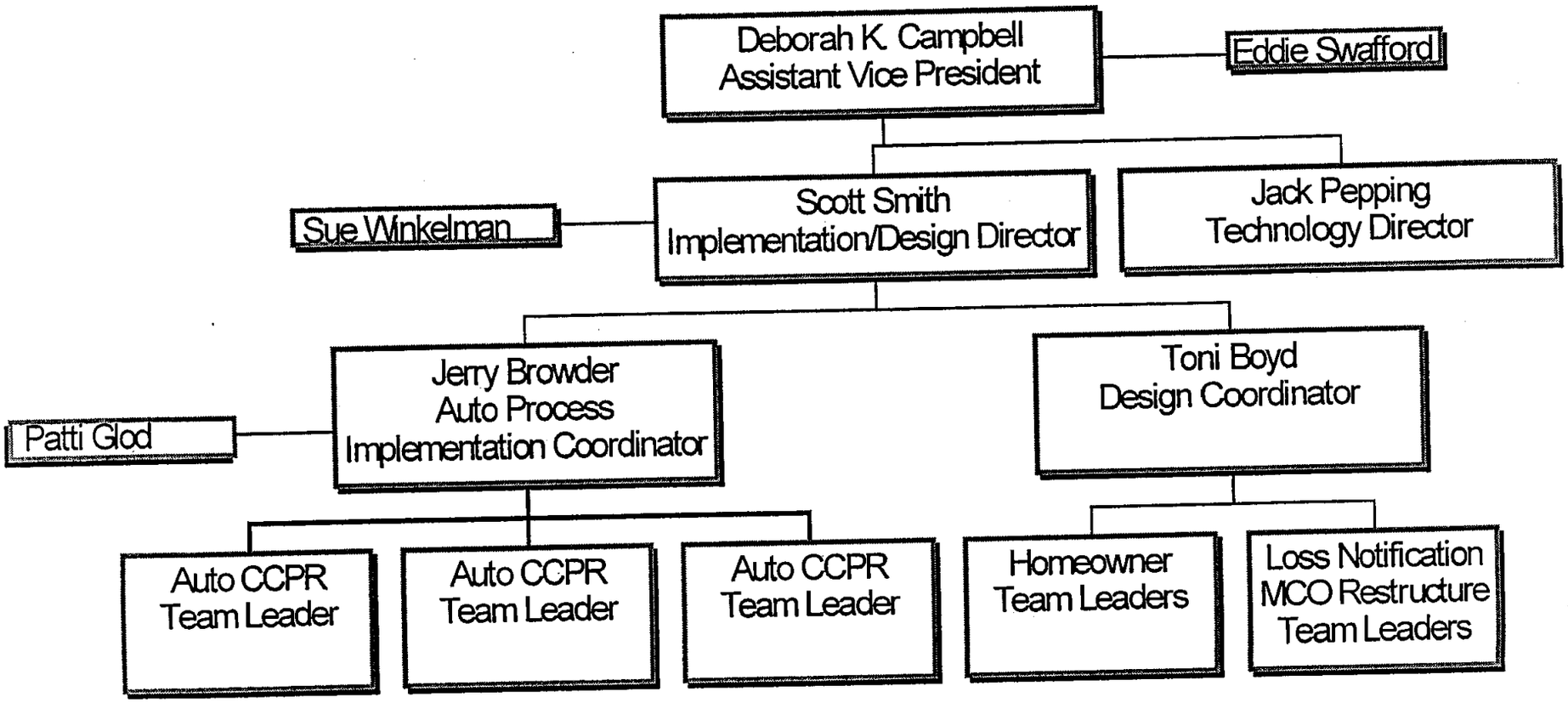
P-C CLAIM SERVICE ORGANIZATION
CLAIM CORE PROCESS REDESIGN



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HO CCPR
SEPTEMBER, 1996

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CONFIDENTIAL

Putting Out the Fire (Process)

ALLSTATE INSURANCE COMPANY

Team debrief

September 1996

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FIRE PROCESS KEY FINDINGS

- **The current Fire Gap process was implemented in response to adverse severity trends in 7 CSAs. Preliminary results initially appear highly variable, but on balance positive**
- However, the team believes
  - The existing fact base is too limited in terms of sample size to support a broad-based redesign effort and perhaps dated
  - Uncertainty of loss type (e.g., extent of damages) distribution hampers our ability to address opportunity
  - Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign
  - It is unclear if the new Fire Gap process addresses the appropriate areas of opportunity within fire
- Therefore, the team recommends an enhanced analytic phase consisting of 3 primary steps
  - Verify the loss type distribution through a home-office-based analysis
  - Conduct a scan of Fire Gap test sites
  - Expand fact finding (e.g., file review, interviews) to non-test sites

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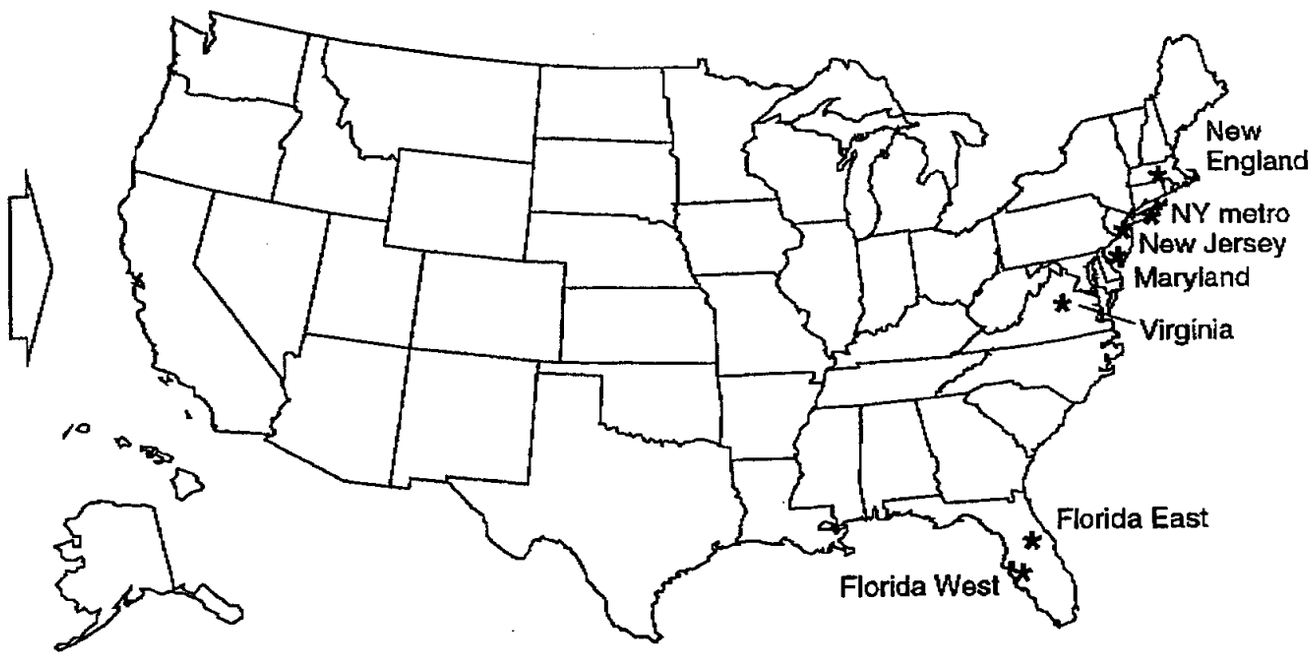
The current Fire Gap process was implemented in seven CSAs in response to adverse severity trends.

FIRE GAP TEST

Background
- 7 CSAs experience +30.0% increases in fire severity over prior year
- Countrywide number = +6.8%



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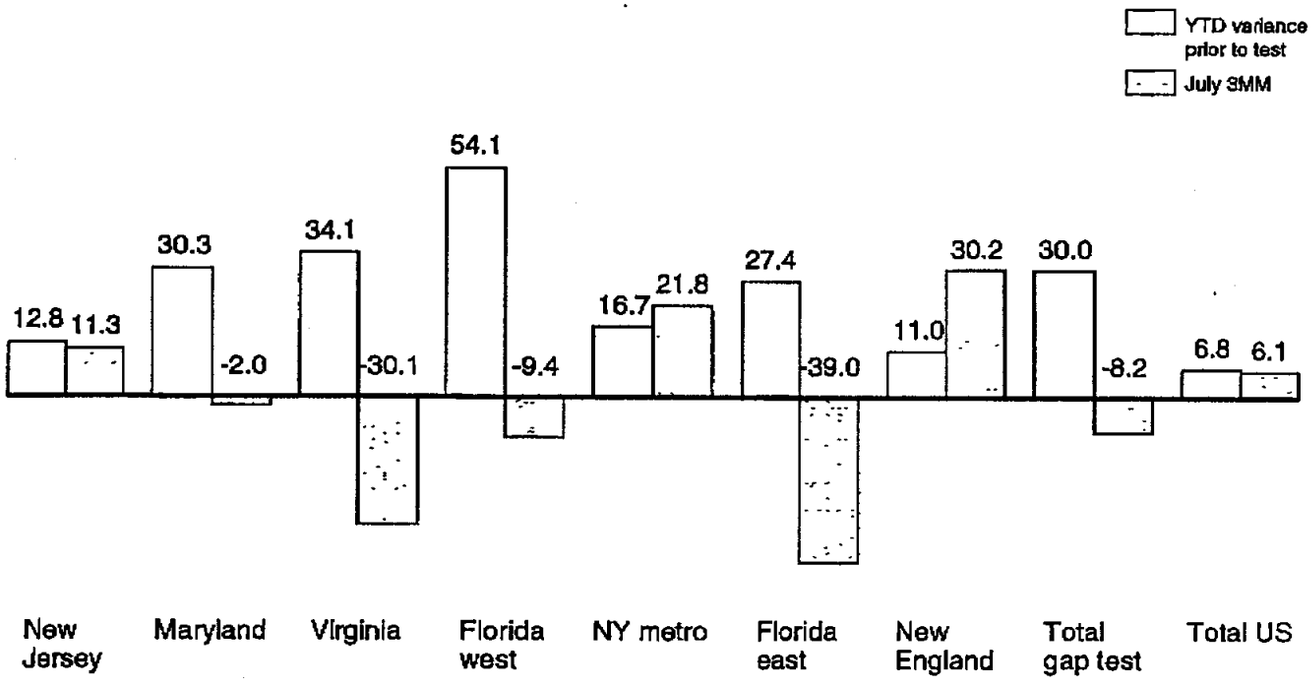
The results are highly variable, but on balance positive.

FIRE GAP PROCESS RESULTS



Source: PIC Fire Team

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The high variability in results highlights several measurement-related issues.

ISSUES SURROUNDING THE EXISTING MEASUREMENT

- A limited time frame – 2-3 months of data
- The lack of ability to track Fire Gap process losses vs. total F/L losses (e.g., prior to process implementation)
- Lack of comparable baselines for operational measures

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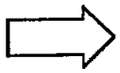

- **However, the team believes**
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  - **Uncertainty of loss type (e.g., extent of damages) distribution hampers our ability to address opportunity**
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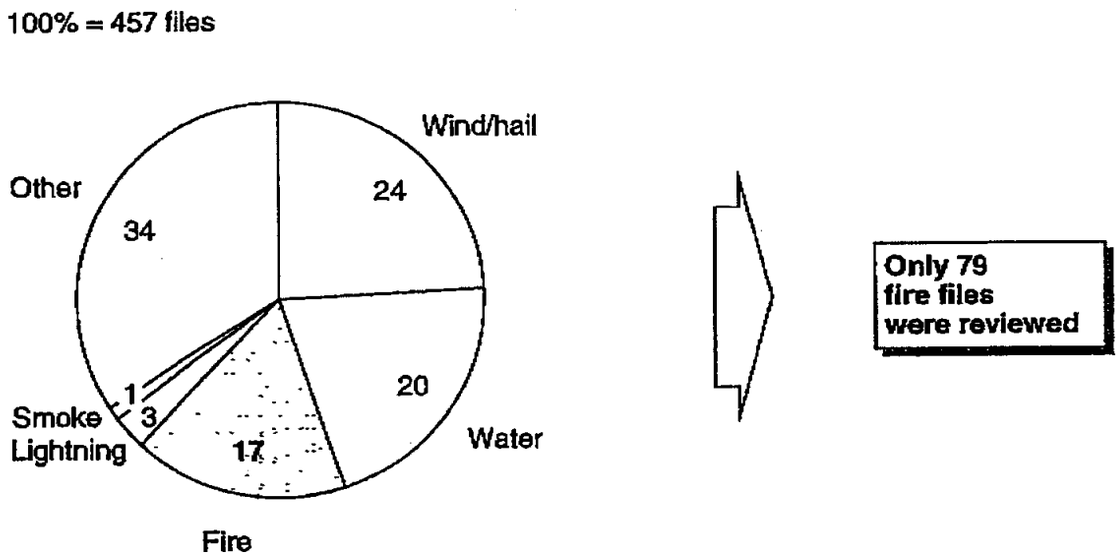
The existing fact base is too limited in terms of sample size to support a broad-based redesign.

HIT SURVEY SAMPLE

Percent; number of files reviewed



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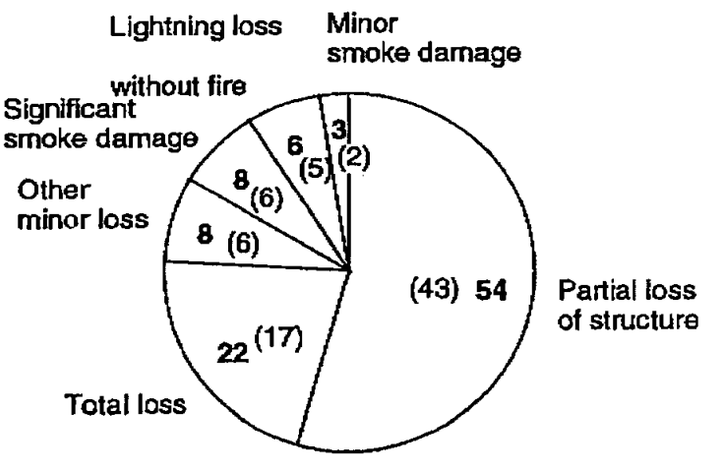
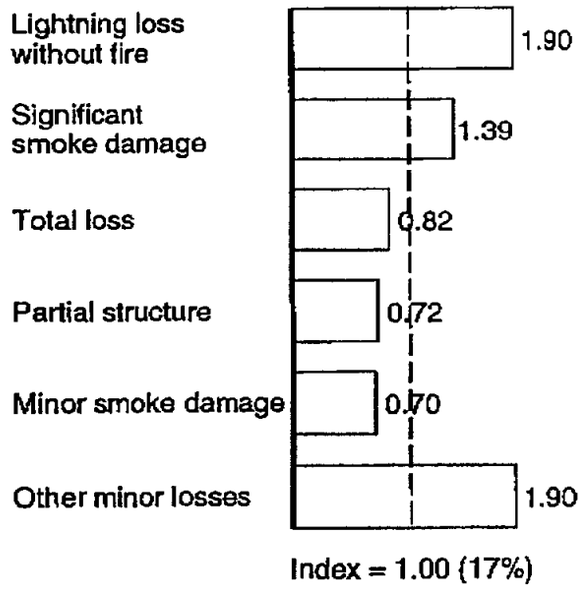
It appears that the opportunity varies dramatically by loss type, suggesting the need for segmenting fire losses. However, the sample size within each segment is currently too small to draw definitive conclusions.

OPPORTUNITY BY LOSS TYPE

Fire loss distribution
Percent; (number)



Opportunity relativity
Index = 1.00



Source: Homeowners claims closed file review

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Furthermore, a number of initiatives have been launched that may make the initial findings a bit dated.

RECENT INITIATIVES

- Reduction of QVP usage as indicated by the PIC and supported by field measurements
- Process change requiring ACV settlements (when applicable) vs. FRC settlements and supporting measures
- Mandatory use of ALE worksheet
- Mandatory use of subro filters and templates

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Secondly, the team has questions regarding the segmentation approach and distribution.

SEGMENTATION ISSUES

- Do the existing categories represent the best approach to segmentation?
- Does the sample distribution reflect the distribution in the population?

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Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign.

OPEN ISSUES

PRELIMINARY

- Does the opportunity for contents vs. structure differ dramatically for fire losses?
- How should ALE be handled?
- Does timely inspection drive loss cost?
- Should there be fast track settlements? If so, at what dollar level or nature of claim?
- Who determined the cause and origin? Was this the proper person? Was this done on a timely basis?
- What impact does FRC payments have on the overall evaluation?
- How proactively are we handling files and does it make a difference?

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More specifically, on the proactive vs. reactive issue, we hope to address several key points.

PROACTIVE VS. REACTIVE MANAGEMENT OF LOSSES

Issue	Proactive	Reactive
Scope	We inspect and scope	QVP/contractor scopes
ALE	Up-front discussions and agreement with customers	Down the road
Contents	Up-front inventory with photos	Insured submits inventory to us at a later date
Causation	On-sight with experts	Await expert report
Management involvement	Up-front coaching and direction	30-day review

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Finally, at this time we are uncertain if the existing Fire Gap process addresses the appropriate areas of opportunity.

FIRE LOSS PROCESS

	Notifi-cation	Coverage	Investi-gation	Fraud	Evaluation	Negotia-tion	Replace-ment	Litigation manage-ment	Recovery	CAT	
Key findings											
Percent of total fire opportunity	3	7	18	4	28	9	5	3	22	1	= 100
Percent of total property opportunity	0.51	1.19	3.06	0.68	4.76	1.53	0.85	0.51	3.74	0.17	= 17

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Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY

	Notification	Coverage	Investigation	Fraud	Evaluation	Negotiation	Replacement	Litigation management	Recovery	CAT
Qualitative findings	• Large losses – Quick timely response – Control of loss upfront • Smaller losses – Delay in insured contact – Loose control upfront	None	• PA's involvement cause and origin suffered • Accepting fire marshal report • No separate C&O report done • Loss of evidence • Little documentation on mid-size losses • Who determined C&O?	None	**Dwelling** • QVP writing losses instead of adjustor • Taking submitted estimates • Limited inspections **Contents** • Taking inventory listing from insured • Limited verification of inventory • Replacement costs poorly researched if at all • Contents poorly controlled and evaluated **ALE** • No control on most claims • Small losses – normal expenses not deducted • Lead to ALE worksheet	• Lacking when adjustor inspects with QVP • PA involvement	• Little use of national RS for contents evaluation	• Disregarded defense counsel calling shots	• Direct result of investigation	None

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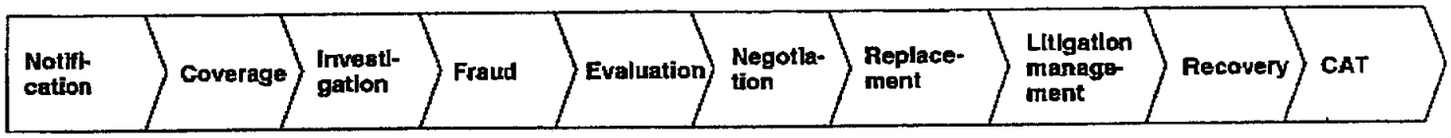
Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY



Additional hypothesis	• Establish screening method • Contact require-ments on all losses • MOT	• TBD	• Eliminate fast track handling • Qualified C&O reps should determine cause of loss when cost effective • Verifi-cation of cause of loss by claim rep • Secure evidence appropriately	• TBD	• Enhance ALE control • Enhance contents control • Eliminate fast track handling • Proactive loss costs manage-ment • Adjustor scope damages and prepare estimate	• Eliminate joint inspec-tions with QVP/ other contrac-tors • Eliminate fast track handling • Training on PA handling	• Utilize national replace-ment source data where applicable • Research compe-titive pricing on contents items through other means	• Speciali-zation/ segment handling	• Eliminate fast track handling • Directly tied to investi-gation • Transfer file to subro in timely manner • 2nd look subro

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Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY

	Notifi-cation	Coverage	Investi-gation	Fraud	Evaluation	Negotia-tion	Replace-ment	Litigation manage-ment	Recovery	CAT
What fire process addresses	• Timely contact with insured based on extent of damages (per tier specifi-cations)	• Verify coverage is in effect • Rule out question-able circum-stances • Address limits that apply and/or excluded property	• Subro filter/ templates • Fire process consul-tation worksheet	• Initial SIU filter	• Evaluation worksheet – Carpet – process checklist non-ITEL claims – Contents – worksheets – Structure – TL evaluation • ALE worksheet	• Not addre-ssed	• Contents worksheet	• Not addre-ssed	• Subro filter/ templates	• Not addre-ssed
Is this measured in fire process?	• Yes	• Yes	• Yes	• No	• Yes	• No	• No	• No	• Yes	• No

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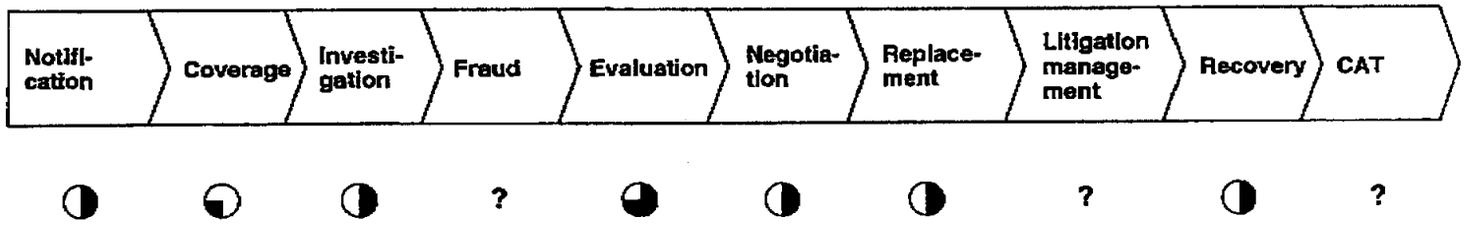
Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY



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FIRE PROCESS KEY FINDINGS

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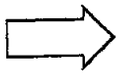

- **Therefore, the team recommends an enhanced analytic phase consisting of 3 primary steps**
  - **Verify the loss type distribution through a home-office-based analysis**
  - **Conduct a scan of Fire Gap test sites**
  - **Expand fact finding (e.g., file review, interviews) to non-test sites**

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The team recommends an enhanced analytic phase consisting of three primary steps.

RECOMMENDED APPROACH

Verify loss type distribution	Conduct scan of Fire Gap test sites	Expand fact finding to new test sites
Description		
• Using systems data, profile fire losses by taking a representative sample • Utilize output to determine appropriate sampling for additional analyses and provide foundation for staffing model	• Interview claim reps, managers, and process specialists – Understand the process – Surface further opportunity areas – Verify methodology of implementation and compliance with processes • Review files in the process (both open and closed) – Understand process further – Gauge process effectiveness – Test modified review form(s) – Enhance sample size – Identify remaining opportunity areas/issues	• Increase sample sizes in light of distribution and open issues by conducting open and closed file reviews at 3 to 6 additional sites • Conduct interviews with claim reps, management, and CPS – surface areas of opportunity and process possibilities

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VERIFY LOSS TYPE DISTRIBUTION

Fire loss distribution survey (FLDS)

1. Claim number
2. Cause of loss
3. Amount paid (including deductible) – AA, BB, CC, DD, other
4. Line code
5. Peril code
6. Extent of damage

Parameters	Types
Total loss	75% of AA coverage or higher
Major fire	$15,000 to total loss
Moderate fire	$2,501 to $15,000
Minor fire	$1 to $2,500
Severe smoke damage	$2,500+
Minor smoke damage	$1 to $2,500
Lightning without fire	

Approach

- Pull all information off the claims systems
- Supplement with file look-ups for cause of loss when necessary
- Profile by
  - Cause of loss
  - Extent of damage
  - Amount paid
- Look for variability by regions
- Draw conclusions/implications

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The team recommends a work plan for the analytical phase.

VERIFY LOSS TYPE DISTRIBUTION

Activity	Responsibility	Sep 9	16	23	30	Oct 7	14	21	28	Nov 4	11	18	25
Identify and obtain additional data • Percent contents paid to total fire paid • Percent of PAC activity • Total paid/average paid fire gap process losses • List of 500 fire loss files	Jeanice and Paul (economic team)	X											
Design audit form/FLDS • Fire loss specific • Defined measure of fire loss distribution	Jeanice	X											
Conduct review • Systems list (UCAP) • Home office review of unsegmented files	Fire team		X										
Compile data and analyze results • Loss segmentation • Paid by coverage	Jeanice		X										
Develop further hypothesis as needed • Team calibration	Fire team		X										

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The team recommends a preliminary plan for additional analysis of the fire gap process.

CONDUCT SCAN OF FILE GAP PROCESS TEST SITES

Activity	Responsibility	Sep 9	16	23	30	Oct 7	14	21	28	Nov 4	11	18	25
Design interview guides • Front line employees • MCO management • Claim process specialists	Jeanice and Paul	X											
Design file review form to address specific areas • Contents evaluation • ALE evaluation • Loss management (proactive vs. reactive) • Loss segmentation	Chrisse and Mike	X											
Proof the review form and calibrate team members • Test local – Illinois CSA – 20 files • Revise form as needed	Fire team		X										
Arrange for fact finding • File selection 20-25 per site • Select sites (4 – NY metro, New England, Florida East, Florida West) • Schedule fact finding	Chrisse	X											
Train review teams (as necessary)	Fire team		X										
Visit sites 2-2 1/2 days per site • File review • Interview	Fire team			X									
Debrief nightly	Fire team			X									

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Additional analysis of fire loss handling in non-test sites is recommended to gain further understanding and to surface additional hypothesis.

EXPAND FACT FINDING TO NON-TEST SITES

Activity	Responsibility	Sep 9	Sep 16	Sep 23	Sep 30	Oct 7	Oct 14	Oct 21	Oct 28	Nov 4	Nov 11	Nov 18	Nov 25
Arrange for fact finding • Select sites (4 – Denver, So. Cal., Texas, Valley Forge) • File selection – 20-25 files per site • Schedule visits	Chrisse		X										
Visit sites • File review • Interviews	Fire team				X								
Team debrief – nightly	Fire team				X								
Compile data • Analyze results • Develops further hypothesis	Fire team						X						
Develop plans for further analysis (if necessary)	Fire team						X						
Formal debrief	Fire team						X						

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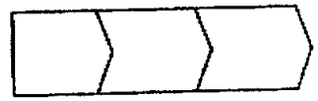

VERIFY LOSS TYPE DISTRIBUTION

Fire loss distribution survey (FLDS)

1. Claim number
2. Cause of loss
3. Amount paid (including deductible) – AA, BB, CC, DD, other
4. Line code
5. Peril code
6. Extent of damage

Parameters	Types
Total loss	75% of AA coverage or higher
Major fire	$15,000 to total loss
Moderate fire	$2,501 to $15,000
Minor fire	$1 to $2,500
Severe smoke damage	$2,500+
Minor smoke damage	$1 to $2,500
Lightning without fire	

Approach

- Pull all information off the claims systems
- Supplement with file look-ups for cause of loss when necessary
- Profile by
  - Cause of loss
  - Extent of damage
  - Amount paid
- Look for variability by regions
- Draw conclusions/implications

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The team recommends a work plan for the analytical phase.

VERIFY LOSS TYPE DISTRIBUTION

Activity	Responsibility	Sep 9	16	23	30	Oct 7	14	21	28	Nov 4	11	18	25
Identify and obtain additional data • Percent contents paid to total fire paid • Percent of PAC activity • Total paid/average paid fire gap process losses • List of 500 fire loss files	Jeanice and Paul (economic team)	X											
Design audit form/FLDS • Fire loss specific • Defined measure of fire loss distribution	Jeanice	X											
Conduct review • Systems list (UCAP) • Home office review of unsegmented files	Fire team		X										
Compile data and analyze results • Loss segmentation • Paid by coverage	Jeanice		X										
Develop further hypothesis as needed • Team calibration	Fire team		X										

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The team recommends a preliminary plan for additional analysis of the fire gap process.

CONDUCT SCAN OF FILE GAP PROCESS TEST SITES

Activity	Responsibility	Sep 9	16	23	30	Oct 7	14	21	28	Nov 4	11	18	25
Design interview guides • Front line employees • MCO management • Claim process specialists	Jeanice and Paul	X											
Design file review form to address specific areas • Contents evaluation • ALE evaluation • Loss management (proactive vs. reactive) • Loss segmentation	Chrisse and Mike	X											
Proof the review form and calibrate team members • Test local – Illinois CSA – 20 files • Revise form as needed	Fire team		X										
Arrange for fact finding • File selection 20-25 per site • Select sites (4 – NY metro, New England, Florida East, Florida West) • Schedule fact finding	Chrisse	X											
Train review teams (as necessary)	Fire team		X										
Visit sites 2-2 1/2 days per site • File review • Interview	Fire team			X									
Debrief nightly	Fire team			X									

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Additional analysis of fire loss handling in non-test sites is recommended to gain further understanding and to surface additional hypothesis.

EXPAND FACT FINDING TO NON-TEST SITES

Activity	Responsibility	Sep 9	Sep 16	Sep 23	Sep 30	Oct 7	Oct 14	Oct 21	Oct 28	Nov 4	Nov 11	Nov 18	Nov 25
Arrange for fact finding • Select sites (4 – Denver, So. Cal., Texas, Valley Forge) • File selection – 20-25 files per site • Schedule visits	Chrisse		X										
Visit sites • File review • Interviews	Fire team				X								
Team debrief – nightly	Fire team				X								
Compile data • Analyze results • Develops further hypothesis	Fire team						X						
Develop plans for further analysis (if necessary)	Fire team						X						
Formal debrief	Fire team						X						

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Putting Out the Fire (Process)

ALLSTATE INSURANCE COMPANY

Team debrief

September 1996

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FIRE PROCESS KEY FINDINGS

- **The current Fire Gap process was implemented in response to adverse severity trends in 7 CSAs. Preliminary results initially appear highly variable, but on balance positive**
- However, the team believes
  - The existing fact base is too limited in terms of sample size to support a broad-based redesign effort and perhaps dated
  - Uncertainty of loss type (e.g., extent of damages) distribution hampers our ability to address opportunity
  - Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign
  - It is unclear if the new Fire Gap process addresses the appropriate areas of opportunity within fire
- Therefore, the team recommends an enhanced analytic phase consisting of 3 primary steps
  - Verify the loss type distribution through a home-office-based analysis
  - Conduct a scan of Fire Gap test sites
  - Expand fact finding (e.g., file review, interviews) to non-test sites

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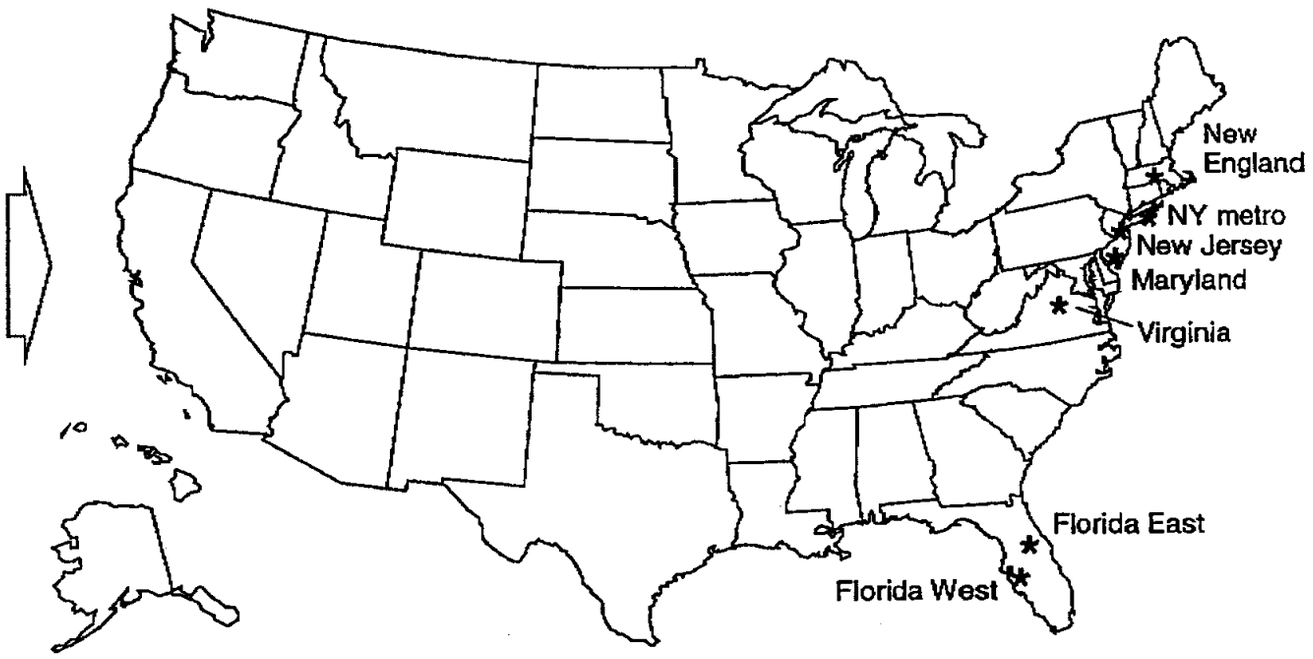
The current Fire Gap process was implemented in seven CSAs in response to adverse severity trends.

FIRE GAP TEST

Background
- 7 CSAs experience +30.0% increases in fire severity over prior year
- Countrywide number = +6.8%



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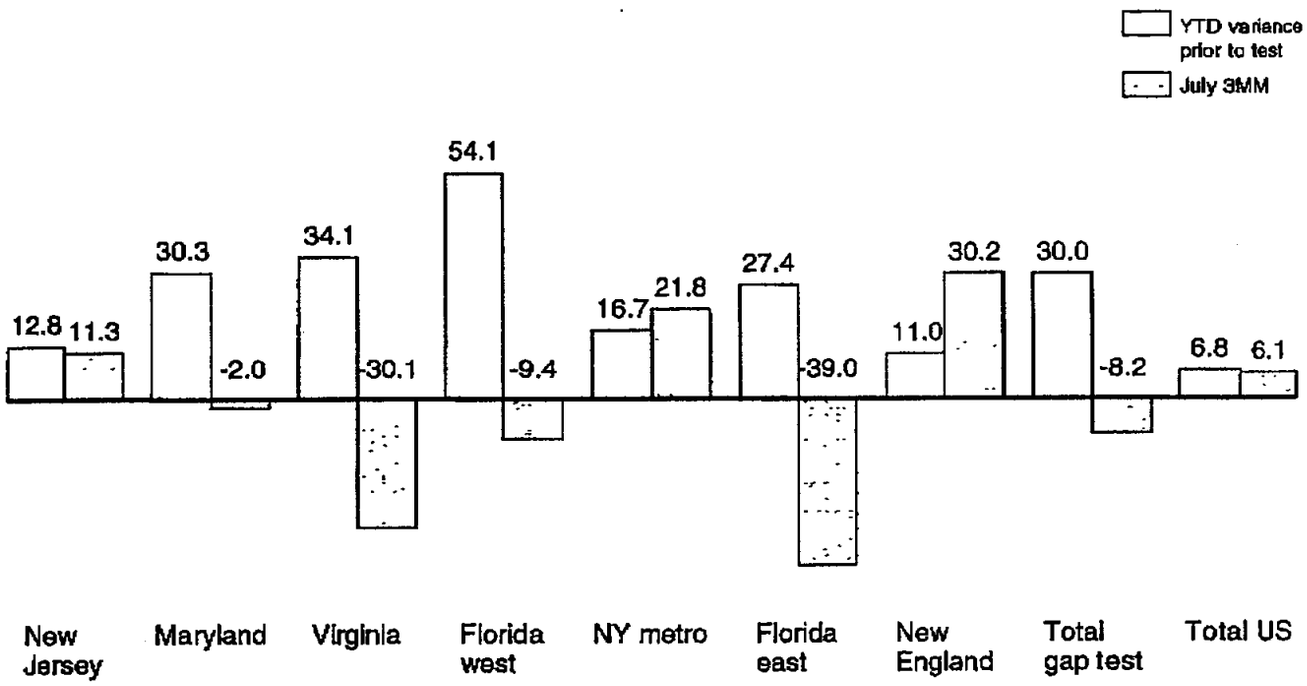
The results are highly variable, but on balance positive.

FIRE GAP PROCESS RESULTS



Source: PIC Fire Team

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The high variability in results highlights several measurement-related issues.

ISSUES SURROUNDING THE EXISTING MEASUREMENT

- A limited time frame – 2-3 months of data
- The lack of ability to track Fire Gap process losses vs. total F/L losses (e.g., prior to process implementation)
- Lack of comparable baselines for operational measures

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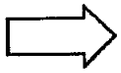
FIRE PROCESS KEY FINDINGS

- The current Fire Gap process was implemented in response to adverse severity trends in 7 CSAs. Preliminary results initially appear highly variable, but on balance positive



- **However, the team believes**
  - **The existing fact base is too limited in terms of sample size to support a broad-based redesign effort and perhaps dated**
  - **Uncertainty of loss type (e.g., extent of damages) distribution hampers our ability to address opportunity**
  - **Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign**
  - **It is unclear if the new Fire Gap process addresses the appropriate areas of opportunity within fire**
- Therefore, the team recommends an enhanced analytic phase consisting of 3 primary steps
  - Verify the loss type distribution through a home-office-based analysis
  - Conduct a scan of Fire Gap test sites
  - Expand fact finding (e.g., file review, interviews) to non-test sites

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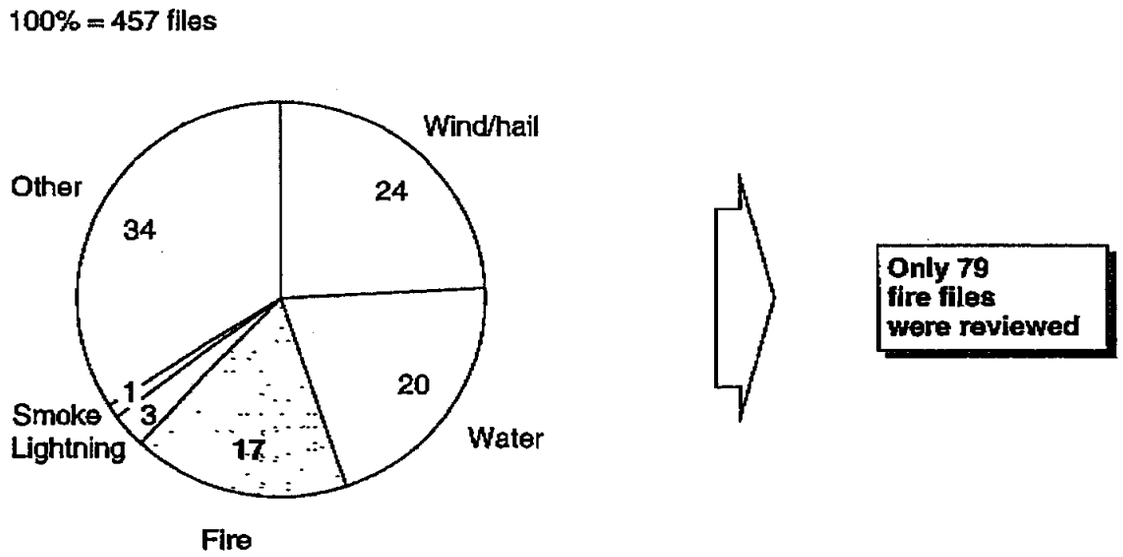
The existing fact base is too limited in terms of sample size to support a broad-based redesign.

HIT SURVEY SAMPLE

Percent; number of files reviewed



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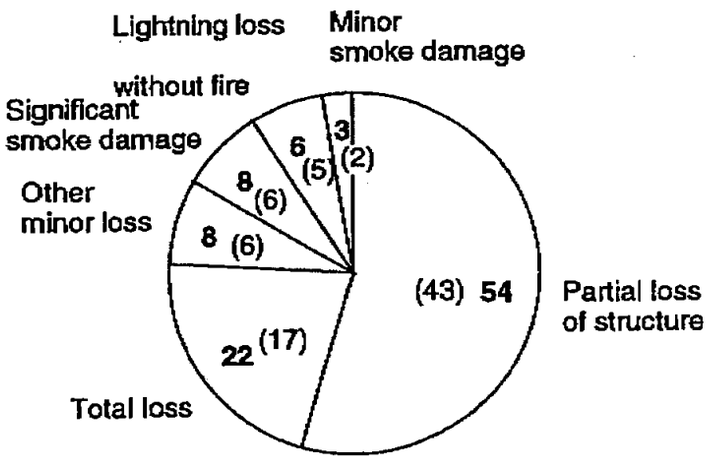
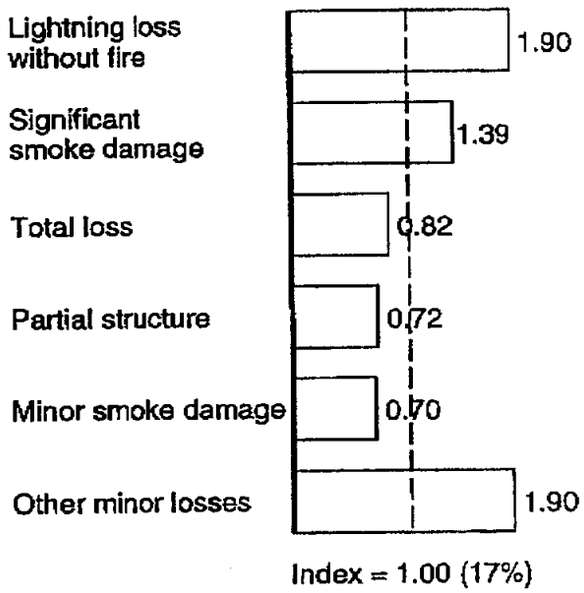
It appears that the opportunity varies dramatically by loss type, suggesting the need for segmenting fire losses. However, the sample size within each segment is currently too small to draw definitive conclusions.

OPPORTUNITY BY LOSS TYPE

Fire loss distribution
Percent; (number)



Opportunity relativity
Index = 1.00



Source: Homeowners claims closed file review

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Furthermore, a number of initiatives have been launched that may make the initial findings a bit dated.

RECENT INITIATIVES

- Reduction of QVP usage as indicated by the PIC and supported by field measurements
- Process change requiring ACV settlements (when applicable) vs. FRC settlements and supporting measures
- Mandatory use of ALE worksheet
- Mandatory use of subro filters and templates

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Secondly, the team has questions regarding the segmentation approach and distribution.

SEGMENTATION ISSUES

- Do the existing categories represent the best approach to segmentation?
- Does the sample distribution reflect the distribution in the population?

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Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign.

OPEN ISSUES

PRELIMINARY

- Does the opportunity for contents vs. structure differ dramatically for fire losses?
- How should ALE be handled?
- Does timely inspection drive loss cost?
- Should there be fast track settlements? If so, at what dollar level or nature of claim?
- Who determined the cause and origin? Was this the proper person? Was this done on a timely basis?
- What impact does FRC payments have on the overall evaluation?
- How proactively are we handling files and does it make a difference?

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More specifically, on the proactive vs. reactive issue, we hope to address several key points.

PROACTIVE VS. REACTIVE MANAGEMENT OF LOSSES

Issue	Proactive	Reactive
Scope	We inspect and scope	QVP/contractor scopes
ALE	Up-front discussions and agreement with customers	Down the road
Contents	Up-front inventory with photos	Insured submits inventory to us at a later date
Causation	On-sight with experts	Await expert report
Management involvement	Up-front coaching and direction	30-day review

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Finally, at this time we are uncertain if the existing Fire Gap process addresses the appropriate areas of opportunity.

FIRE LOSS PROCESS

	Notification	Coverage	Investigation	Fraud	Evaluation	Negotiation	Replacement	Litigation management	Recovery	CAT	
Key findings											
Percent of total fire opportunity	3	7	18	4	28	9	5	3	22	1	= 100
Percent of total property opportunity	0.51	1.19	3.06	0.68	4.76	1.53	0.85	0.51	3.74	0.17	= 17

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Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY

	Notification	Coverage	Investigation	Fraud	Evaluation	Negotiation	Replacement	Litigation management	Recovery	CAT
Qualitative findings	• Large losses – Quick timely response – Control of loss upfront • Smaller losses – Delay in insured contact – Loose control upfront	None	• PA's involvement cause and origin suffered • Accepting fire marshal report • No separate C&O report done • Loss of evidence • Little documentation on mid-size losses • Who determined C&O?	None	**Dwelling** • QVP writing losses instead of adjustor • Taking submitted estimates • Limited inspections **Contents** • Taking inventory listing from insured • Limited verification of inventory • Replacement costs poorly researched if at all • Contents poorly controlled and evaluated **ALE** • No control on most claims • Small losses – normal expenses not deducted • Lead to ALE worksheet	• Lacking when adjustor inspects with QVP • PA involvement	• Little use of national RS for contents evaluation	• Disregarded defense counsel calling shots	• Direct result of investigation	None

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Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY

	Notification	Coverage	Investigation	Fraud	Evaluation	Negotiation	Replacement	Litigation management	Recovery	CAT
Additional hypothesis	• Establish screening method • Contact requirements on all losses • MOT	• TBD	• Eliminate fast track handling • Qualified C&O reps should determine cause of loss when cost effective • Verification of cause of loss by claim rep • Secure evidence appropriately	• TBD	• Enhance ALE control • Enhance contents control • Eliminate fast track handling • Proactive loss costs management • Adjustor scope damages and prepare estimate	• Eliminate joint inspections with QVP/ other contractors • Eliminate fast track handling • Training on PA handling	• Utilize national replacement source data where applicable • Research competitive pricing on contents items through other means	• Specialization/ segment handling	• Eliminate fast track handling • Directly tied to investigation • Transfer file to subro in timely manner • 2nd look subro	

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Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY

	Notifi-cation	Coverage	Investi-gation	Fraud	Evaluation	Negotia-tion	Replace-ment	Litigation manage-ment	Recovery	CAT
What fire process addresses	• Timely contact with insured based on extent of damages (per tier specifi-cations)	• Verify coverage is in effect • Rule out question-able circum-stances • Address limits that apply and/or excluded property	• Subro filter/ templates • Fire process consul-tation worksheet	• Initial SIU filter	• Evaluation worksheet – Carpet – process checklist non-ITEL claims – Contents – worksheets – Structure – TL evaluation • ALE worksheet	• Not addre-ssed	• Contents worksheet	• Not addre-ssed	• Subro filter/ templates	• Not addre-ssed
Is this measured in fire process?	• Yes	• Yes	• Yes	• No	• Yes	• No	• No	• No	• Yes	• No

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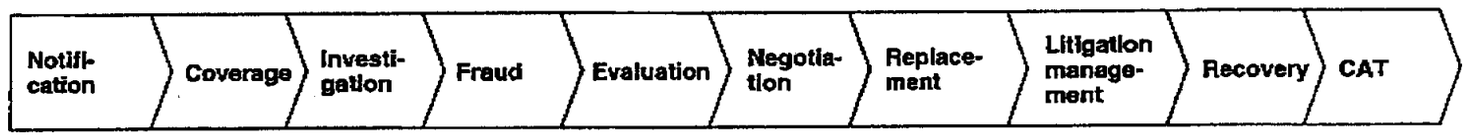
Additional hypothesis as it relates to the quantitative and qualitative measures of the Fire Gap process.

FIRE LOSS PROCESS (CONTINUED)

PRELIMINARY



Extent of remaining opportunity	◑	◔	◑	?	◕	◑	◑	?	◑	?

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FIRE PROCESS KEY FINDINGS

- The current Fire Gap process was implemented in response to adverse severity trends in 7 CSAs. Preliminary results initially appear highly variable, but on balance positive
- However, the team believes
  - The existing fact base is too limited in terms of sample size to support a broad-based redesign effort and perhaps dated
  - Uncertainty of loss type (e.g., extent of damages) distribution hampers our ability to address opportunity
  - Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign
  - It is unclear if the new Fire Gap process addresses the appropriate areas of opportunity within fire
- **Therefore, the team recommends an enhanced analytic phase consisting of 3 primary steps**
  - **Verify the loss type distribution through a home-office-based analysis**
  - **Conduct a scan of Fire Gap test sites**
  - **Expand fact finding (e.g., file review, interviews) to non-test sites**

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The team recommends an enhanced analytic phase consisting of three primary steps.

RECOMMENDED APPROACH

Verify loss type distribution	Conduct scan of Fire Gap test sites	Expand fact finding to new test sites
Description		
• Using systems data, profile fire losses by taking a representative sample • Utilize output to determine appropriate sampling for additional analyses and provide foundation for staffing model	• Interview claim reps, managers, and process specialists – Understand the process – Surface further opportunity areas – Verify methodology of implementation and compliance with processes • Review files in the process (both open and closed) – Understand process further – Gauge process effectiveness – Test modified review form(s) – Enhance sample size – Identify remaining opportunity areas/issues	• Increase sample sizes in light of distribution and open issues by conducting open and closed file reviews at 3 to 6 additional sites • Conduct interviews with claim reps, management, and CPS – surface areas of opportunity and process possibilities

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Understanding Customer Satisfaction in Homeowners

ALLSTATE INSURANCE COMPANY

Homeowner team debrief

September 1996

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INTRODUCTION

- The team's goal is to identify and understand the key drivers of satisfaction to be used during the design process t
- There are a number of important analyses that the team still needs to complete
- Therefore, we are unable to share definitive recommendations at this time, but we will share our work in progress

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KEY FINDINGS

- Overall claim satisfaction has deteriorated over time with significant variation across perils, between CATs and non-CATs and by method of settlement
- ICSS (Internal Claims Satisfaction Survey) initially suggests there are 4 key drivers of BIS satisfaction that are consistent across CSAs, the best and worst MCOs, Auto and property and satisfied and unsatisfied customers. The key drivers are
  - Sales agent follow-up
  - Adequately informed
  - Claim hassle-free
  - Timely claim handling
- For each driver, there are a number of issues that need to be addressed

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ABOUT THE ICSS SURVEY PROCESS

- Phone interviews
- Overall satisfaction question in the front of survey
- Diagnostic questions only asked if customer is less than "completely" or "very" satisfied
- Assumes 100% conformance to requirements for "completely" and "very" respondents
- Periodic data check of "completely" and "very" satisfied (one week each quarter)

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WHAT CLAIMS ARE INCLUDED IN THE SURVEY SAMPLE?

- The sample includes
  - Claims opened in the past 6 months
  - Claims closed in the last 30-36 days
  - A minimum paid loss of $100
  - Auto line 10 and now also indemnity, collision, and comprehensive
  - Property lines 70 and 71, first party losses only

- The sample excludes
  - Canceled for cause terminations
  - Claims that involved a death
  - Claims that are being non-renewed in Florida hurricane zones
  - Catastrophe claims that were opened more than 6 months after the occurrence of the catastrophe
  - Insureds that have been included in the Customer Satisfaction Measurement System (CSMS) sample during the past year

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ICSS SURVEY TIMEFRAMES

Survey	Claim closure dates	Interview dates	Report distribution dates
1st survey 1996	1/1/96-2/25/96	2/7/96-4/2/96	5/20/96
2nd survey	2/26/96-4/7/96	4/3/96-5/14/96	7/15/96
3rd survey	4/8/96-7/7/96	5/15/96-8/13/96	10/15/96
4th survey	7/8/96-10/6/96	8/14/96-11/12/96	1/13/97

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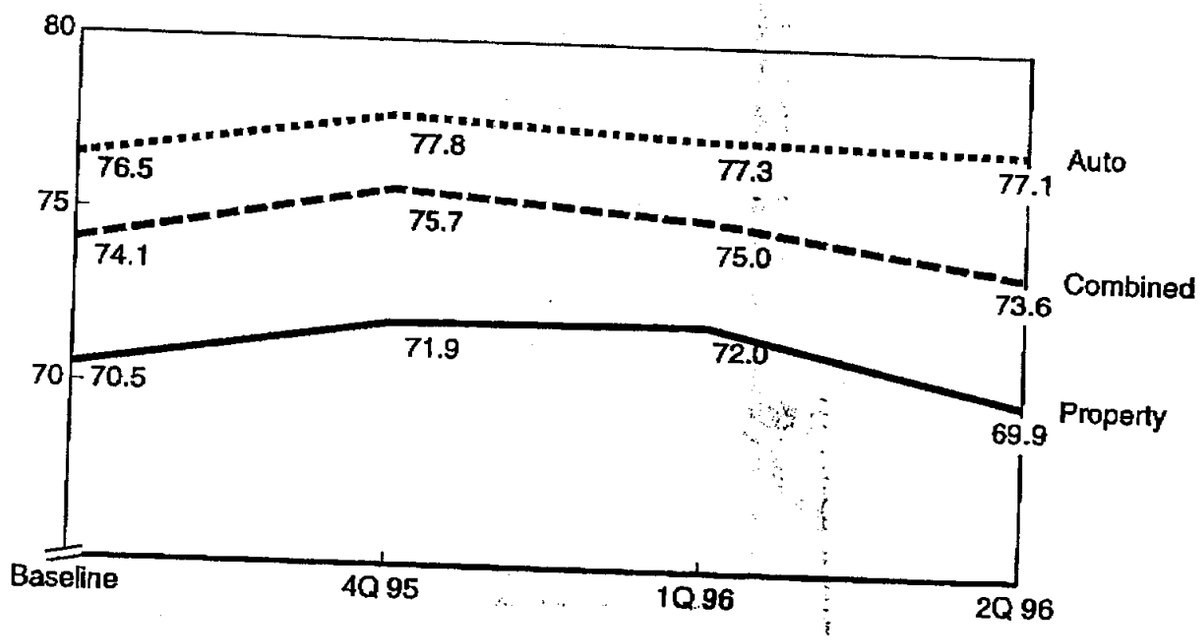
Satisfaction has deteriorated recently after an initial improvement.

ICSS COMPLETELY SATISFIED TREND

Percent



Source: ICSS

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Satisfaction levels vary across perils, CATs versus non-CATs, and method of settlement.

SATISFACTION PERFORMANCE VARIES

- Satisfaction varies across perils
  - Water claims have had on balance lower-than-average satisfaction, but results are improving
  - Fire receives above-average ratings
  - Wind and hail is average
  - On-premise theft receive lower ratings than off-premise theft claims
  - Smaller perils have on balance lower satisfaction and more variability in performance across years
- Satisfaction on catastrophe claims is consistently lower than for non-CAT claims
- Satisfaction varies by method of settlement
  - Lowest satisfaction is associated with independent adjusters
  - Highest satisfaction occurs for uninspected and agent-settled losses

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Satisfaction varies by peril and across years.

ICSS – PERIL SATISFACTION LEVEL BY YEAR

Percent completely satisfied

Peril	ICSS baseline Q1 to Q3 1995	ICSS Q4 1995 to Q2 1996
Aircraft	n/a	100.0
Earthquake	100.0	44.7
Explosion	63.4	78.8
Fire	75.8	75.0
Glass breakage	86.3	85.2
Freezing	73.4	69.8
Lighting	77.1	79.3
Mysterious disappearance – on premises	61.5	76.8
Mysterious disappearance – off premises	74.5	82.4
Removal	100.0	43.9
Smoke	74.2	74.3
Theft – on premises	68.0	70.8
Theft – off premises	80.2	75.4
Vandalism	74.2	75.2
Vehicles	77.7	79.7
Water	66.4	68.3
Windstorm and hail	69.4	71.1
All other perils	75.9	73.5
Theft from auto	68.6	69.8
Sewer back-up	n/a	n/a
Total	70.5	71.0

Source: ICSS

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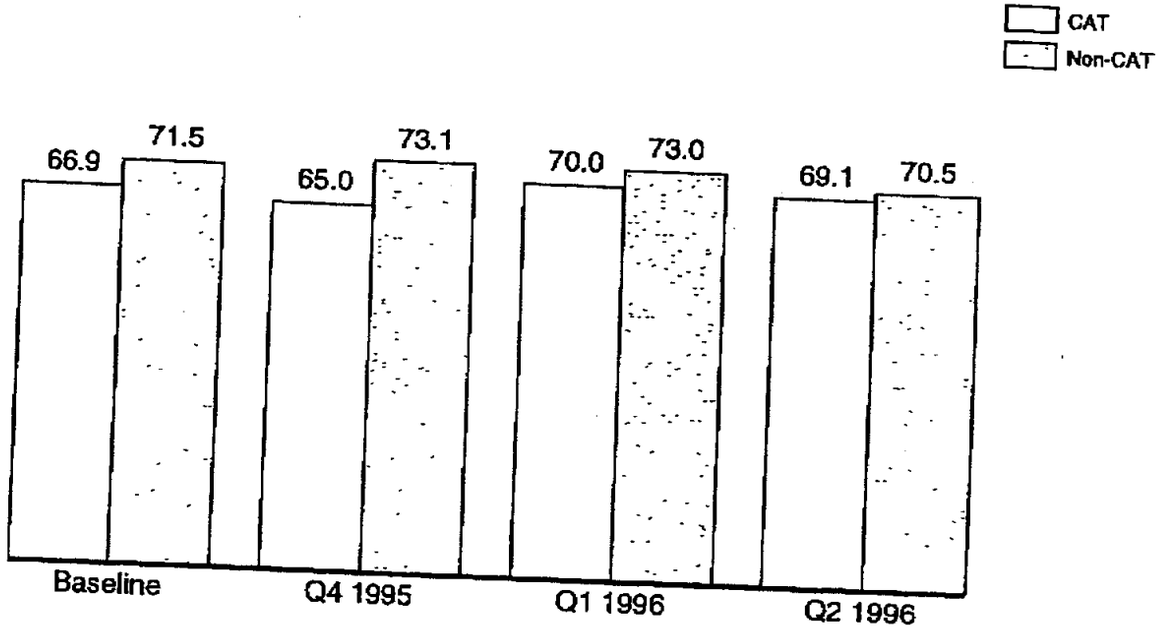
Satisfaction is consistently higher for non-CAT claims than for CAT claims.

CATASTROPHE VS. NONCATASTROPHE RESULTS – ICSS

Percent completely satisfied



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ICSS - Distribution by Method of Settlement
CAT vs. Non-CAT (Property)

METHOD OF SETTLEMENT	1ST SURVEY PERIOD 1996			2ND SURVEY PERIOD 1996		
	CAT	Non-CAT	TOTAL	CAT	Non-CAT	TOTAL
Field Claim Employees	45.1	33.6	36.5	41.5	38.5	39.4
Independent Adjusters	36.9	8.3	15.4	45.0	11.1	21.1
Uninspected Losses	8.0	22.9	19.2	7.5	18.1	15.0
Uninspected Theft	0.4	16.8	12.7	0.3	17.8	12.6
QVP	5.1	10.1	8.9	3.0	9.1	7.3
Agent Claim Settlement	0.7	2.5	2.0	0.4	2.6	2.0
Arbitrations and Suits	0.3	1.2	1.0	0.1	0.3	0.2
Blank	3.5	4.6	4.3	2.2	2.5	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

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ICSS - Claim Satisfaction by Method of Settlement
CAT vs. Non-CAT (Property)

METHOD OF SETTLEMENT	1ST SURVEY PERIOD 1996 CAT	Non-CAT	TOTAL	2ND SURVEY PERIOD 1996 CAT	Non-CAT	TOTAL
Field Claim Employees	71.5	70.2	70.7	66.4	68.2	67.5
Independent Adjusters	66.5	69.6	67.4	69.4	67.4	68.8
Uninspected Losses	80.3	77.5	77.9	83.4	76.5	77.7
Uninspected Theft	79.9	71.9	72.0	75.9	69.9	70.0
QVP	72.3	72.9	72.8	67.4	72.5	71.8
Agent Claim Settlement	68.5	87.4	85.6	88.3	82.3	83.1
Arbitrations and Suits	73.3	65.0	65.8	100.0	80.7	82.0
Countrywide	**70.2**	**73.0**	**72.0**	**69.1**	**70.5**	**69.9**

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ARPC - 8/22/96

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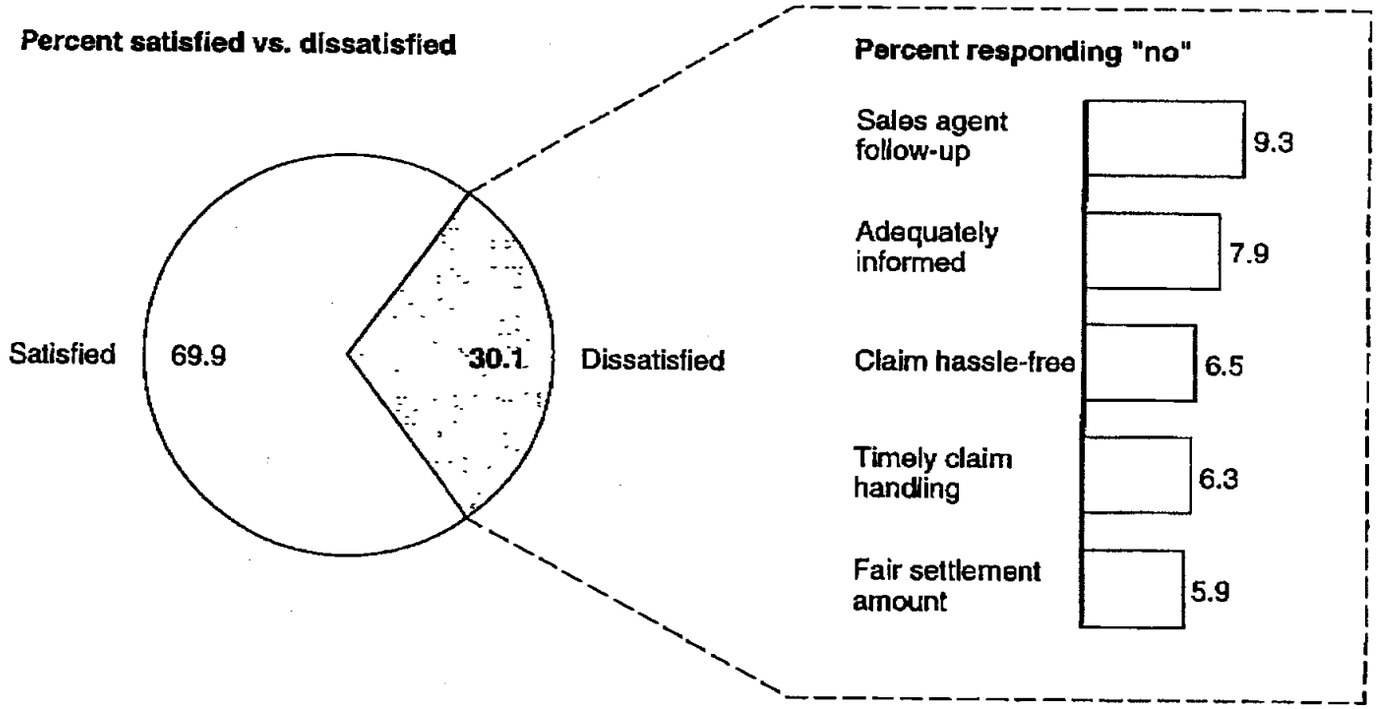
DRIVERS OF DISSATISFACTION – Q2 1996 PROPERTY ONLY*

Percent



* Includes CATs

Source: ICSS

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These key factors appear to be consistent over time.

THE FACTORS HAVE BEEN CONSISTENT OVER TIME

Factor	Largest "no" Percent		
	Q4 1995	Q1 1996	Q2 1996
Sales agent follow-up	1	1	1
Adequately informed	2	2	2
Claim hassle-free	3	3	3
Timely claim handling	4	6	4
Fair settlement amount	7	3	5
Sales agent involvement	4	5	6
Clear explanation given	4	7	7

Source: ICSS

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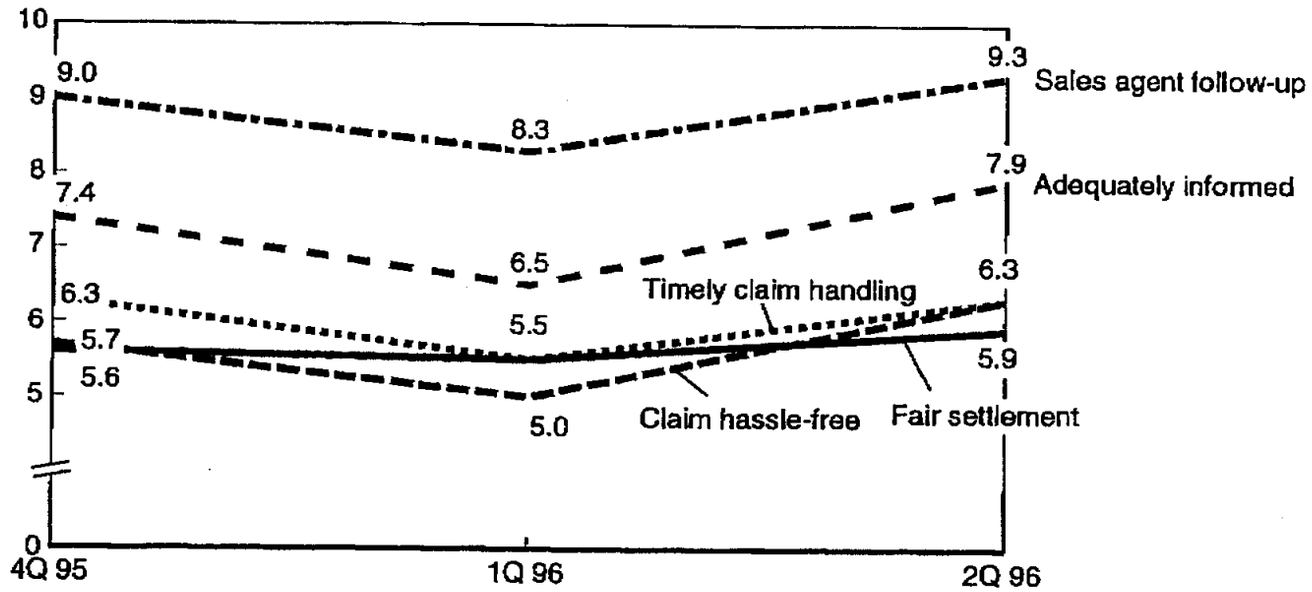
Like for overall satisfaction, performance on the individual drivers has recently deteriorated.

PERFORMANCE DETERMINED AFTER INITIAL IMPROVEMENT

Percent dissatisfied responding "no"



Source: ICSS – property

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KEY FINDINGS

- Overall claim satisfaction has deteriorated over time with significant variation across perils, between CATs and non-CATs and by method of settlement
- ICSS (Internal Claims Satisfaction Survey) initially suggests there are 4 key drivers of satisfaction that are consistent across CSAs, the best and worst MCOs, Auto and property and satisfied and unsatisfied customers. The key drivers are
  - Sales agent follow-up
  - Adequately informed
  - Claim hassle-free
  - Timely claim handling
- For each driver, there are a number of issues that need to be addressed

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SALES AGENT FOLLOW-UP

ICSS questions		Issues
Questions 16	Did your sales agent follow-up to make sure you were satisfied with the claim process?	Do the questions adequately gauge importance?
Question 15	Was your agent involved in the claim process to the extent you felt was necessary?	What does the customer expect from the agent on follow-up?
		In what processes or areas do the customers expect agent participation?

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ADEQUATELY INFORMED

ICSS questions		Issues
Question 11	Were you kept adequately informed throughout the claim process?	What does the customer expect by "adequately informed"? Does what they expect vary by peril and severity?

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CLAIM HASSLE-FREE

ICSS questions		Issues
Question 17	Was your claim hassle-free?	What is meant by "hassle-free"? It does not appear to be viewed the same as unreasonable questioning Are there different expectations by peril?

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TIMELY CLAIM HANDLING

ICSS question		Issues
Question 12	Was your claim handled in a timely manner?	What do the customers consider timely? Does this vary by peril or claim type (e.g., severity)?

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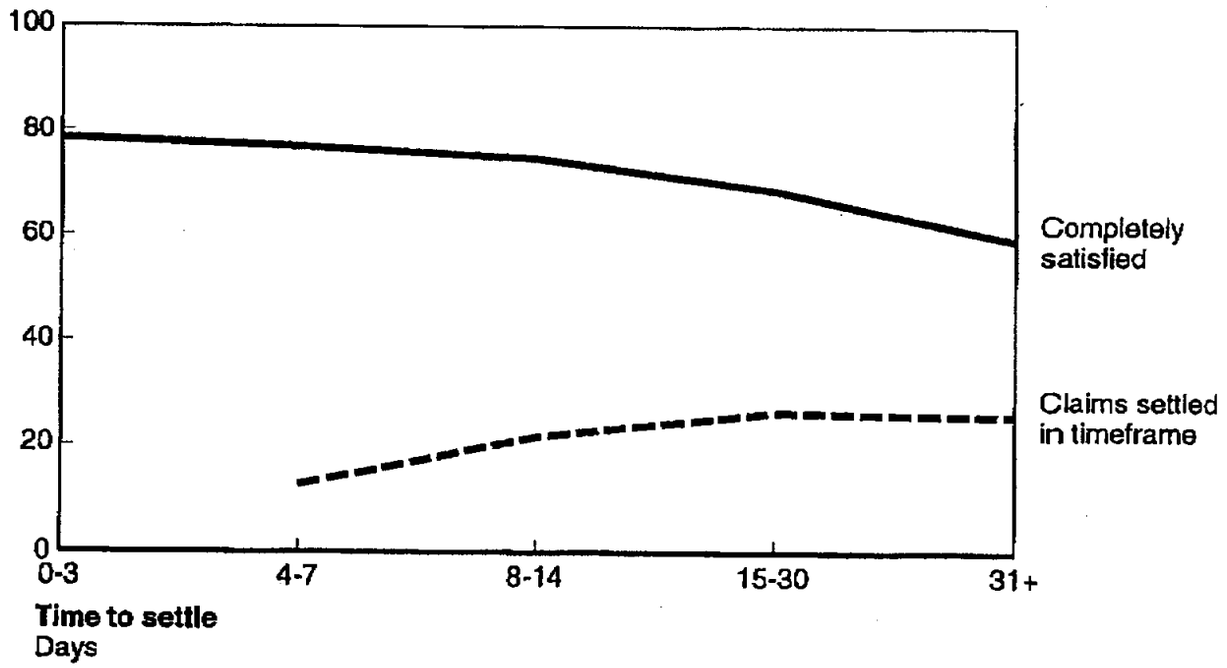
TIMELY CLAIM HANDLING

Percent



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The key drivers of satisfaction are consistent across geography, office, line, and satisfied versus unsatisfied customers.

CONSISTENT DRIVERS OF CUSTOMER SATISFACTION

Drivers consistent across:

- CSA
- MCO
- Auto vs. property
- Satisfied vs. unsatisfied customers

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The drivers of satisfaction are remarkably consistent across geographies.

CONSISTENT ACROSS GEOGRAPHIES (CSAS)

Driver	AVP 1	AVP 2	AVP 3	AVP 4
Sales agent follow-up	1	1	1	1
Adequately informed	2	2	2	2
Claim hassle-free	3	3	3	3
Timely claim handling	5	4	4	4
Fair settlement amount	4	5	6	6
Care/concern expressed	6	6	5	5

Source: ICSS

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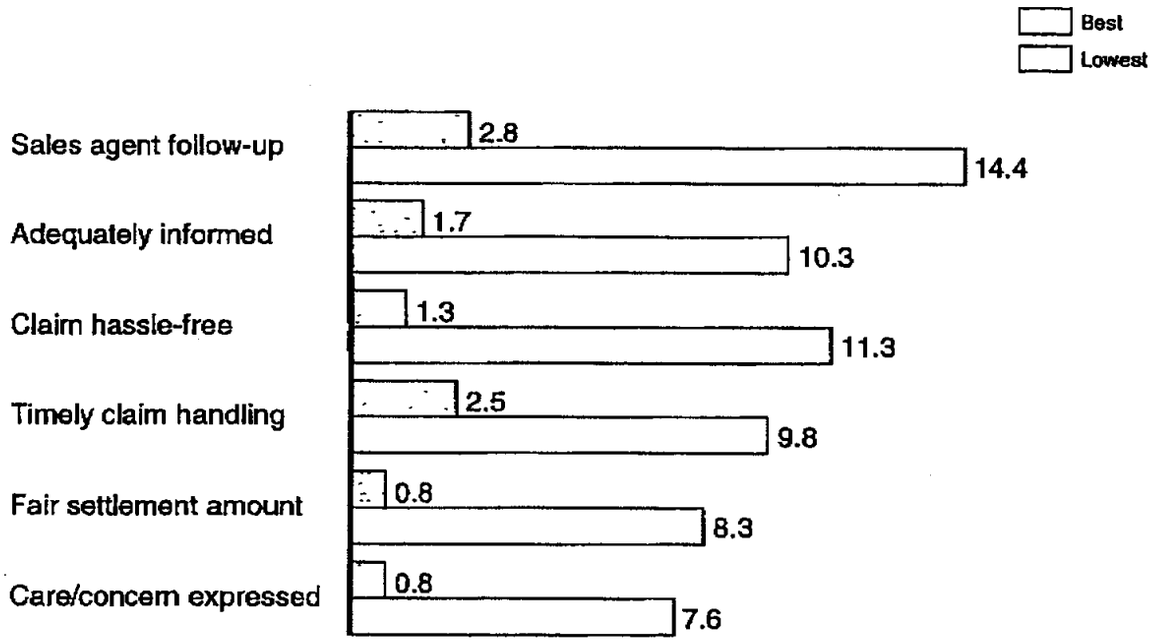
The drivers are supported by examining the differences in high- and lower-performing MCOs.

ANALYSIS OF BEST VS. LOWEST MCOS*

Percent who said "no"



* <FOOTNOTE CUT OFF FAX>

Source: ICSS

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Drivers are the same for property and auto lines.

CONSISTENT DRIVERS CROSS LINES

Percent of dissatisfied responding no

Driver	Property	Auto – standard	Auto – indemnity
Sales agent follow-up	9.3	5.8	9.4
Adequately informed	7.9	4.9	8.0
Claim hassle-free	6.5	4.6	7.1
Timely claim handling	6.3	4.0	7.5

Source: <List sources here>

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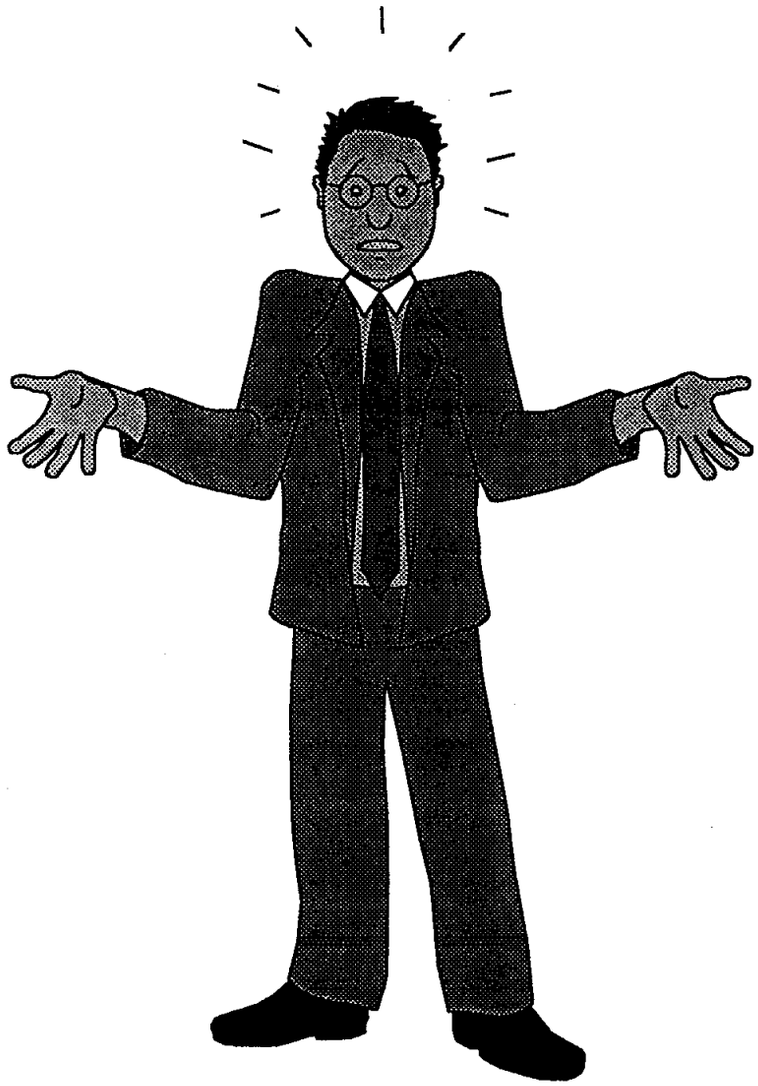

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Source page 80 of 490
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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/27/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	SUE BELLEFEUILLE	Open Date:	010296
Respondent Name:	Same as Policyholder	Close Date:	032096
Respondent Reached At:	(407)793-5595	Claim Number:	3893831036
Line Code:	70	Handling MCO:	389
Respondent Number:	391137	Desk Location:	HBW
Agent Name:	BRIAN MURPHY	Agent Number:	78814
CSM Name:	Leo Fansler	CSM Office Code:	322

Question	Response
1. Overall satisfaction with claim handling	3

2. What Allstate could have done to improve service given:

THEY COULD HAVE BEEN QUICKER. THAT WAS OUR BIGGEST COMPLAINT.

3a. Spoke to on first contact	Someone at a claim office
3b. Action taken by sales agent/person at sales office	Question Not Asked
4. Likelihood of renewing insurance with Allstate	Very likely
5a. Have recommended Allstate to family/friends	Yes
5b. Likelihood of recommending Allstate	Question Not Asked

5c. Recommend against purchasing Allstate:
Question Not Asked

Question	Response	Question	Response
6. Clear explanation given	No	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	No
8. Care/concern expressed	N/A	15. Sales agent involvement	DK
9. Courteous and friendly	Yes	16. Sales agent follow-up	No
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	Yes
11. Adequately informed	Yes	18a. Attempts to reach Allstate by phone problem-free	Yes
12. Timely claim handling	No		

Question

18b. Specific type of phone problem:

Question Not Asked

18c. Location trying to reach when phone problem occured:

Question Not Asked

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Source page 81 of 490
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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/26/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	ROBERT LUCAS	Open Date:	020896
Respondent Name:	Same as Policyholder	Close Date:	032296
Respondent Reached At:	(206)531-4102	Claim Number:	4671494047
Line Code:	70	Handling MCO:	467
Respondent Number:	390124	Desk Location:	P02
Agent Name:	RALPH VILLAVICEN	Agent Number:	23533
CSM Name:	John Nuxoll	CSM Office Code:	346

Question	Response
1. Overall satisfaction with claim handling	3

2. What Allstate could have done to improve service given:

THEY COULD HAVE PROCESSED IT QUICKER.

3a. Spoke to on first contact	A Sales Agent
3b. Action taken by sales agent/person at sales office	Take some information;arrange for call
4. Likelihood of renewing insurance with Allstate	Somewhat likely
5a. Have recommended Allstate to family/friends	No
5b. Likelihood of recommending Allstate	Would not offer an opinion either way
5c. Recommend against purchasing Allstate: Question Not Asked	

Question	Response	Question	Response
6. Clear explanation given	Yes	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	Yes
8. Care/concern expressed	Yes	15. Sales agent involvement	Yes
9. Courteous and friendly	Yes	16. Sales agent follow-up	Yes
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	No
11. Adequately informed	No	18a. Attempts to reach Allstate by phone problem-free	No
12. Timely claim handling	No		

Question

18b. Specific type of phone problem:

THEY SAID THEY WOULD CALL ME RIGHT BACK BUT THEY DIDN'T. I THINK THE CLAIMS PROCESSOR MISPLACED MY FILE.

18c. Location trying to reach when phone problem occured:

I DON'T REMEMBER.

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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/25/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	CALVIN BROWN	Open Date:	010496
Respondent Name:	Same as Policyholder	Close Date:	032096
Respondent Reached At:	(206)838-0657	Claim Number:	4671473173
Line Code:	70	Handling MCO:	467
Respondent Number:	384347	Desk Location:	DAG
Agent Name:	LANA MCLAUGHLIN	Agent Number:	73246
CSM Name:	John Nuxoll	CSM Office Code:	346

Question	Response
1. Overall satisfaction with claim handling	3

2. What Allstate could have done to improve service given:

HAVE THE ADJUSTOR THERE LATER IN THE EVENING, AFTER 3:00PM.

3a. Spoke to on first contact	Someone at a claim office
3b. Action taken by sales agent/person at sales office	Question Not Asked
4. Likelihood of renewing insurance with Allstate	Somewhat likely
5a. Have recommended Allstate to family/friends	No
5b. Likelihood of recommending Allstate	Would be willing to recommend Allstate
5c. Recommend against purchasing Allstate: Question Not Asked	

Question	Response	Question	Response
6. Clear explanation given	No	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	No
8. Care/concern expressed	No	15. Sales agent involvement	Yes
9. Courteous and friendly	No	16. Sales agent follow-up	Yes
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	No
11. Adequately informed	No	18a. Attempts to reach Allstate by phone problem-free	No
12. Timely claim handling	No		

Question

18b. Specific type of phone problem:

THE PERSON WAS NEVER IN AT THE CLAIMS OFFICE.

18c. Location trying to reach when phone problem occured:

THE CLAIMS OFFICE.

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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/26/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	CLIFFORD RIESENBERG	Open Date:	011996
Respondent Name:	MARY RIESENBERG	Close Date:	032196
Respondent Reached At:	(513)777-7521	Claim Number:	2733936724
Line Code:	70	Handling MCO:	273
Respondent Number:	387793	Desk Location:	TAM
Agent Name:	CHARLES M. JOHNSON	Agent Number:	64250
CSM Name:	Jim Smith	CSM Office Code:	360

Question	Response
1. Overall satisfaction with claim handling	2

2. What Allstate could have done to improve service given:

THEY COULD HAVE COME OUT SOONER. THEY DON'T GIVE A FAIR ESTIMATE.

3a. Spoke to on first contact	Someone at a claim office
3b. Action taken by sales agent/person at sales office	Question Not Asked
4. Likelihood of renewing insurance with Allstate	Somewhat likely
5a. Have recommended Allstate to family/friends	No
5b. Likelihood of recommending Allstate	Would not offer an opinion either way

5c. Recommend against purchasing Allstate:
Question Not Asked

Question	Response	Question	Response
6. Clear explanation given	No	13. Fair settlement amount	No
7. No unreasonable questioning	DK	14. Provided expected coverage	No
8. Care/concern expressed	No	15. Sales agent involvement	No
9. Courteous and friendly	Yes	16. Sales agent follow-up	No
10. Repairs made satisfactorily	Not completed	17. Claim hassle-free	No
11. Adequately informed	No	18a. Attempts to reach Allstate by phone problem-free	Yes
12. Timely claim handling	No		

Question

18b. Specific type of phone problem:

Question Not Asked

18c. Location trying to reach when phone problem occured:

Question Not Asked

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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/25/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	RITA BROWN	Open Date:	022196
Respondent Name:	Same as Policyholder	Close Date:	032296
Respondent Reached At:	(218)765-3908	Claim Number:	4992583955
Line Code:	70	Handling MCO:	499
Respondent Number:	383091	Desk Location:	NAH
Agent Name:	CHUCK CHARLES J	Agent Number:	05426
CSM Name:	Judith Petray	CSM Office Code:	361

Question	Response
1. Overall satisfaction with claim handling	3

2. What Allstate could have done to improve service given:

I HAD TO SEND A COUPLE OF STATEMENTS SHOWING THAT THE CARPET WAS REPLACED, IT WAS A HASSLE IN MAILING LETTERS.

3a. Spoke to on first contact	Someone else at the sales office
3b. Action taken by sales agent/person at sales office	Take some information;arrange for call
4. Likelihood of renewing insurance with Allstate	Very likely
5a. Have recommended Allstate to family/friends	No
5b. Likelihood of recommending Allstate	Would be willing to recommend Allstate

5c. Recommend against purchasing Allstate:
Question Not Asked

Question	Response	Question	Response
6. Clear explanation given	Yes	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	Yes
8. Care/concern expressed	Yes	15. Sales agent involvement	Yes
9. Courteous and friendly	Yes	16. Sales agent follow-up	No
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	Yes
11. Adequately informed	Yes	18a. Attempts to reach Allstate by phone problem-free	Yes
12. Timely claim handling	Yes		

Question

18b. Specific type of phone problem:

Question Not Asked

18c. Location trying to reach when phone problem occured:

Question Not Asked

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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****
Project No: 00001 SURVEY DATE: 04/25/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	ROY DURHAM	Open Date:	122195
Respondent Name:	Same as Policyholder	Close Date:	031896
Respondent Reached At:	(609)696-0190	Claim Number:	1423033610
Line Code:	70	Handling MCO:	142
Respondent Number:	382005	Desk Location:	E14
Agent Name:		Agent Number:	09500
CSM Name:	Jerry De Pietro	CSM Office Code:	329

Question	Response
1. Overall satisfaction with claim handling	2

2. What Allstate could have done to improve service given:

THEY COULD HAVE HANDLED THE CLAIMS FASTER. IT TOOK ABOUT FOUR MONTHS. THREE MONTHS PREVIOUS THEY CAME OUT AND TOOK SOME PICTURES.

3a. Spoke to on first contact	Other
3b. Action taken by sales agent/person at sales office	Question Not Asked
4. Likelihood of renewing insurance with Allstate	Don't know
5a. Have recommended Allstate to family/friends	No
5b. Likelihood of recommending Allstate	Recommend against purchasing Allstate

5c. Recommend against purchasing Allstate:
IT TOOK TOO LONG TO GET THE CLAIM FINISHED.

Question	Response	Question	Response
6. Clear explanation given	Yes	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	Yes
8. Care/concern expressed	Yes	15. Sales agent involvement	Yes
9. Courteous and friendly	Yes	16. Sales agent follow-up	No
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	Yes
11. Adequately informed	Yes	18a. Attempts to reach Allstate by phone problem-free	Yes
12. Timely claim handling	No		

18b. Specific type of phone problem:

Question Not Asked

18c. Location trying to reach when phone problem occured:

Question Not Asked

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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/26/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	TERRY HOWELL	Open Date:	122795
Respondent Name:	Same as Policyholder	Close Date:	032096
Respondent Reached At:	(603)778-8478	Claim Number:	2391612492
Line Code:	70	Handling MCO:	239
Respondent Number:	387608	Desk Location:	NEJ
Agent Name:	STEVEN W. WENTWORTH	Agent Number:	13949
CSM Name:	Jim Murray	CSM Office Code:	326

Question	Response
1. Overall satisfaction with claim handling	3

2. What Allstate could have done to improve service given:

ORIGINALLY THE CONTRACTOR DIDN'T SHOW UP FOR A COUPLE OF MONTHS. MY WIFE CALLED ALLSTATE AND THEY GOT THEM TO COME. I WAS SATISFIED WITH THE WORK. ONCE WE GOT THE SECOND CONTRACTOR IT WAS SETTLED PRETTY FAST.

3a. Spoke to on first contact	Someone at a claim office
3b. Action taken by sales agent/person at sales office	Question Not Asked
4. Likelihood of renewing insurance with Allstate	Very likely
5a. Have recommended Allstate to family/friends	No
5b. Likelihood of recommending Allstate	Would be willing to recommend Allstate
5c. Recommend against purchasing Allstate:	
Question Not Asked	

Question	Response	Question	Response
6. Clear explanation given	Yes	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	Yes
8. Care/concern expressed	Yes	15. Sales agent involvement	Yes
9. Courteous and friendly	Yes	16. Sales agent follow-up	N/A
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	Yes
11. Adequately informed	Yes	18a. Attempts to reach Allstate by phone problem-free	Yes
12. Timely claim handling	Yes		

Question

18b. Specific type of phone problem:

Question Not Asked

18c. Location trying to reach when phone problem occured:

Question Not Asked

H000000606

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INTERNAL CLAIM SATISFACTION SURVEY
***** CUSTOMER RESPONSE FLASH REPORT *****

Project No: 00001 SURVEY DATE: 04/25/96

Please contact Cathy Seymour at the Allstate Research & Planning Center (415-833-6261) with any questions on this document.

Policyholder Name:	HARRY MILLER	Open Date:	120595
Respondent Name:	Same as Policyholder	Close Date:	031896
Respondent Reached At:	(205)681-4222	Claim Number:	1844195948
Line Code:	70	Handling MCO:	184
Respondent Number:	383913	Desk Location:	KLJ
Agent Name:	BURT STUMAN	Agent Number:	90528
CSM Name:	Bryan Walker	CSM Office Code:	363

Question	Response
1. Overall satisfaction with claim handling	3

2. What Allstate could have done to improve service given:

THE SHOULD HAVE RESPONDED FASTER.

3a. Spoke to on first contact	Someone at a claim office
3b. Action taken by sales agent/person at sales office	Question Not Asked
4. Likelihood of renewing insurance with Allstate	Very likely
5a. Have recommended Allstate to family/friends	Yes
5b. Likelihood of recommending Allstate	Question Not Asked
5c. Recommend against purchasing Allstate: Question Not Asked	

Question	Response	Question	Response
6. Clear explanation given	Yes	13. Fair settlement amount	Yes
7. No unreasonable questioning	Yes	14. Provided expected coverage	Yes
8. Care/concern expressed	Yes	15. Sales agent involvement	DK
9. Courteous and friendly	Yes	16. Sales agent follow-up	No
10. Repairs made satisfactorily	Yes	17. Claim hassle-free	Yes
11. Adequately informed	Yes	18a. Attempts to reach Allstate by phone problem-free	Yes
12. Timely claim handling	No		

Question

18b. Specific type of phone problem:

Question Not Asked

18c. Location trying to reach when phone problem occured:

Question Not Asked

H000000607

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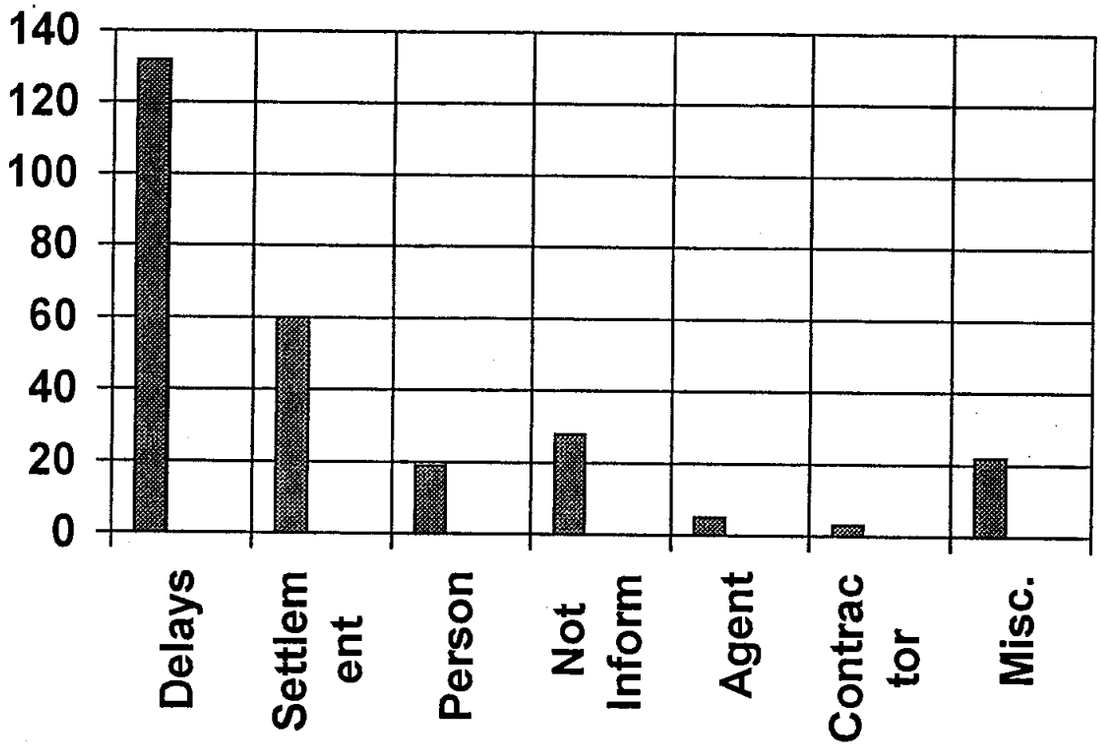
Flash Reports



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Economic Impact of Satisfaction

- Customer satisfaction directly effects the customers likelihood to renew and recommend Allstate

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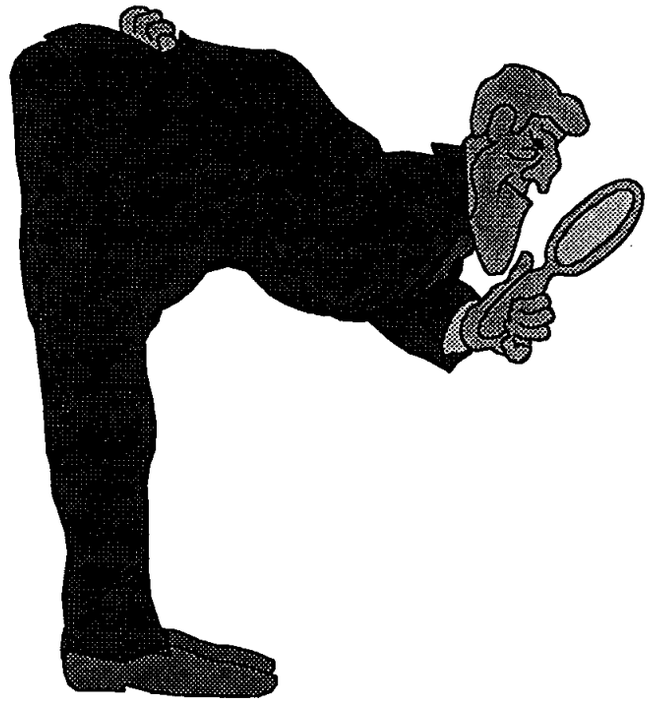

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Work in progress

- Determine results of Claim Satisfaction Measurement System.
- Obtain and analyze satisfaction drivers by line code.
- Obtain and analyze satisfaction drivers on CAT versus. Non CAT claims.
- Obtain and analyze satisfaction drivers on property only by CSA to determine if issues vary by market.
- Obtain and review CAT perils and locations to determine if CATs effect non CAT results.
- Review Flash Reports

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Preliminary Recommendations

- Conduct additional data check weeks
- Further analyze existing data
- Hold customer focus groups
- Conduct phone surveys
- Partner with existing Agent Claim Handling Team
- Conduct more in- depth study of Flash reports
- Study economic impact within various perils
- Conduct employee interviews in markets with diverging results

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Additional Questions

- Do customer satisfaction factors differ on CAT losses?
- Is the downward trend statistically significant?
-

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file

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Overview of Homeowners CCPR

ALLSTATE INSURANCE COMPANY

Review with senior management

September 6, 1996

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HOMEOWNER CCPR DEBRIEF

SEPTEMBER 1996

GOODMORNING

FIRST, ID LIKE TO SAY WE HAVE HAD A REALLY GOOD TWO WEEKS

YOU HAVE WORKED HAD AND ACCOMPLISHED A LOT...

SOMETIMES PAINFULLY...BUT PRODUCTIVELY

YOU'VE LEARNED A NEW WAY TO THINK AND WORK AT ALLSTATE

YOU ARE CCPR!!!!!!

BEFORE WE GET STARTED I'S LIKE TO INTRODUCE OUR GUESTS
Mick McCabe - SrVP
Bill Grusee - Dir VP
RONALD MCNEIL RON IS THE PERSONAL LINES PROPERTY SR VICE PRESIDENT AND IS A MEMBER OF THE ALLSTATE BOARD OF DIRECTORS
RON IS RESPONSIBLE FOR THE REVENUE AND INCOME FOR ALL PERSONAL AND PROPERTY LINES FOR ALLSTATE

AS SUCH YOU CAN IMAGINE HE IS VERY INTERESTED IN OUR WORK AS WE ARE IN HIS

THANK YOU FOR JOINING US TODAY RON

WE ARE IN THE VERY EARLY PHASES OF OUR WORK...ALMOST PRE FACT FINDING

ONE FACT WE KNOW FOR SURE IS THAT HOMEOWNER CLAIM HANDLING IS BIG, COMPLEX, MULTI PERIL, MULTI POLICY, AND HOLDS GREAT ECONOMIC OPPORTUNITY FOR US FROM A LOSS CONTROL, EXPENSE MANAGEMENT AND RENEWAL PERSPECTIVE (CUSTOMER SAT)

TODAY WE WILL GO THROUGH A CONDENSED VERSION OF WHAT WE KNOW AND WHAT WE NEED TO KNOW IN EACH OF THE BUCKETS WE ARE LOOKING AT

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WE WILL BEGIN THE PRELIMINARY DESIGN OF OUR FACT FINDING PROCESS

VERY QUICKLY, LETS POSITION THE CCPR METHODOLOGY

(SHOW SLIDE)

Intro Jim & Mike – team leaders

Jim Tyson

Mike Pvanoff

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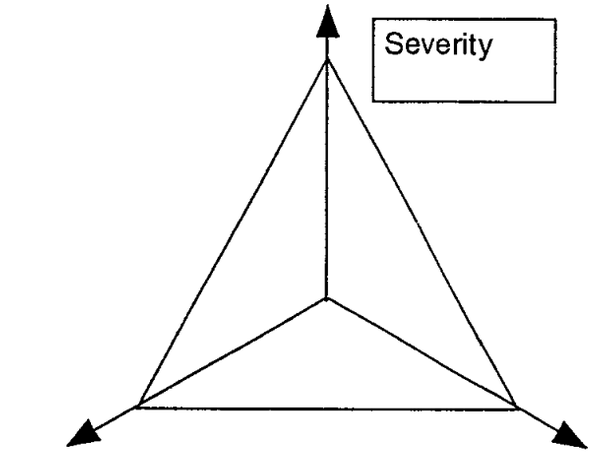
The overall objective of the homeowner redesign is to optimize total payout, efficiency, and customer satisfaction. Trade-offs, however, will be required to balance all three objectives.

HOMEOWNER REDESIGN OBJECTIVES

Primary objectives

- Reduce loss opportunity
- Optimize expenses
- Maintain or enhance customer satisfaction

Balanced set of objectives
Minimize opportunity and pay fair settlement on every claim



Set expectations and meet or exceed every time

Optimize claim expense by leveraging skills and scale

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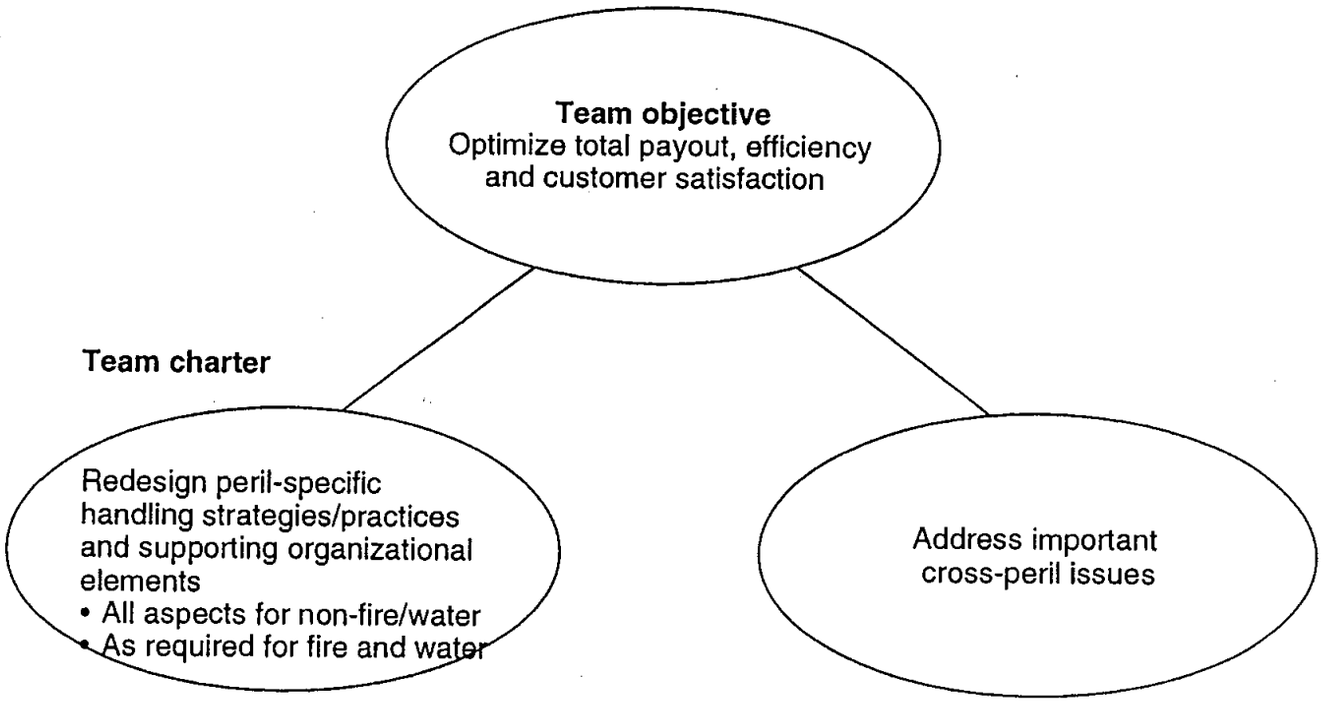
Based on the work done to date, the team needs to address the perils to varying degrees as well as address important cross-peril issues.

CCPR HOMEOWNER'S TEAM CHARTER



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The charter of the design team is somewhat complicated by the fact that a fair amount of work has already been done in the water and fire perils.

SIGNIFICANT WORK HAS BEEN DONE IN HOMEOWNERS

Initiative	Description
Water process	• Initiated by the Homeowners Initiative Team (HIT) using CCPR methodology • Implemented through the PIC • Detailed description provided in today's session
Fire initiative	• Patterned after water process implemented by PIC in response to adverse severity trends • Process developed using CCPR methodology • Process being tested in 7 sites • Detailed description provided in today's session

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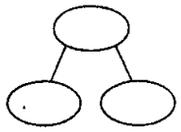
Because of previous work in Homeowners, the team's charter will vary somewhat by peril as determined by an up-front diagnostic.



HOMEOWNERS CCPR TEAM CHARTER

ILLUSTRATIVE

– – – Need determined by results of diagnostic

Peril	Gather data	Analyze data	Debrief and design	Test and refine	Plan implementation	Roll out	Manage performance
CPL	– – –	———	———	———	———	———	———
Vandalism	– – –	———	———	———	———	———	———
Theft	– – –	———	———	———	———	———	———
Wind/hail	– – –	———	———	———	———	———	———
Water*			– – –	– – –	– – –		– – –
Fire	– – –	– – –	– – –	– – –	———	———	———

* Key issues believed to be in integrating measurement and staffing

4

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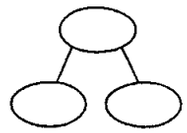
In addition to the peril-specific work, the team must address some important cross-peril issues.



CROSS-PERIL ISSUES

Issues	Subissues
QVP	• Key drivers of a successful program • Need to change vendor role • Need to change claim rep role • Increase/decrease QVP usage
Replacement vendors	• Key drivers of a successful program • Establish national vendors • Need to increase replacement activity • How do we sell the customer on replacement
Agent claim handling	• Is it effective? when and why? • Should its use be changed? in which circumstances? • Should authority levels be reduced? • Should program be eliminated? • Is there a more effective method to drive quick settlements and customer satisfaction/retention on small claims?
Structure vs. contents	• Can same adjuster handle both effectively? • Should handling be specialized by coverage? by peril? • Are best practices needed for each peril? • How do specialized MCOs segment structure and contents?
Peril coding	• Establish subperil codes or new ones to enhance tracking • Is a matrix needed for uniformity to identify proper peril code?

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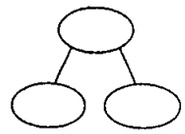
In addition to the peril-specific work, the team must address some important cross-peril issues.



CROSS-PERIL ISSUES (CONTINUED)

Issues	Subissues
Measurement	• What should be captured? • How can we simplify? • Need to tie to performance management • How should customer satisfaction levels be measured?
Systems support	• What internal systems need to be developed/enhanced to capture data? • What external resources can be used, i.e., ACCUPRO?
Customer satisfaction	• What do our customers want? • Do their expectations differ by coverage/peril? urban/rural? • What role does CSC agent play in customer satisfaction? • What skill sets are needed by coverage, peril, process step? • What do our current training modules look like? are they effective? are changes needed? • Are matrices needed? scripts? type?
Staffing	• What are the current staffing issues? • Where are we filling J58 additions to staff? • What are current production levels? average time spent on each claim type? • Is field inquiry needed?
Management	• How do we change culture? • How do we get management buy-in and ownership?
CAT handling	• Is special process needed? • What should define a catastrophe? • How do we minimize impact on staffing during CAT periods?

6

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Based on the current understanding of the fact base and process, a preliminary project approach and timeline has been developed. As we learn more, this will undoubtedly change.

PRELIMINARY PROJECT APPROACH AND TIME LINE – DESIGN TEAM

PRELIMINARY

	Study prework	Review and assess current analysis	Prepare for analytical phase	Conduct additional analysis and debrief	Design, test, and refine	Develop implementation package	Design and execute roll out
Description	• Assemble team • Conduct high-level financial analysis • Plan initial project phases	• Review and assess existing analyses and refine hypotheses • Identify additional fact finding/ analysis required – Open files – QVP – ORG diagnostic – Analyses of replacement vendors – Assess existing staffing levels(?)	• Design surveys, interview guides, etc. • Arrange for logistics for fact finding • Train review teams (as necessary)	• Conduct additional analyses • Conduct formal debrief, establish priorities, and conduct high-level design	• Redesign processes – Field-based – Focused on high-dollar areas – Define measures and measurement approach • Conduct tests – Field-based – Heavy measurement focus • Develop staffing model	• Codify results • Determine what implementation package looks like – Non-negotiable – Negotiable • Continue to develop measurement system	• Design approach • Develop support materials • Schedule • Train implementation teams (as necessary) • Execute rollout
Timing	Early August	Late August - early September	September	October - November	December - March	April	May - TBD

7

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SUBTEAMS FOCUSED ON 5 IMPORTANT ISSUES

Problem solving area	Rationale
Economic analysis of homeowners performance	• Understanding the economic performance and trends will help focus the work on the areas of greatest economic opportunity
Fire peril	• Understanding the work done to date is the logical 1st step for the fire team • Up front analysis will help determine what additional design work may be desirable, potentially impacting the team structure
Customer satisfaction	• Customer satisfaction will be a critical component of the homeowner's redesign • The team needs a sense of existing performance as well as drivers of satisfaction
HIT survey analysis	• A fair amount was invested in the data gathering phase of the Homeowner Initiative • Taking full advantage of the existing information will allow us to more sharply define our analysis
Water peril	• The integrated homeowner's design cannot be complete without a detailed understanding of all component pieces, including water

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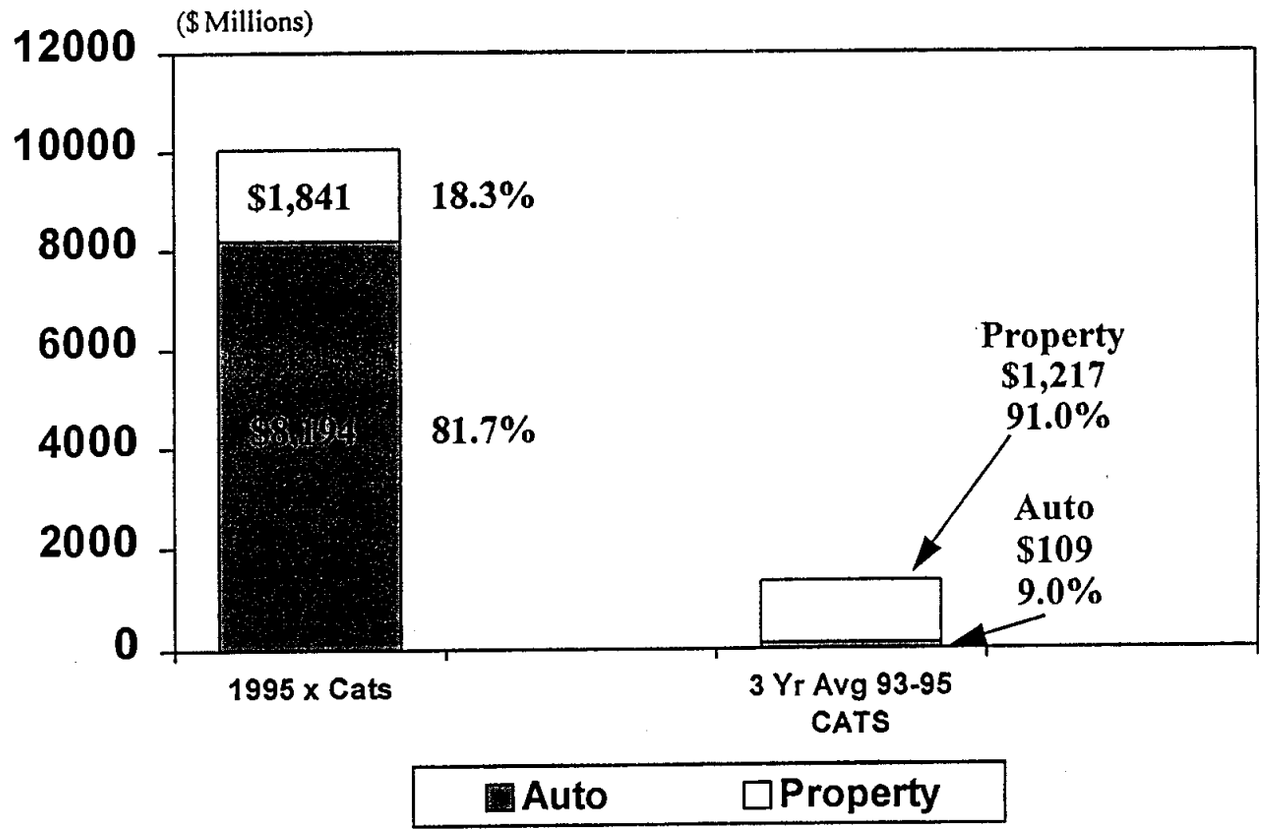
Property lines represent approximately $3 billion in annual losses, with nearly 40% coming from catastrophes in the last 3 years

ALLSTATE PERSONAL LINES
INCURRED LOSSES % DISTRIBUTION



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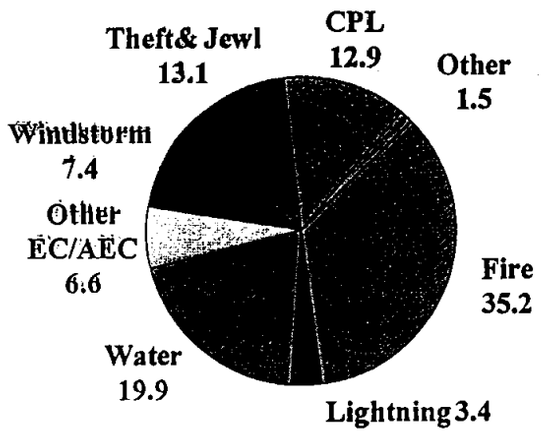
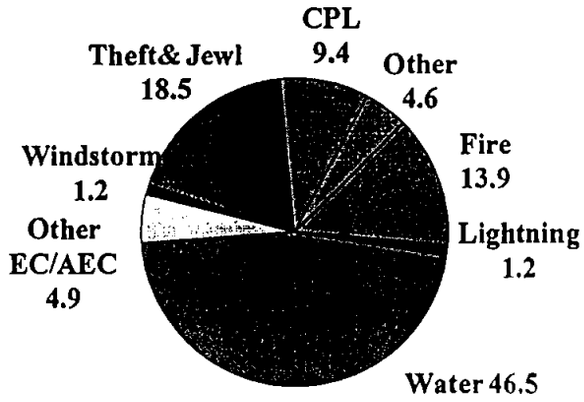
Each homeowners form has a unique peril distribution, with fire and water having the largest overall impact

ALLSTATE PERSONAL LINES
PAID LOSS DISTRIBUTION BY PERIL - X CATS
DECEMBERYTD, 1995

Owners



Condo



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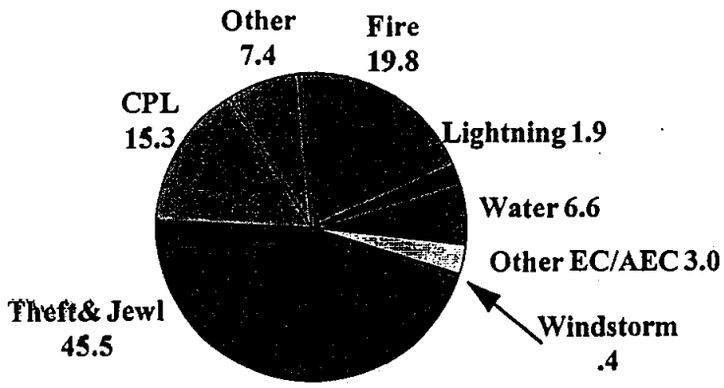
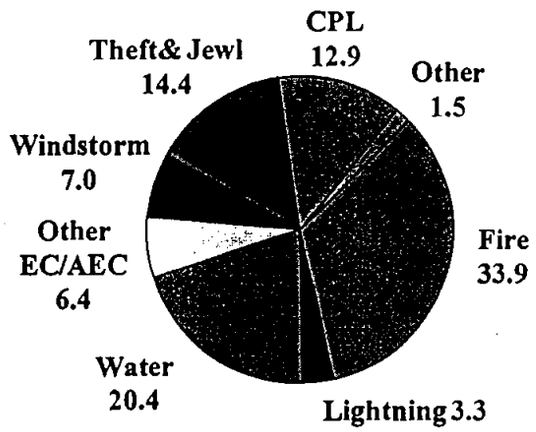


Total



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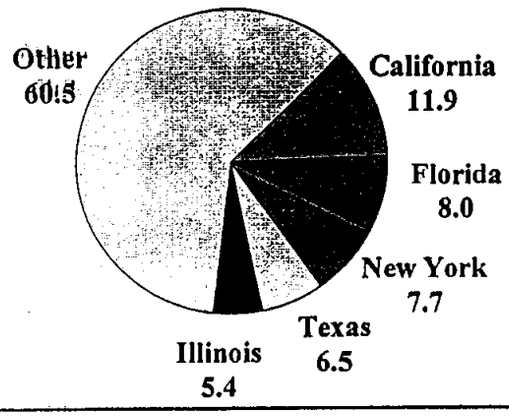
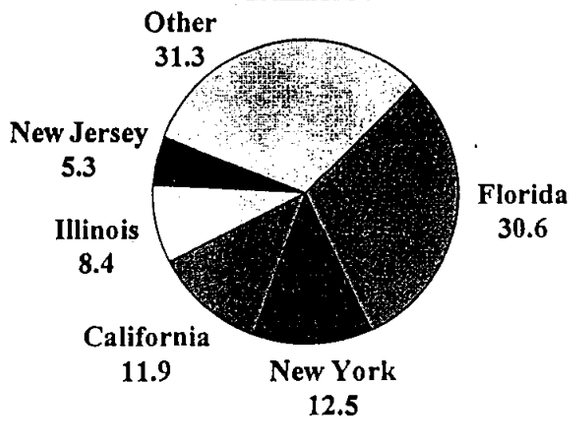
Geographic concentration is an issue in the smaller residential property forms

ALLSTATE PERSONAL LINES
PROPERTY LINES PIF DISTRIBUTION
JUNE, 1996

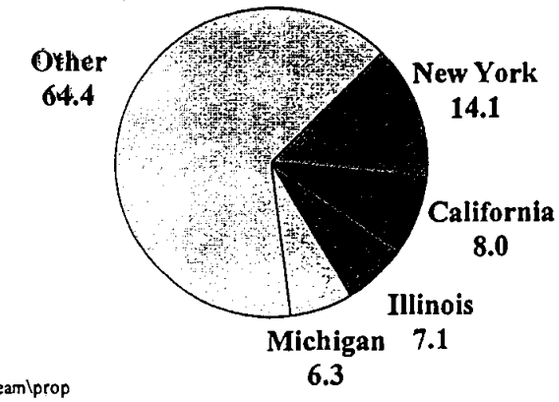
Owners



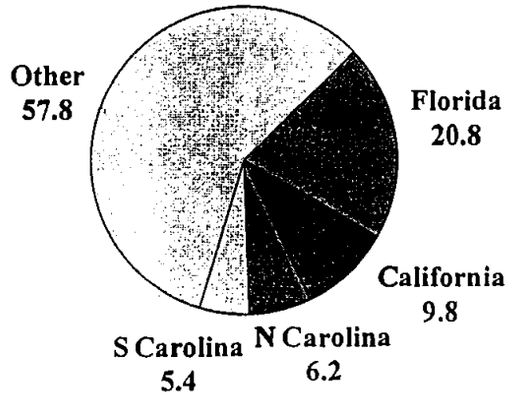
Condo



Renters



Mobilehome



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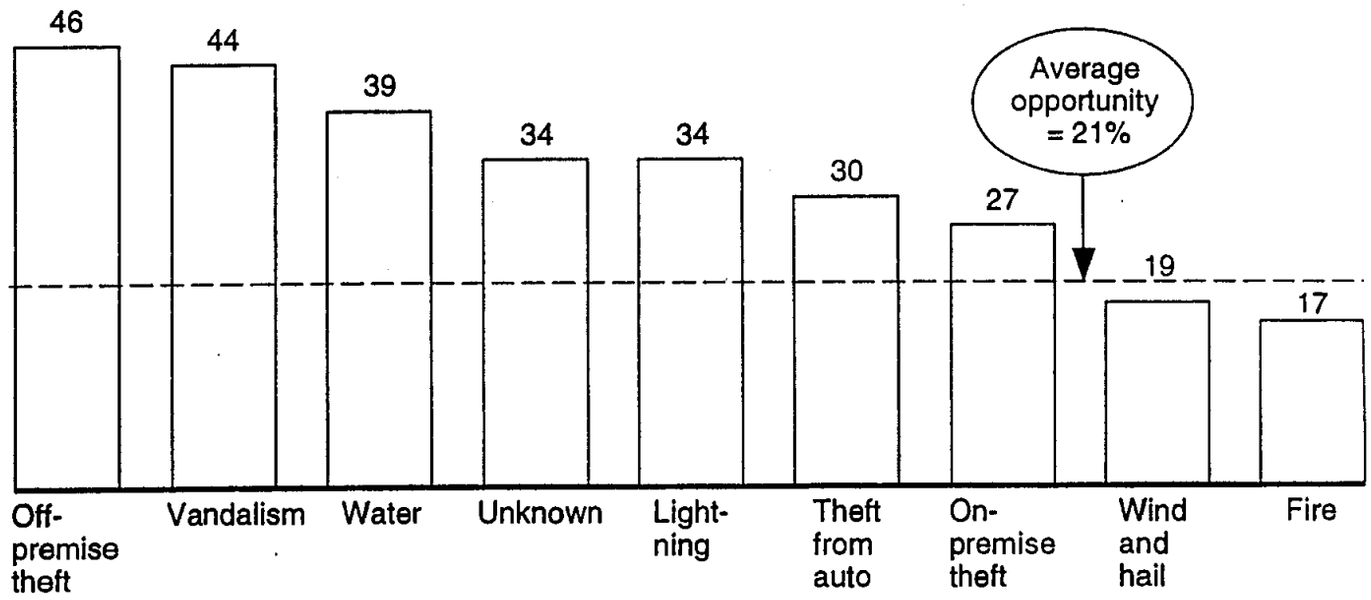
There is a high opportunity percentage in off-premise theft, vandalism, water, and "unknown."

ACHIEVING OPERATIONAL EXCELLENCE IN CLAIMS HANDLING

Percent opportunity

Opportunity by peril



Source: Homeowners claims closed file review

12

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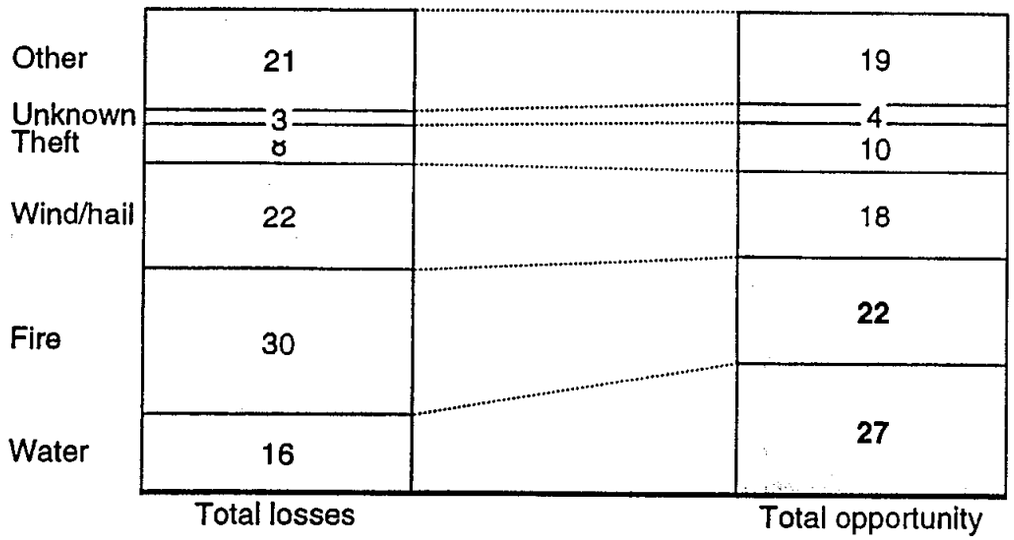
Adjusting for the number and size of loss in each peril, the largest opportunities are in the perils of water and fire.

CONCENTRATION OF OPPORTUNITY

Percent*



* Based on average of 1992-94

Source: Homeowners claims closed file review

13

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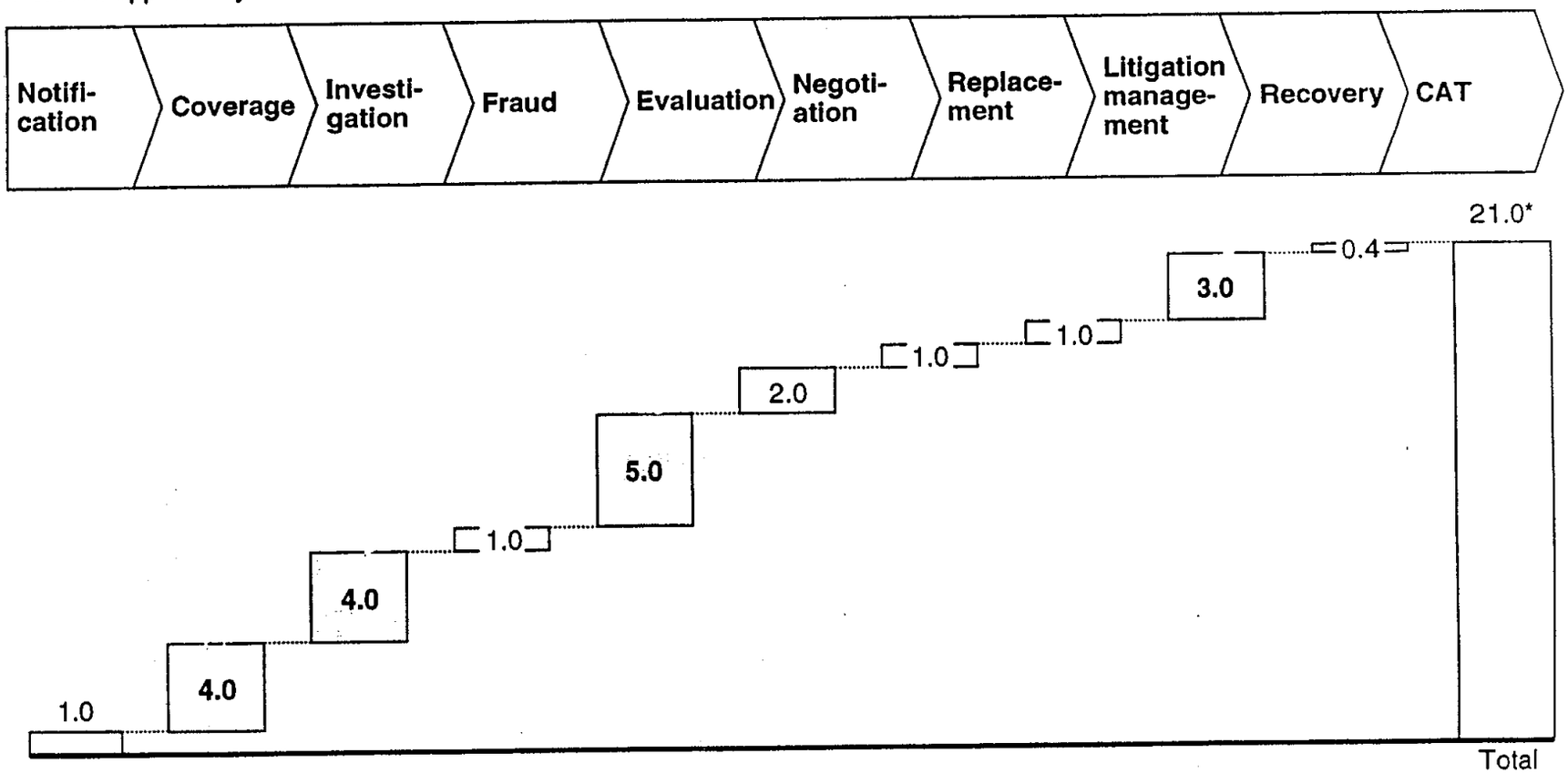
The overall opportunity is concentrated in the process steps of coverage, investigation, evaluation, and recovery/subrogation.

CLAIMS ACTIONS

Percent opportunity



* Does not add due to rounding

Source: Homeowners claims Closed File Review

14

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KEY FINDINGS

- Existing HIT fact base is accurate and represents a substantial 1st step
  - Utilized a comprehensive review form
  - Reviewed 457 closed files from 5 markets*
  - Findings primarily focused on opportunities in water and fire
- However, since the focus of the HIT analysis was to broadly prioritize opportunities within perils, further work will be required on the details of specific perils and cross-peril issues
  - Fine tune survey form where necessary
  - Increase sample size in selected perils
  - Perform field reinspections to expand fact base

* Arlington Heights, Austin, Denver, Newburgh, Seattle

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Field Reinspections

- Provides a powerful tool for review team and managers.
  - First hand field evaluation of loss damages
  - First hand evaluation of adjuster technical skill level.
  - Direct customer contact during claim process.
  - Direct assessment to adherence to claim process.

16

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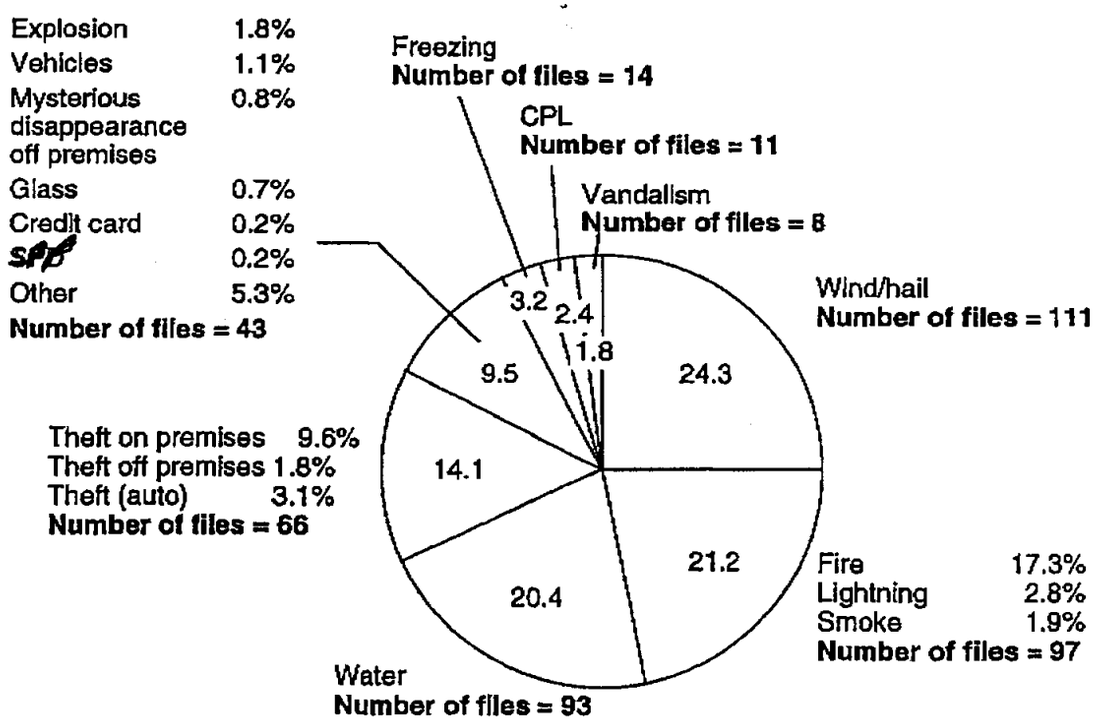
INITIAL HOMEOWNER INITIATIVE TEAM FILE REVIEW SAMPLE



17

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Work Plan

- Address Peril Segmentation
- Finalize Review Form
- Select Survey Demographics
- Select Audit Parameters
- Establish Review Team
- Train Review Team
- Schedule Field Reviews
- Execute

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KEY FINDINGS

- **We feel comfortable that the water process was designed based on a statistically significant, representative fact base and the process design addresses the significant areas of opportunity**
  - **A combination of HIT findings and CSA base line surveys produced a large sample size and consistent findings**
  - **The water process addresses the major areas of opportunity, and it appears to be working**
- However, there are 2 issues the design team must address – they fall into the areas of measurement (including customer service) and staffing
- For measurement, we recommend a 2-step approach
  - Consolidation/refinement and agreement on calculation method
  - Use water as a prototype/pilot for developing a systems-supported measurements system
- The team is not ready to make staffing recommendations. Additional analysis is required

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The file review conducted by the Homeowners Initiative team was supported by consistent findings in the baseline process conducted prior to water process implementation. In total, over 3,000 files were reviewed with very consistent findings.

WATER OPPORTUNITY

Percent

Number of water files reviewed – 108

Notification	Coverage	Investi-gation	Fraud	Evaluation	Negotiation	Replace-ment	Litigation manage-ment	Recovery	CAT
CSA baseline review									
H.I.T.	38.0	15.0		15.0				12.0	= 80%
Virginia (198 files reviewed)									
	26.9	9.3		38.4				25.4	
Valley Forge (247 files reviewed)									
	61.6	14.5		9.4				14.4	
North Texas (275 files reviewed)									
	46.8	25.9		22.4				20.6	
Seattle (253 files reviewed)									
	27.2	19.5		21.4				31.9	
New York Metro (200 files reviewed)									
	25.1	12.7		21.0				41.1	
Nashville (219 files reviewed)									
	33.9	19.3		16.8				32.1	
Michiana (204 files reviewed)									
	36.2	17.8		17.8				28.1	
Maryland (197 files reviewed)									
	30.9	7.4		17.4				44.3	

20

29.7

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We believe that the redesigned water process addresses the significant areas of identified opportunities.

PROCESS ADDRESSES SIGNIFICANT AREAS OF OPPORTUNITY

Coverage	Investigation	Evaluation	Recovery
Opportunity Percent			
38	15	15	12
Description of how water process addresses opportunity			
• Analytical approach • Forms • Training • Field inspections • Measurements • Timing requirements for inspections and contact • Legal interpretation of coverage issues by CSA • QVP taken out of coverage decisions	• Training • Forms • Field inspections • Measurements • Scripts • Timing requirements • Tier chart • Proper tools	• Mitigation vendor • On-site inspection/ evaluation • ACUPRO • Measurements • Ride alongs • Reinspections • Training • Forms • ITEL • Framework for making repair vs. replace decisions	• Analytical process • Cause and origin first • Forms – template and file • Timing • On-site inspection • Proper tools – Recorders – Photos

We believe the new process can capture the opportunity

21

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It is our understanding that the water process has had significant impact on water closed costs. However, there is wide variation on interpretation of performance and trends. One of the issues we will talk about is the need to derive consistency and/or understanding between the two approaches

WATER PROCESS RESULTS

Closed costs; percent

CSA	Approach 1 Manually tracked water process measurement	Approach 2 OIS retrievals
Northern California	-53.1	-8.8
New Jersey	-58.4	-8.6
Texas South	-45.2	0.6
Texas North	-41.8	
Florida East	-36.9	-8.9
Florida West	-52.1	
Phoenix	-60.9	-0.9

22

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There are a number of measurement-related issues that must be addressed.

MEASUREMENT ISSUES

- Inconsistently between OIS and manually tracked
- Too many measurements
- Manually calculated measures are prone to mistakes/manipulation and are time consuming to track
- Are they right for the field?
- CWP measurement – Is it being measured accurately?
- Does the water process meet customer requirements? (Can ICSS be done by peril?)
- Inconsistency in obtaining results from CSA to CSA
- Some measurements need clarification

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Staffing needs to be fact-based and dependent on factors that may be market-specific. We need to examine the staffing model in light of the following factors.

STAFFING ISSUES

- Is it fact-based?
- Talent depletion
- Claim count fluctuations
- Geographic considerations
- How should water peril staffing integrate with staffing for other perils?

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For measurement, the team recommends a two-step approach.

MEASUREMENT RECOMMENDATIONS

Refine/consolidate key measures

- Internally analyze
- Field interviews
- Team/PIC interviews
- Debrief
- Customer interviews
- Explore opportunity to track ICSS by peril
- Consider independent CWP survey

Explore options to use water process for measurement system

- Interview Jack Pepping
- 9/4/96 Glen overview of ADS and CDS
- Study system capabilities

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Again, a number of issues must be resolved before making staffing by peril recommendations.

STAFFING RECOMMENDATIONS

- Interview Dan Hebel
- Interview Dave Mueller
- Field interview
- Review time study
- Interview Morton
- Secure current staffing model

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FIRE PROCESS KEY FINDINGS

- **The current Fire Gap process was implemented in response to adverse severity trends in 7 CSAs. Preliminary results initially appear highly variable, but on balance positive**
- However, the team believes
  - The existing fact base is too limited in terms of sample size to support a broad-based redesign effort and perhaps dated
  - Uncertainty of loss type (e.g., extent of damages) distribution hampers our ability to address opportunity
  - Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign
  - It is unclear if the new Fire Gap process addresses the appropriate areas of opportunity within fire
- Therefore, the team recommends an enhanced analytic phase consisting of 3 primary steps
  - Verify the loss type distribution through a home-office-based analysis
  - Conduct a scan of Fire Gap test sites
  - Expand fact finding (e.g., file review, interviews) to non-test sites

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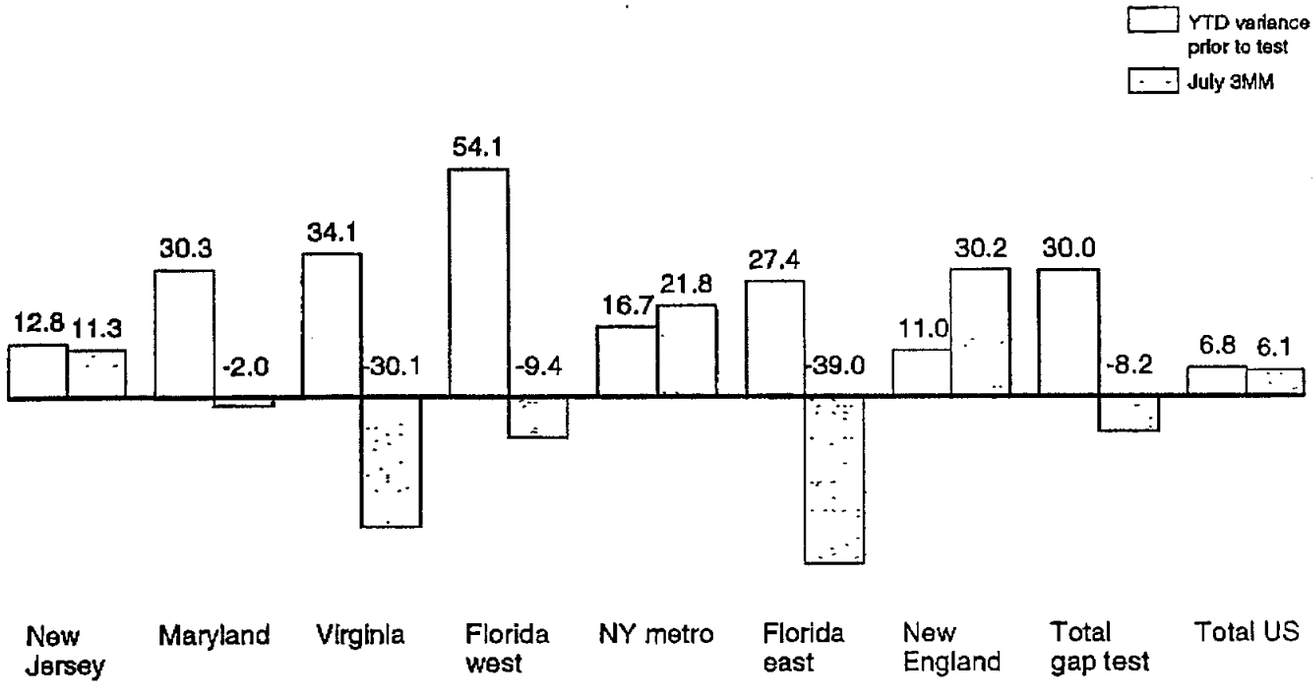
The results are highly variable, but on balance positive.

FIRE GAP PROCESS RESULTS



Source: PIC Fire Team

28

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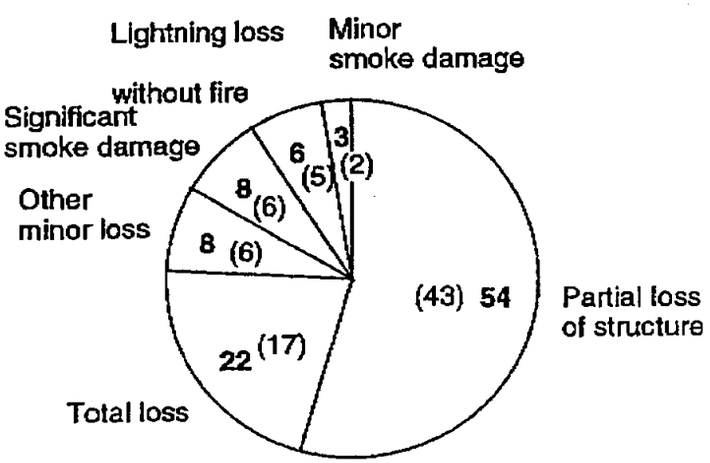
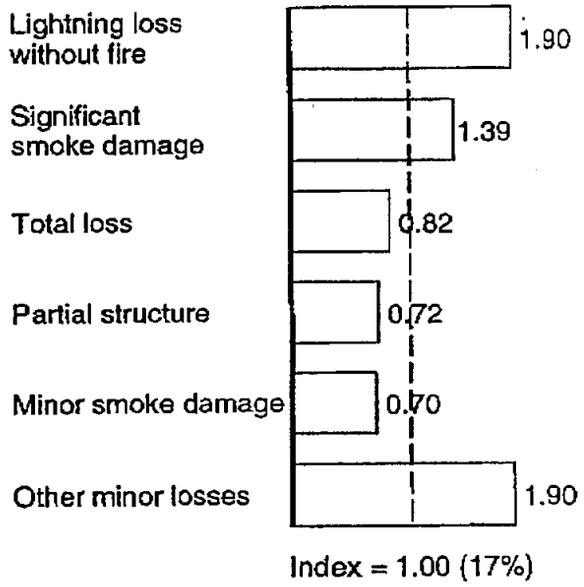
It appears that the opportunity varies dramatically by loss type, suggesting the need for segmenting fire losses. However, the sample size within each segment is currently too small to draw definitive conclusions.

OPPORTUNITY BY LOSS TYPE

Fire loss distribution
Percent; (number)



Opportunity relativity
Index = 1.00



Source: Homeowners claims closed file review

29

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Insight into additional opportunities not surfaced in the initial file review is needed prior to redesign.

OPEN ISSUES

PRELIMINARY

- Does the opportunity for contents vs. structure differ dramatically for fire losses?
- How should ALE be handled?
- Does timely inspection drive loss cost?
- Should there be fast track settlements? If so, at what dollar level or nature of claim?
- Who determined the cause and origin? Was this the proper person? Was this done on a timely basis?
- What impact does FRC payments have on the overall evaluation?
- How proactively are we handling files and does it make a difference?

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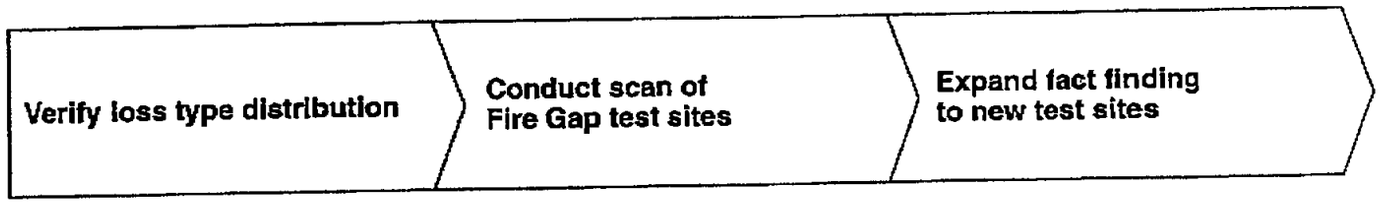
The team recommends an enhanced analytic phase consisting of three primary steps.

RECOMMENDED APPROACH



Description

- Using systems data, profile fire losses by taking a representative sample
- Utilize output to determine appropriate sampling for additional analyses and provide foundation for staffing model

- Interview claim reps, managers, and process specialists
  - Understand the process
  - Surface further opportunity areas
  - Verify methodology of implementation and compliance with processes
- Review files in the process (both open and closed)
  - Understand process further
  - Gauge process effectiveness
  - Test modified review form(s)
  - Enhance sample size
  - Identify remaining opportunity areas/issues

- Increase sample sizes in light of distribution and open issues by conducting open and closed file reviews at 3 to 6 additional sites
- Conduct interviews with claim reps, management, and CPS – surface areas of opportunity and process possibilities

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INTRODUCTION

- The team's goal is to identify and understand the key drivers of satisfaction to be used during the design process t
- There are a number of important analyses that the team still needs to complete
- Therefore, we are unable to share definitive recommendations at this time, but we will share our work in progress

32

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KEY FINDINGS

- Overall claim satisfaction has deteriorated over time with significant variation across perils, between CATs and non-CATs and by method of settlement
- ICSS (Internal Claims Satisfaction Survey) initially suggests there are 4 key drivers of BIS satisfaction that are consistent across CSAs, the best and worst MCOs, Auto and property and satisfied and unsatisfied customers. The key drivers are
  - Sales agent follow-up
  - Adequately informed
  - Claim hassle-free
  - Timely claim handling
- For each driver, there are a number of issues that need to be addressed

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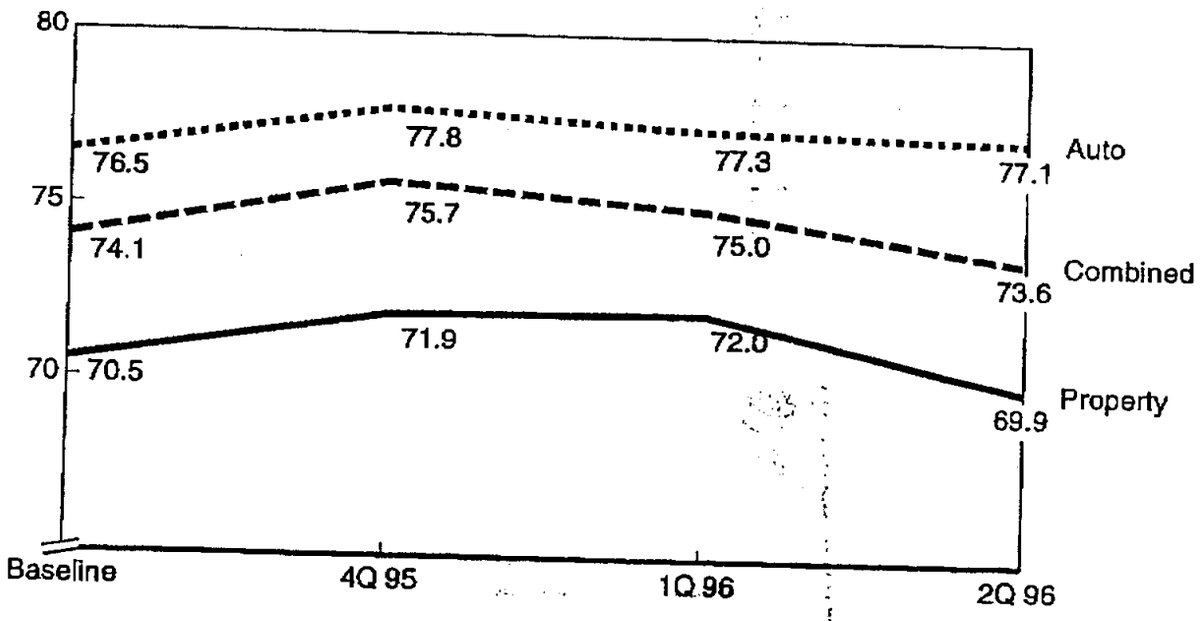
Satisfaction has deteriorated recently after an initial improvement.

ICSS COMPLETELY SATISFIED TREND

Percent



Source: ICSS

34

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Satisfaction levels vary across perils, CATs versus non-CATs, and method of settlement.

SATISFACTION PERFORMANCE VARIES

- Satisfaction varies across perils
  - Water claims have had on balance lower-than-average satisfaction, but results are improving
  - Fire receives above-average ratings
  - Wind and hail is average
  - On-premise theft receive lower ratings than off-premise theft claims
  - Smaller perils have on balance lower satisfaction and more variability in performance across years
- Satisfaction on catastrophe claims is consistently lower than for non-CAT claims
- Satisfaction varies by method of settlement
  - Lowest satisfaction is associated with independent adjusters
  - Highest satisfaction occurs for uninspected and agent-settled losses

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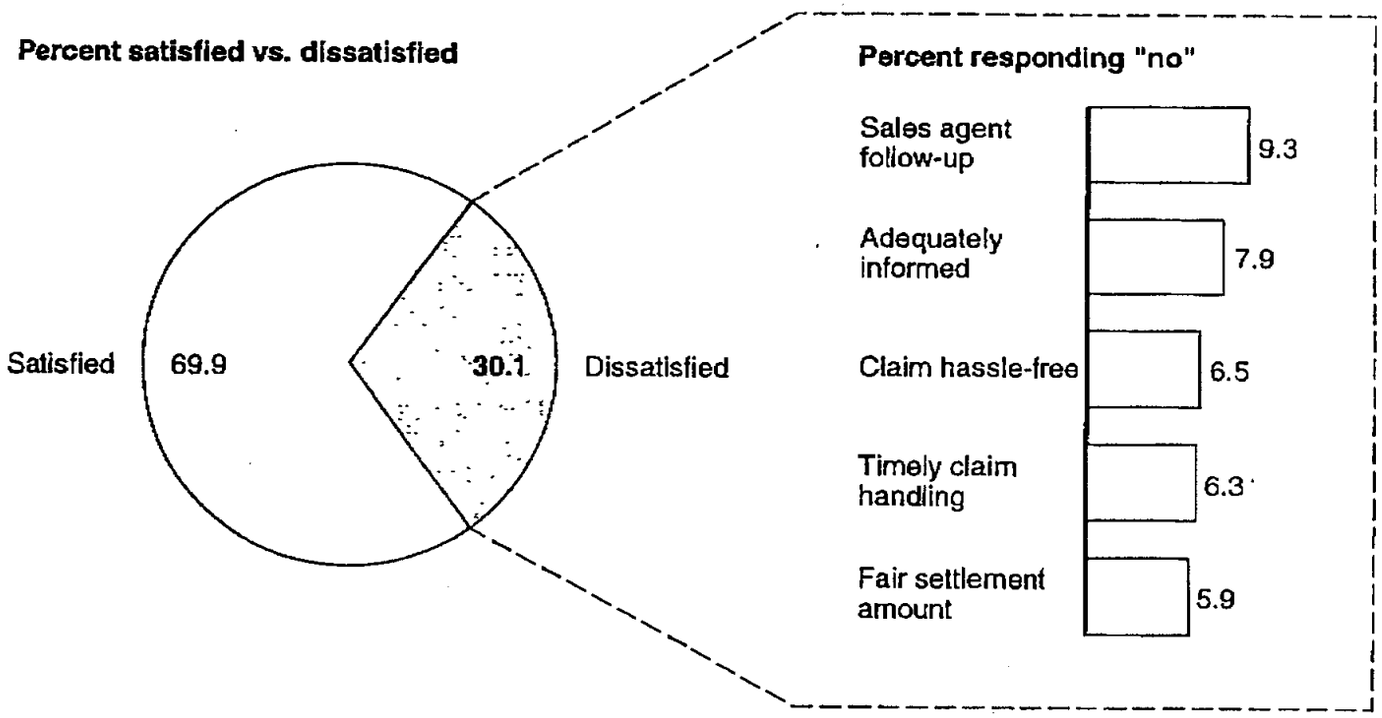
DRIVERS OF DISSATISFACTION – Q2 1996 PROPERTY ONLY*

Percent



* Includes CATs

Source: ICSS

36

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Conformance Levels - ICSS Process Assumptions

	Percent Who said "No"					
	Not at all Satisfied	"2"	"3"	"4"	Completely Satisfied	Total
# Responses	279	343	692	1743	9044	12101
% Distribution	2.2	3	5.8	14.5	74.6	100.0
Key Satisfaction Drivers:						
Q6 - Clear explanation given	50.4	38.1	32.7	17.3	4.9	
Q7 - No unreasonable questioning	36.4	20.2	15.1	7.2	2.9	
Q8 - Care/concern expressed	59.5	45.4	25.0	7.1	1.4	
Q9 - Courteous and friendly	36.9	27.2	11.8	4.0	0.4	
Q10 - Repairs made satisfactorily	33.5	23.1	19.2	7.1	2.6	
Q11 - Adequately informed	73.6	70.2	41.3	21.3	4.0	
Q12 - Timely claim handling	54.1	51.4	33.8	11.9	1.5	
Q13 - Fair settlement amount	55.4	34.0	29.4	9.8	1.8	
Q14 - Provided expected coverage	47.1	34.2	29.9	18.7	6.3	
Q15 - Sales agent involvement	49.2	38.1	34.3	24.1	12.8	
Q16 - Sales agent follow-up	71.4	67.7	65.9	57.5	37.2	
Q17 - Claim hassle-free	62.1	66.7	35.7	12.1	1.9	
Q18a - Attempts to reach Allstate by phone problem free	38.7	40.4	23.1	12.6	3.4	
Avg. of 13 drivers:	51.4	42.8	30.6	16.2	6.2	

37

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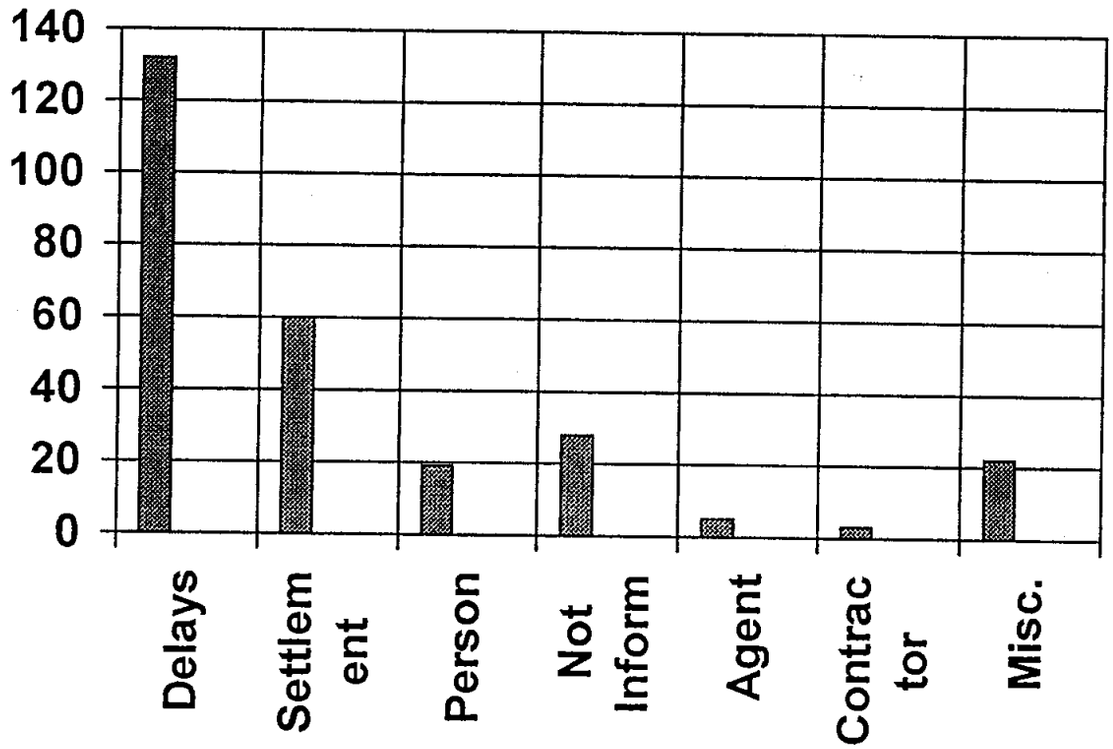
Flash Reports



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Preliminary Recommendations

- Conduct additional data check weeks
- Further analyze existing data
- Hold customer focus groups
- Conduct phone surveys
- Partner with existing Agent Claim Handling Team
- Conduct more in- depth study of Flash reports
- Study economic impact within various perils
- Conduct employee interviews in markets with diverging results

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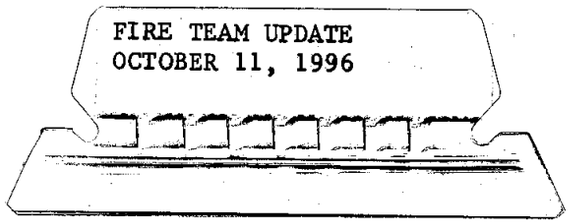

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FIRE TEAM UPDATE AND PRELIMINARY RECOMMENDATIONS
OCTOBER 11, 1996

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Fire Team Update and Preliminary Recommendations

ALLSTATE INSURANCE COMPANY

Team debrief

October 11, 1996

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The fire team visited eight CSAs in a 2-week period conducting closed file reviews, reinspections and employee interviews.

ACTIVITIES TO DATE

- Visited 4 fire gap test sites
  - Florida, East
  - Florida, West
  - Maryland
  - New York Metro
- Visited 4 nonfire gap sites
  - Denver, CO
  - North Texas
  - Valley Forge, PA
  - Northern California

- Reviewed 188 closed files (152 input in the database)
- Conducted 24 reinspections
- Interviewed over 32 field personnel
- **The analysis to follow presents our preliminary findings only**

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During our site visits, we found the fire gap process had addressed some areas of opportunity; however, there are still areas of opportunity to be addressed.

KEY LEARNINGS

- While some elements of fire gap process appear to be working, it still does not capture all the major pockets of the opportunity. In addition, the application of the process is not being consistently applied
- Significant opportunities exist, particularly in the following areas
  - Process-related issues
    - . Contents
    - . Clean vs. replace
    - . Managing vendors
    - . Evaluation
    - . Subrogation
  - Other management-related issues
- Therefore, we propose the following next steps
  - Additional in-depth analysis of the collected data
  - Preliminary design of structure and contents processes
  - Determining criteria and timing for fire test

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KEY LEARNINGS

- **While some elements of fire gap process appear to be working, it still does not capture all the major pockets of the opportunity. In addition, the application of the process is not being consistently applied**
- Significant opportunities exist, particularly in the following areas
  - Process-related issues
    - . Contents
    - . Clean vs. replace
    - . Managing vendors
    - . Evaluation
    - . Subrogation
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  - Additional in-depth analysis of the collected data
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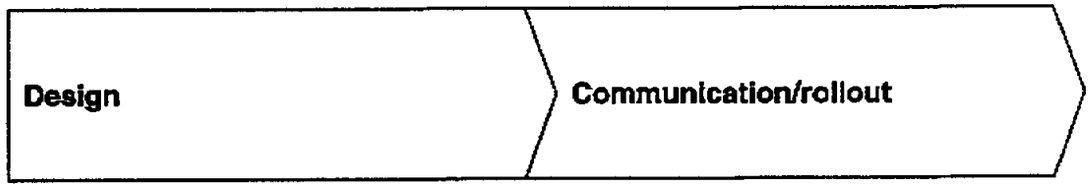
Creation of the fire gap process was a result of AVP Mike Donohue's request for a temporary "gap" process for seven CSAs with F&L severity concerns.

FIRE GAP PROCESS



- CPS Design Workshop utilizing learnings from the water process
- The work was focused on getting Allstate eyes on fire losses

- CPS were the process owners and responsible for the rollout and field training

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For the most part, the CSAs are waiting for a full-blown fire implementation.

IMPACT OF FIRE GAP PROCESS

Focus of fire gap

- Initiating faster customer contact
- Capturing additional measurement information through form compliance
- Facilitating more management involvement

Impact experienced

- Interviews with field personnel and reinspection indicate positive impact on customer satisfaction
- Though there is some variance across sites, information captured in the forms is not used to add value to the process
- For the most part, manager involvement is primarily focused on pushing the file to closure

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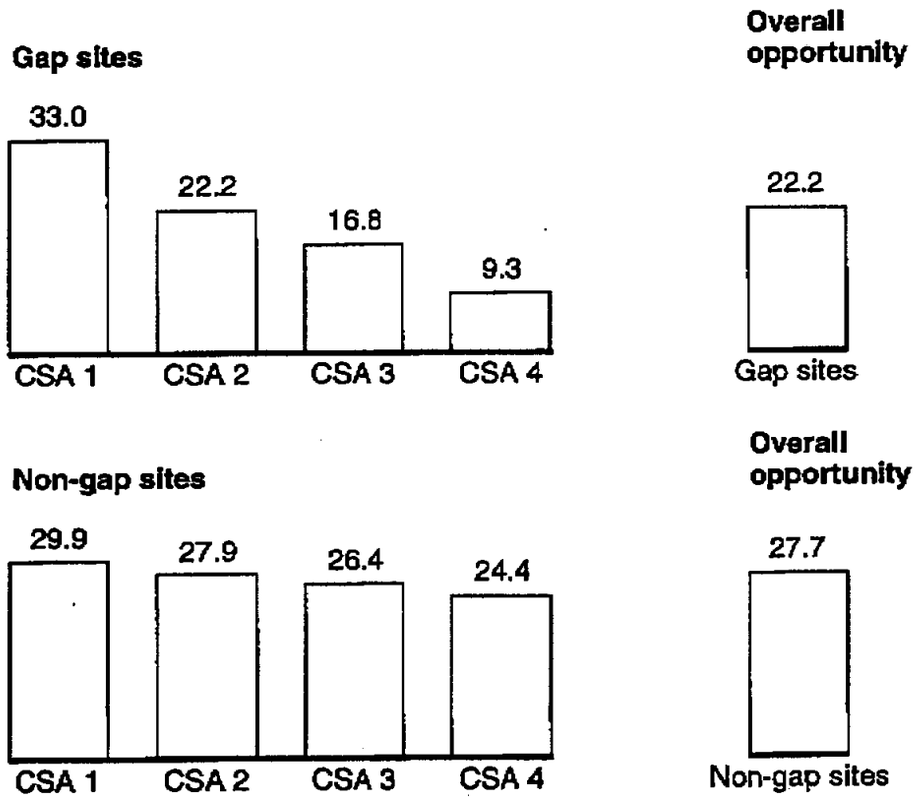
While the fire gap sites show an approximate 5-point improvement, there is still significant opportunity in both groups.

OPPORTUNITY BY FIRE GAP SITES AND NON-GAP SITES

Percent



26.1 average
80-$100 mil

Source: Team analysis of fire CFR

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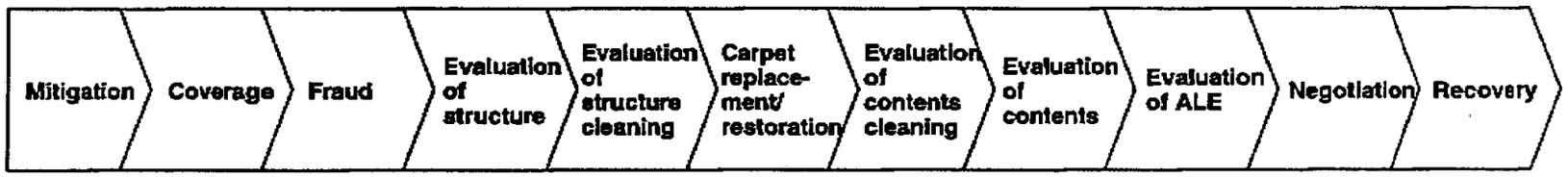
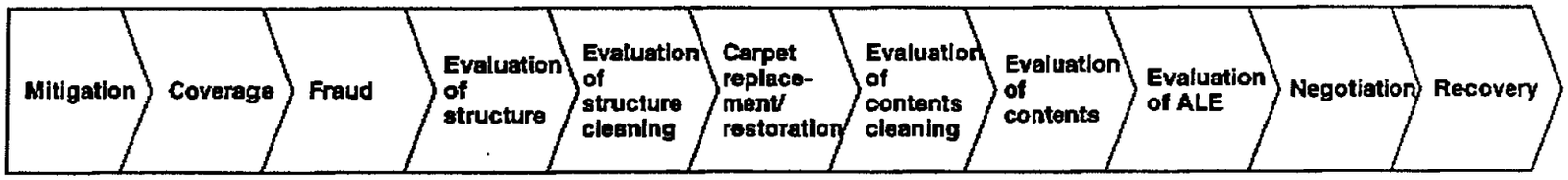
The greatest opportunity exists in evaluation of structure and in recovery across both gap and nontest sites.

COMPARISONS OF AREAS OF OPPORTUNITY BETWEEN GAP TEST SITES AND NONTEST SITES

Gap test sites – total opportunity 22.2%



Nontest sites – total opportunity 27.7%



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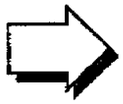
KEY LEARNINGS

- While some elements of fire gap process appear to be working, it still does not capture all the major pockets of the opportunity. In addition, the application of the process is not being consistently applied



- **Significant opportunities exist, particularly in the following areas**
  - **Process-related issues**
    - **Contents**
    - **Clean vs. replace**
    - **Managing vendors**
    - **Evaluation**
    - **Subrogation**
  - **Other management-related issues**
- Therefore, we propose the following next steps
  - Additional in-depth analysis of the collected data
  - Preliminary design of structure and contents processes
  - Determining criteria and timing for fire test

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Contents is a large portion of the opportunity.

CONTENTS ISSUES

- Limited or no vendor management or direction
  - Vendor determines clearing
  - Paying cleaning bills as submitted
  - Pack out decisions made by vendor
  - Paying O&P on cleaning bills and/or appliances that are replaced
- Lack of adjusters' ability to determine cleaning vs. replacement
  - Few contents specialists in place; however, there are significant issues relating to their experience and work load
- Inventory issues
  - Adjuster not listing inventory – customer submits list
  - Adjuster not verifying inventory of nonsalvagable items
  - Lack of verification of LKQ for replacement
  - Salvage not being addressed
  - Lack of specific information on nonsalvagable items
- Lack of adequate price
  - Inadequate research on replacement costs
  - Minimal and/or insufficient depreciation being applied
  - Paying FRC up front before items are replaced

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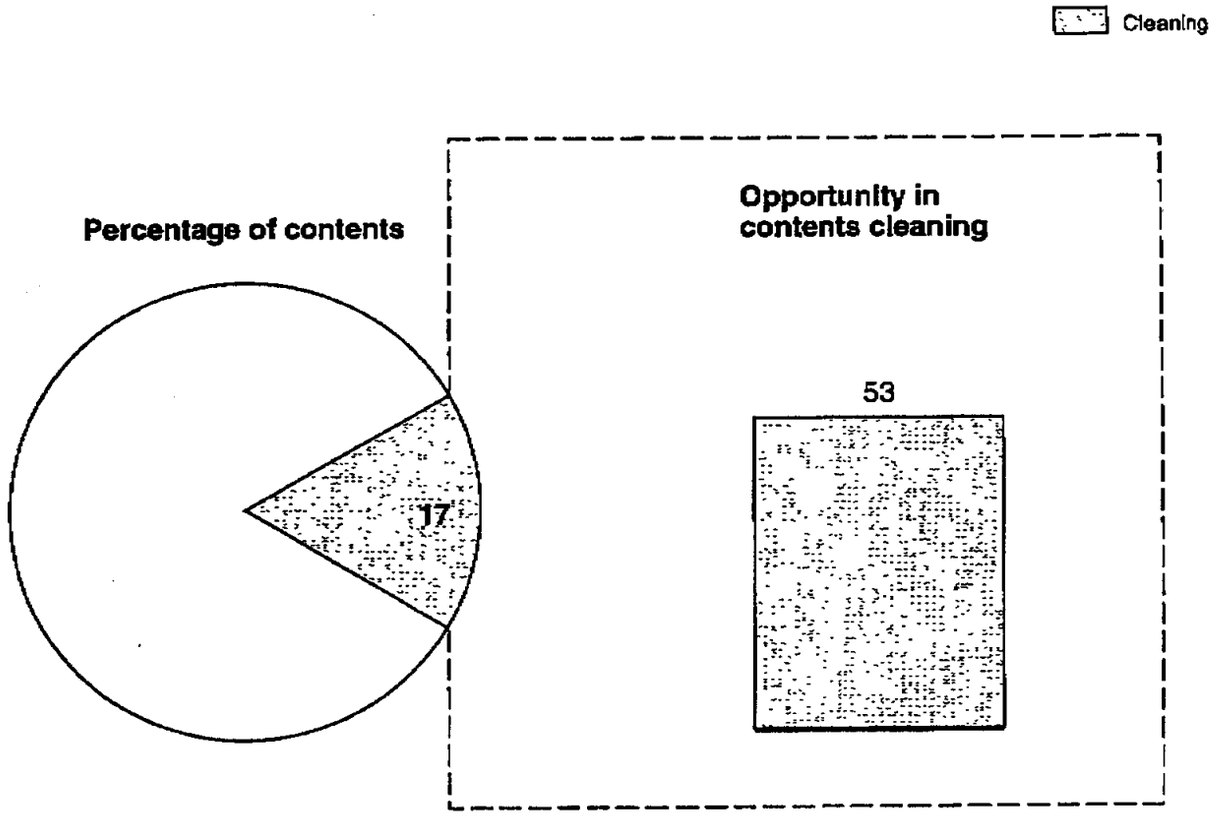
Opportunity is especially large in contents cleaning.

CLEANING VS. REPLACEMENT – CONTENTS

Percent



Source: Team analysis of fire CFR

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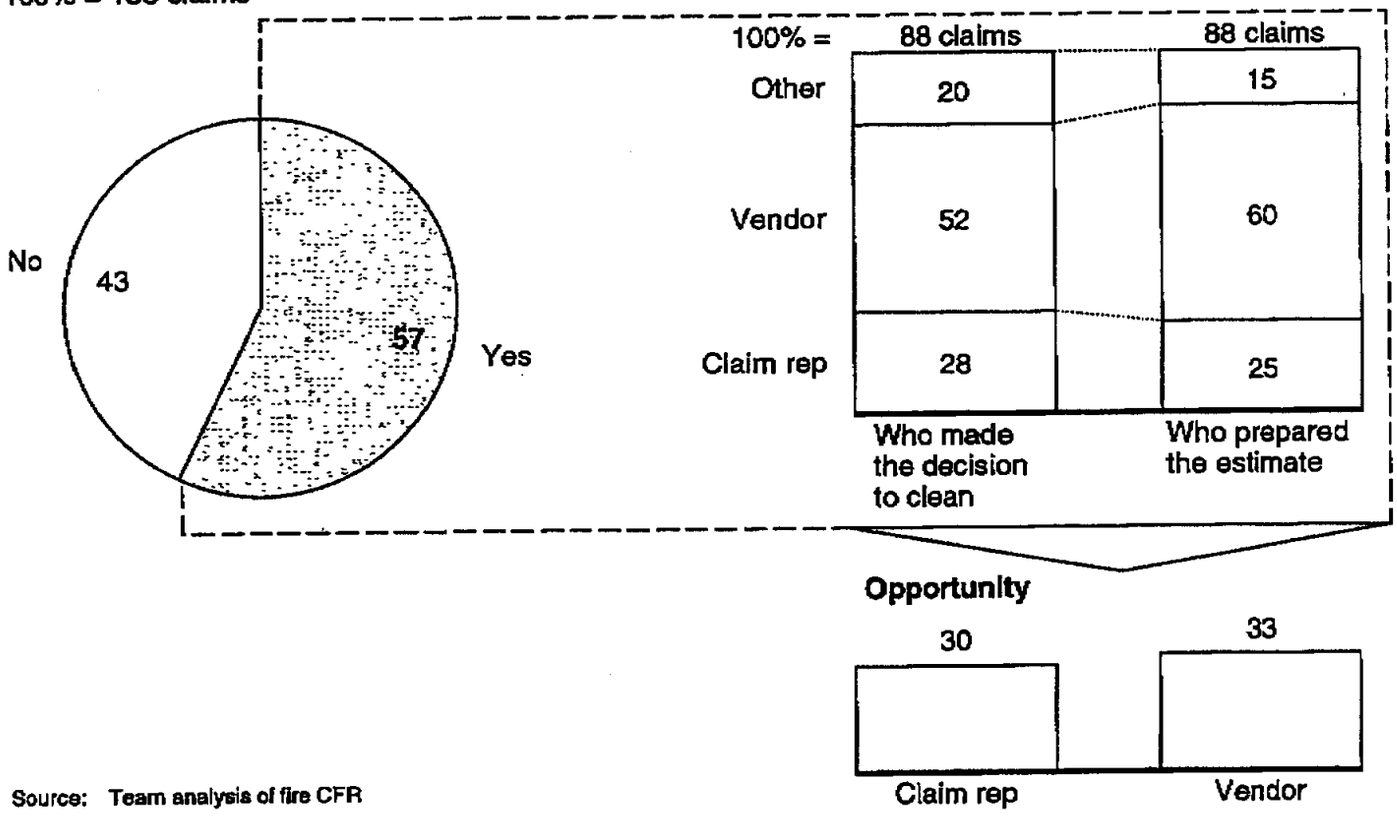
There is a very high opportunity in contents cleaning especially when a vendor is involved.

CONTENTS CLEANING

Percent

Was contents involved in the claim
100% = 155 claims



Source: Team analysis of fire CFR

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Structure items are being replaced without first determining if cleaning would have been successful.

CLEAN VS. REPLACE STRUCTURE ISSUES

- Scope is prepared at initial inspection with focus on replacement
  - Writing scope geared toward claim conclusion without supplements
  - There is a skill set issue in regards to cleaning structural items
- Insufficient direction and control of cleaning vendors by adjuster
- Referred vendors often performing both cleaning and repair/replacement activities, limiting incentive to properly clean

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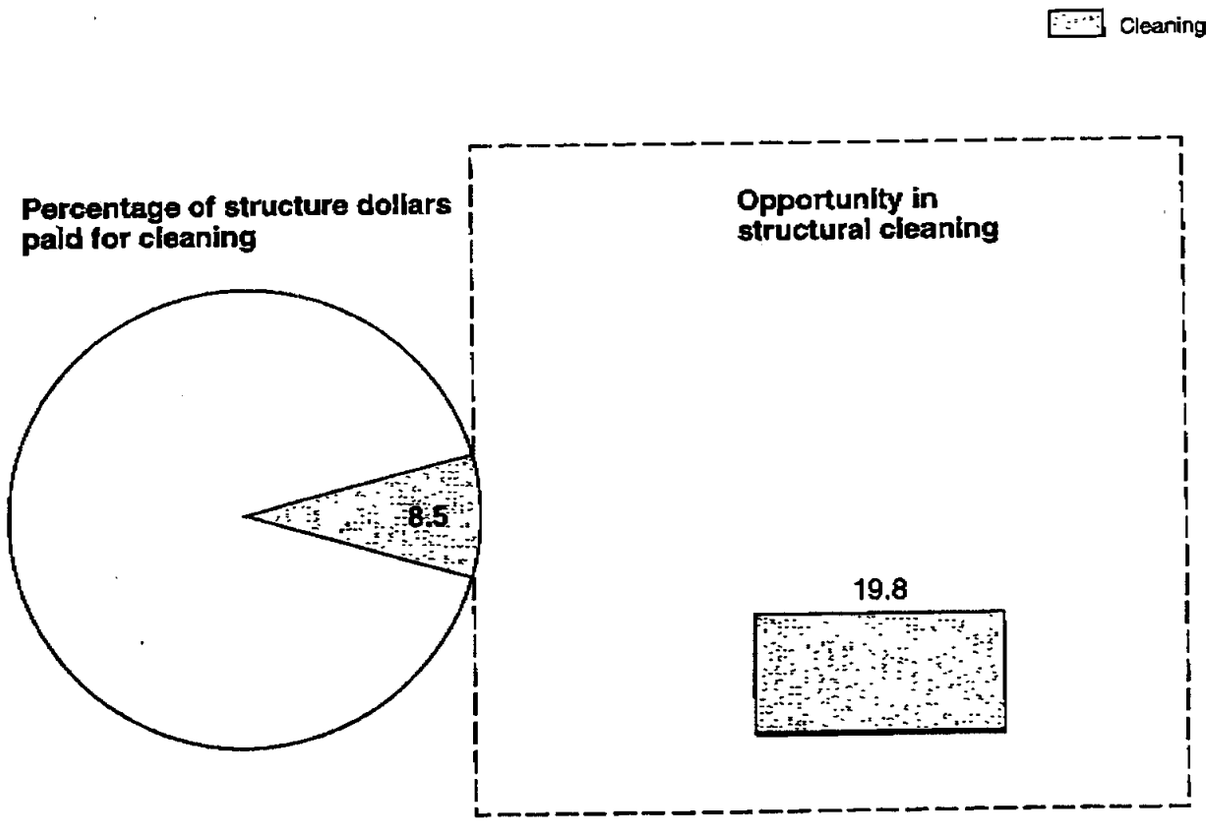
Although cleaning is small relative to structure dollars paid, there is a significant opportunity associated with it.

CLEANING VS. REPLACEMENT – STRUCTURE

Percent



Source: Team analysis of fire CFR

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Vendors are an active part of our claim handling process and are impacting our areas of opportunity.

MANAGING VENDORS

- There is still widespread use of QVP
  - There is insufficient control of the scope of loss
    - . Clean vs. replacement of both structure and contents items is being determined by the vendor
    - . We are paying for items not verified as damaged
  - We are not taking overlap deductions
  - Minimal use of alternative methods of repairs
  - Tendency of contractor to lump-sum and single-bid items which are not being verified
- We are not utilizing competitive bids

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There are a number of issues which affect the amount of opportunity found in the evaluation and cleaning of structure.

EVALUATION ISSUES

- Lack of skill and understanding of ACCUPRO estimating
- We are continuing to pay FRC prior to repair
- Lack of estimating fundamentals
  - We are failing to take overlap deductions, where applicable
  - We are not verifying like, kind, and quality on estimates
- Final estimate is being prepared during initial inspection, as a result, we are paying to replace items that may have been cleaned
- Normal expenses are not being deducted from ALE payments

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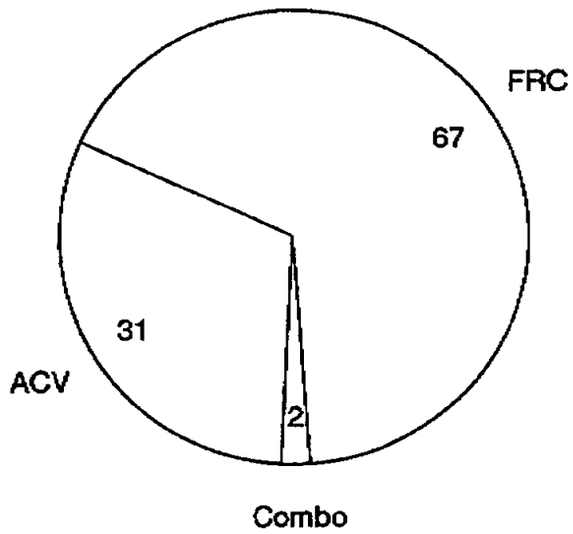
A majority of the claims are being settled on an FRC basis.

FRC VS. ACV SETTLEMENT OF STRUCTURE



Source: Team analysis of fire CFR

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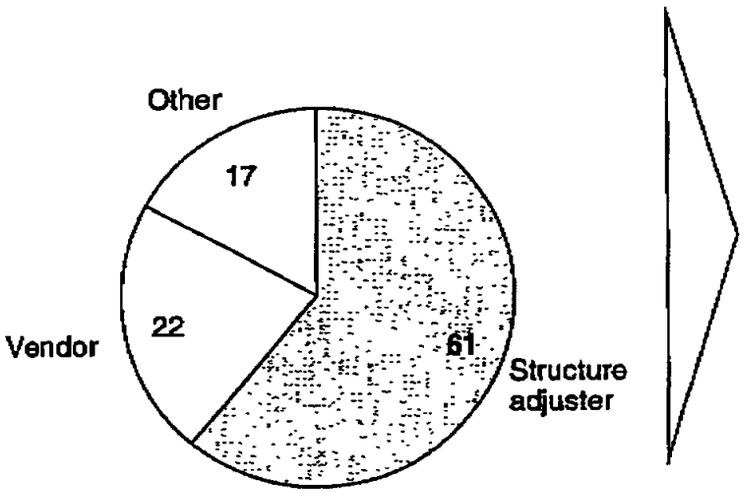
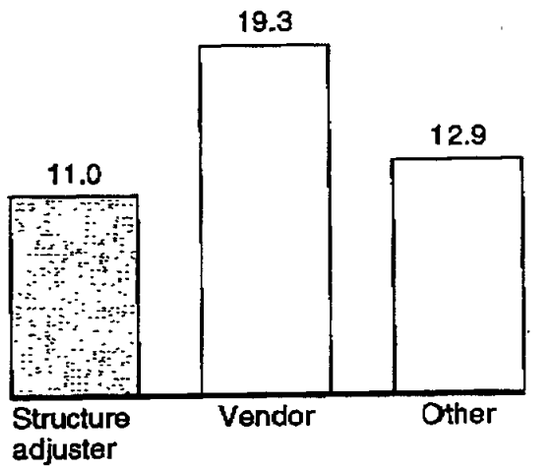
There is a significant opportunity when a vendor estimates the structure.

WHO PREPARED STRUCTURE ESTIMATE?

Percent



Opportunities in structure estimation



Source: Team analysis of fire CFR

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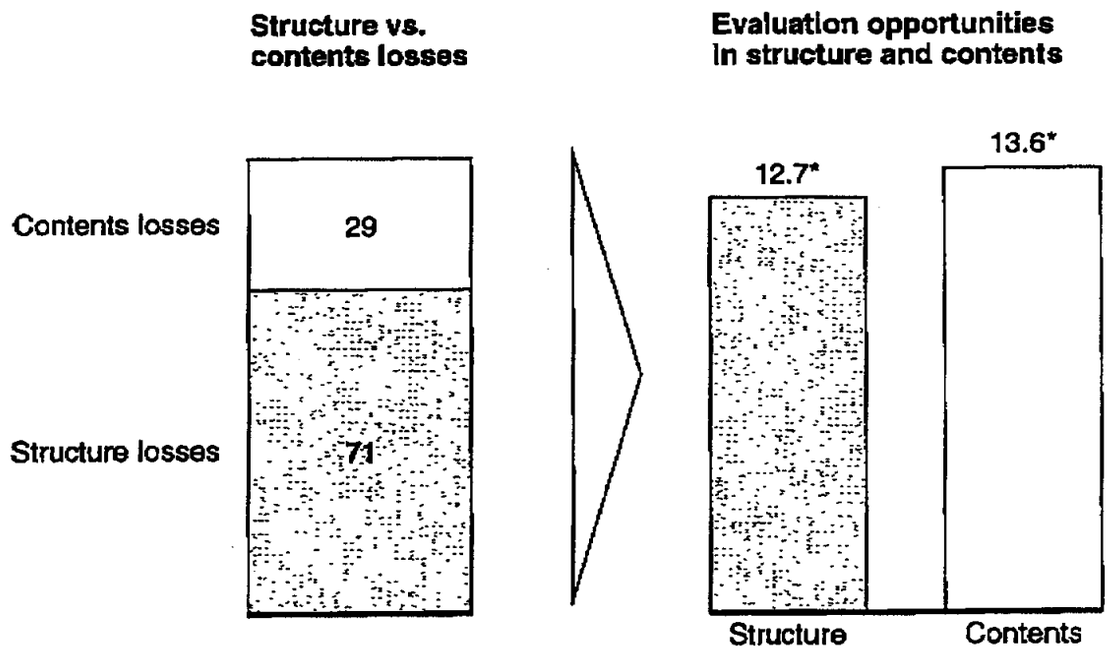
There is significant opportunity in the evaluation of both structure and contents.

STRUCTURE VS. CONTENTS OPPORTUNITIES IN EVALUATION

Percent



* The estimates excludes cleaning

Source: Team analysis of fire CFR

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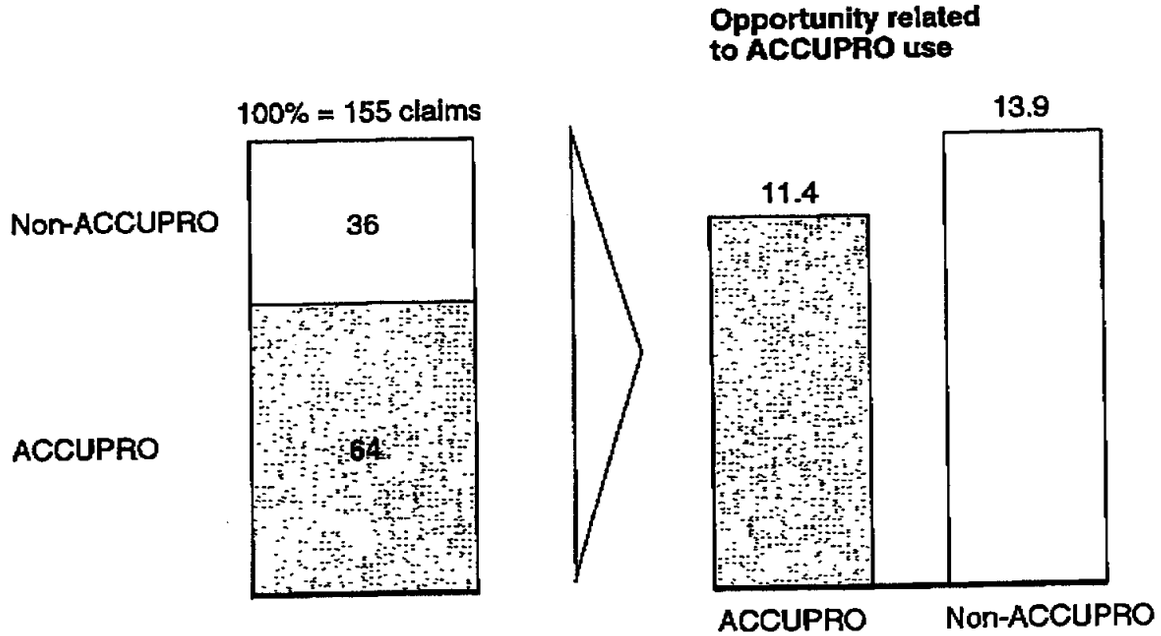
There is opportunity related to the usage of ACCUPRO as well as the quality of such usage.

UTILIZATION OF ACCUPRO – STRUCTURE

Percent



Source: Team analysis of fire CFR

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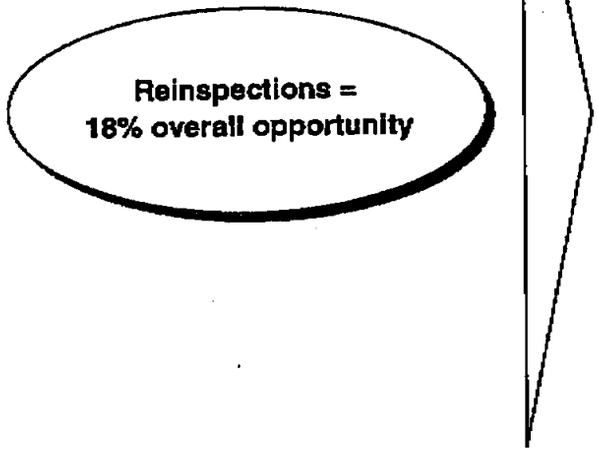
Reinspections show that the greatest opportunities seem to lay in four categories.

AREAS OF OPPORTUNITY IDENTIFIED IN REINSPECTIONS

Percent



Areas of opportunity	
Missed mitigation	**20**
Overlap	**16**
Clean vs. replace	**15**
Lump-sum bids	**12**
Obviously no damage	8
Like kind and quality	8
Measurement	5
Alternate repair method	5
Coverage	4
No visible damage	3
Depreciation	2
Repair vs. replace	2
Labor rates	1

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As subrogation is extremely time-consuming to pursue, we are often looking for ways to take shortcuts.

SUBROGATION ISSUES

- Subro/recovery hampered by lack of up-front investigation
  - Limited C&O investigation (adjusters making their best call, uncritically accepting customers' first impression)
- Subro filters in files does not necessarily mean that subro is being addressed

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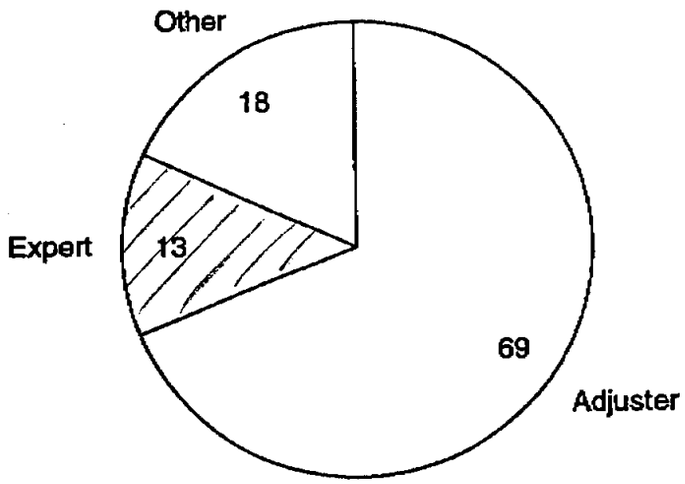
Experts determine the C&O only 13 percent of the time.

SUBROGATION AND RECOVERY



Source: Team analysis of fire CFR

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Many managers understand the need for measurement; however, it is not being consistently implemented nor regularly communicated to employees.

MANAGEMENT-RELATED ISSUES

- Measurement and management involvement
  - Lack of awareness by employees on how they are measured
  - Lack of feedback from management to claim reps
  - Many managers understand the need for measurement, but it is not in place on a consistent basis
- There is a staffing/skill-set issue in the field
  - Staffing/skill level drives file-handling toward fast-closure
  - Independent adjusters are being used where staffing is an issues

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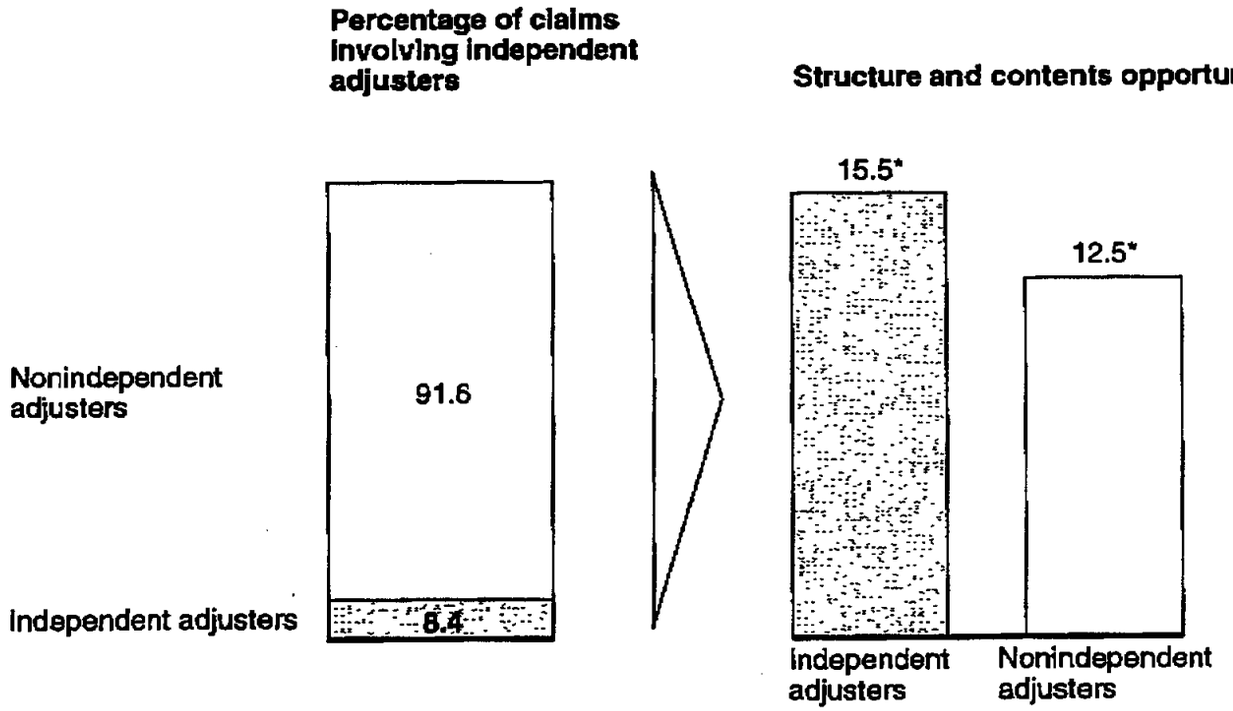
Opportunity in claims involving independent adjusters is higher than for nonindependent adjusters claims.

INDEPENDENT ADJUSTERS

Percent



Source: Team analysis of fire CFR

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KEY LEARNINGS

- While some elements of fire gap process appear to be working, it still does not capture all the major pockets of the opportunity. In addition, the application of the process is not being consistently applied
- Significant opportunities exist, particularly in the following areas
  - Process-related issues
    - . Contents
    - . Clean vs. replace
    - . Managing vendors
    - . Evaluation
    - . Subrogation
  - Other management-related issues
- **Therefore, we propose the following next steps**
  - **Additional in-depth analysis of the collected data**
  - **Preliminary design of structure and contents processes**
  - **Determining criteria and timing for fire test**

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After reviewing the gathered data and visiting various sites, we have developed a preliminary design outline for handling structure losses.

PRELIMINARY DESIGN WORK FOR STRUCTURE HANDLING – OVERVIEW

Who are they?	When do they go?	What do they do?				How are they measured?
		Customer service	Investigation	Evaluation	Recovery/ salvage	
1. Job description 2. Skill set 3. Tools	1. Tier chart based on severity of loss 2. Dispatcher assigns file based on tier level	1. Build customer rapport 2. Scripts • Explain coverages • Processes • ALE • PAs • Contents specialists • Advances 3. Give advance	1. Take statement from insured/ others 2. Determine need for C&O/other expert and contact 3. Direct securing of evidence/ establish theory of liability 4. Title search and court records 5. Take 35mm pictures	1. Test clean to determine and prepare scope 2. Prepare diagrams 3. Write only verifiable damages 4. Coordinate cleaning vendor and meet with contractor and/or insured to agree on scope 5. Determine LKQ materials for replacement 6. Input scope into Accupro • Small estimates to be written on-site • Apply depreciation 7. If subbids are obtained • At least 2 bids • Detailed and itemized 8. If necessary, meet with contractor and/or insured to get AP 9. Reinspect losses • Before decorating begins to verify scope of work/release FRC • Supplements over a specific dollar amount	1. Pursue subrogation based on C&O 2. Obtain bids/dispose of salvage per CSA guidelines 3. Transfer to subro coordinator	1. Initial inspection requirements 2. Settlement time schedule

* When handling contents, see preliminary design work for contents handling

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We have also developed a preliminary design outline for handling content losses.

PRELIMINARY DESIGN WORK FOR CONTENTS – OVERVIEW

Who are they?	When do they go?	What do they do?				How are they measured?
		Customer service	Investigation	Evaluation	Recovery/ salvage	
1. Job description 2. Skill set 3. Tools	1. Tier chart based on severity of loss 2. Dispatcher assigns file based on tier level	1. Build customer rapport/script 2. Script • Explain coverage • Advances	1. Video 2. Structure expert will direct investigation	1. Test clean, separate items 2. List cleanable items 3. Coordinate vendors 4. Determine pack out of items 5. Prepare scope for cleanable items 6. Prepare nonsalvagable restorable inventory list 7. Research competitive pricing/LKQ 8. Apply appropriate depreciation 9. Settle ACV with insured 10. Handle FRC as receipts are submitted per policy guidelines	1. Pursue subrogation based on C&O 2. Obtain bids/dispose of salvage per CSA guidelines 3. Transfer to subro coordinator	1. Initial inspection requirements 2. Settlement time schedule

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We have developed criteria for the selection of future fire test sites.

CRITERIA FOR FIRE TEST SITE SELECTION

- Fire is a significant issue for the CSA
- The CSA has an important amount of the countrywide losses
- The CSA has staffing adequate to participate in the test
- Prefer 2 MCOs that handle property within a reasonable travel distance of each other. Other options would include choosing 2 CSAs and having structured cross-team debriefs
- The CSA has an average or below-average fire severity performance

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Preliminary Closed-File Review Findings

ALLSTATE INSURANCE COMPANY

Team debrief

October 11, 1996

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OVERVIEW OF FINDINGS

- After 2 weeks in the field, initial CFR results suggest that there is a 20% opportunity in wind/hail claims and 32% opportunity in theft claims; the overall opportunity is 26%. Reinspection suggests the opportunity is even greater
- Primary drivers of opportunity within perils appear to be in coverage analysis, evaluation investigation, and subrogation. Cross-peril issues like training and staffing also drive opportunity
- Going forward, the team will complete the preliminary file scan next week, and spend the following 2 weeks adapting the review form based on our learnings and preparing for the final CFR

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NO. 0842 P. 17

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ACTIVITIES TO DATE

Visited 1 specialty and 3 multiline MCOs
- Tucson, Arizona
- Miami, Florida*
- Troy, Michigan
- Oklahoma City, Oklahoma

- Reviewed more than 200 files
- Conducted 48 reinspections
- Interviewed 24 field personnel
  - 12 adjusters
  - 4 UCMs
  - 4 PCMs
  - 2 MCMs
  - 2 CPSs
- Rode along with adjusters inspecting claims for 4 days

* Specialty MCO

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PRELIMINARY

INITIAL CFR OPPORTUNITY FINDINGS BY PERIL*

Percent

For CAT vs. non-CAT

	CAT	Non-CAT	Total
Wind/ hail	19	22	20
Theft	N/A	32	32
Total	19	28	26

For Allstate vs. Independent adjusters

	Allstate	Independents	Total
Wind/ hail	10	21	20
Theft	33	27	32
Total	32	22	26

* Includes 93 files reviewed between Oct 6-9

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INITIAL REINSPECTION OPPORTUNITY FINDINGS FOR WIND/HAIL CLAIMS*

PRELIMINARY

Percent

	Allstate	Independents	Total
CAT	N/A	34	34
Non-CAT	25	72	59
Total	25	61	46

* Includes reinspections completed September 30 through October 9

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PRIMARY OPPORTUNITY DRIVERS

- Opportunity in wind/hail claims appears to be driven by insufficient coverage analysis, improper scoping of damages, and poor identification of subrogation opportunities. These problems are magnified when independents are used
- The principle drivers of opportunity in theft claims appear to be inadequate investigation of loss facts and improper evaluation. Furthermore, contents specialists who lack proper theft handling skills are frequently assigned to handle theft claims
- Across perils, there appears to be opportunity to improve training, staffing levels, management involvement in the claims process, and CAT management

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COVERAGE ANALYSIS – WIND/HAIL

Primary issues	Examples
• Old damage not identified	• Hail damage, which is months old, reported as new damage; we replaced entire roof
• Losses covered that were not sudden and accidental	• Although drywall has various multicolored water rings from repeated leaks, loss was covered
• Deterioration identified as wind/hail loss	• Roof repair covered despite evidence of wet/dry rot, deterioration, and vegetation growing on roof
• Cause of loss covered	• Insured reported hail caused damage to roof; investigation revealed worn roof but no hail damage; roof replaced by Allstate
• Multiple losses not recognized	• Hail damage to roof paid for twice
	• Hail damage from multiple occurrences covered as single loss

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OCT. 10. 1996 5:49PM CH REPORT PRODUCTION NO. 0842 P. 22

SCOPING OF DAMAGES – WIND/HAIL

Primary issues

- Deductibles given away
- Improper or no measurement of damaged area
- Damaged structure replaced instead of repaired
- Improper pricing
- Depreciation not properly applied

Examples

- Homeowner given $250 for replacing 4-5 shingles; deductible was $250
- Adjuster recorded in diary that he waived the deductible because the insured agreed to make repairs
- Size of wire screen enclosure reported to be 230 sq. ft. larger than it actually is
- Inspected loss, but accepted estimate of contractor although estimate was clearly wrong
- Canopy frame could have been repaired, but whole frame was replaced
- Used $10 per sq. ft. price for aluminum overhang; local price actually $3 per sq. ft.
- 7-year-old roof only depreciated 10%

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OCT. 10. 1996 5:49PM CH REPORT PRODUCTION NO. 0842 P. 23

SUBROGATION – WIND/HAIL

Primary issue

- Subrogation discounted without proper investigation

Examples

- Diary entry shows subrogation was discounted before adjuster spoke with insured
- Canopy frame blown down, but there was no investigation of cause (e.g., date of installation, improper manufacture)

Quote(s)

- "I sometimes don't have time to follow up on subro, so I just write in the diary that I looked for it but there wasn't any (subro) potential."

  – Claim rep

Comment(s)

- Almost no discussion of subro with customer documented in files reviewed

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OCT. 10. 1996 5:49PM CH REPORT PRODUCTION NO. 0842 P. 24

INDEPENDENTS – WIND/HAIL

PRELIMINARY

- Opportunity in wind/hail losses inspected by independents is significantly higher* than in losses inspected by Allstate personnel; nevertheless, opportunity drivers appear to be the same as in files which Allstate inspected
- Broad use of independents in most offices
  - Inspect all wind/hail claims in 2 out of 4 offices visited
  - Frequent use of independents on CAT and non-CAT losses in 3rd office
  - Independent usage limited to CATs in 4th office
- Limited or no management of independents' performance
  - "We give up on independents too easily. We try them for 3 months, say they aren't any good, and throw them out. We don't do that to our own people." – PCS
  - "We don't have time to manage our own people. When would we find time to manage independents who won't be here very long?" – UCM

* Preliminary CFR results show 210% higher opportunity; reinspection showed a ~~74%~~ 144% higher opportunity

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OCT. 10. 1996 5:49PM CH REPORT PRODUCTION NO. 0842 P. 25

INVESTIGATION OF LOSS FACTS – THEFT

Primary issues

- Suspicious loss facts not investigated
- Proof of ownership not requested or investigated
- No background on insured gathered (e.g., date of birth, place of employment)
- Fraud indicators not recognized
- Assignment of contents specialists to handle theft claims

Examples

- $8,000 paid for items that were damaged or stolen during a move, but loss facts were not verified
- $1,000 of insured's weight equipment stolen from common area of apartment complex; no validation of loss facts
- Single female who lives alone reported that 3-4 men's suits were stolen from her house; proof of ownership was not requested
- Accepted inventory sheet of insured without verifying ownership

Quote(s)

- "Even if they don't have proof of ownership on large items like 42" televisions, we still have to pay the claim unless we can send it to SIU."

  – Claim rep

Comments

- Police reports confirming loss facts were not included in any of the files examined
- Insured background information not documented in any of the files reviewed

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Source page 178 of 490
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OCT. 10. 1996 5:49PM CH REPORT PRODUCTION NO. 0842 P. 26

EVALUATION – THEFT

Primary issues

- Improper pricing
- Depreciation not properly applied
- Lump-sum estimates of personal items accepted
- Items miscoded
- Reluctance to replace

Examples

- Did not check prices on insured's inventory list
- Accepted customer's price of $400 for 5-year-old microwave; did not apply depreciation
- Paid $800 for miscellaneous tools without itemization and description from insured
- $1,700 of jewelry coded to miscellaneous; internal limit on jewelry was $1,000

Quote(s)

- "Because insureds can't see and feel items [before purchase from replacement vendors] they don't want them replaced."

  – Claim rep

Comments

- Interviews suggest claims are unfamiliar with most replacement resources (e.g., Waxman carries tools)

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OCT. 10. 1996 5:50PM CH REPORT PRODUCTION NO. 0842 P. 28

EMERGING PROCESS IMPROVEMENT HYPOTHESES

PRELIMINARY

	Wind/hail	Theft
Contact	• Require more detailed description of damages from insured (e.g., measurements)	
Coverage	• Require use of coverage checklist	• Take recorded statements from insured at beginning of investigation • Require use of coverage checklist • Enforce proof of ownership clause on large items (e.g., televisions, computers)
Evaluation	• Teach claim reps impact of deductible giveaways • Require photographs and measurement of inspected damages • Encourage claim reps to offer appearance allowances and/or repairs before replacements	• Teach claim reps how to "sell" replacement vendors to insureds
Documentation	• Provide claim reps with structured diary	• Provide claim reps with structured diary

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OCT. 10. 1996 5:49PM CH REPORT PRODUCTION NO. 0842 P. 27

HYPOTHESES FOR CAPTURING CROSS-PERIL OPPORTUNITIES

PRELIMINARY

Opportunity area	Hypotheses	Rationale
Training	• Build clearly defined training modules designed to capture wind/hail and theft opportunity • Increase access to training programs and resources • Build follow-up training programs	• No standard process for handling wind/hail and theft claims • Claim representatives' requests to attend training turned down because of insufficient space or overburdened MCO staff • Long-time employees frequently unclear about basic skills (e.g., ACCUPRO, theft investigation)
Staffing	• Create staffing model which facilitates staffing of Allstate personnel on wind/hail claims • Base claim representatives from residences • Specialize adjusters around processes	• MCOs unable to staff wind/hail claims with Allstate personnel • Residence-based claim representatives appear more efficient • Theft specialists currently processing too many other types of files to develop expertise
Management involvement	• Free-up management time to ride along with and coach claim representatives, and conduct reinspections and file reviews	• Management involved in only 1 file reviewed
CAT management*	• Treat CAT claims the same as non-CAT claims to the extent possible • Ensure Pilot adjusters receive the same management attention as is recommended for Allstate personnel on non-CAT claims	• CAT claims treated differently than non-CAT claims – Emphasis on closing files too quickly – Less documentation – Little management of pilot adjusters

* Primarily reviewed files closed priorl to implementation of new CAT processes

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Source page 181 of 490
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			Loss	Exp
Fire -	Structure	118	20	2
	Contents	53	9	–
Theft	Contents	76	13	–
Water	Structure	146	25	5
Wind	Structure	76	13	3
		469	81	10
Total		582		

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Source page 182 of 490
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Measure	Current tracking	Future Method
Water Peril Severity ** cwa & cwp	C122- one or multiple	OIS;including all water perils look at peril definition too
Mitigation; use, success, cost **	manual logs	HDS- screen inputs
# of losses inspected in process	manual logs, C527 mech disp	mech disp by peril
Accupro on site	Ride alongs, ? File reviews	Accupro internal clock stamp
Subro submissions **	manual logs	HDS, list 56
Reinspection results	C3259	Mech disp enhancement
Process Compliance- I / S	file reviews	HDS screen review for UCM
Process Compliance- O /S	file reviews	Accupro report on form use
Customer Sat-cwa	ICSS	ICSS- by peril
Customer Sat-cwp	phone contact via UCM	ICSS- by peril
Same day contact- I / S **	file reviews	HDS - mech diary
Contact O / S	file reviews	HDS - mech diary
Tier level	file reviews	HDS

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October 11, 1996
Debrief

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BRIAN DITTLE

1. Coverage Analysis
2. Fire Gap States
3. Allocated Expense

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CCPR PROPERTY COVERAGE ANALYSIS

OWNERS

- TOTAL PERILS: PAID LOSSES BREAKOUT 67% DWELLING AND 28% CONTENTS
- 90% OF EXPENSE IS DWELLING AND CONCENTRATED IN WATER, WIND, & FIRE
- 2% OF PAID LOSS IS FOR ADDITIONAL LIVING EXPENSE
- FIRE ACCOUNTS FOR 32% OF PAID LOSSES WITH 64% OF THIS IN DWELLING
- WATER IS SECOND WITH 28% OF PAID LOSSES AND 90% IN DWELLING

RENTERS/CONDO

- TOTAL PERILS: PAID LOSSES BREAKOUT 25% DWELLING AND 71% CONTENTS
- ADDITIONAL LIVING EXPENSE IS 3% OF PAID LOSSES
- 40% OF PAID LOSS IS IN THEFT PERIL UNDER CONTENTS COVERAGE
- WATER IS SECOND WITH 31% OF PAID LOSSES OF WHICH 67% IS DWELLING

MOBILEHOME

- TOTAL PERILS: PAID LOSSES BREAKOUT 72% DWELLING AND 26% CONTENTS
- WATER AND FIRE COMBINED ACCOUNT FOR 64% OF PAID LOSSES
- WINDSTORM REPRESENTS 16% OF PAID

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CCPR PROPERTY COVERAGE ANALYSIS - AUGUST YTD 1996

LINE GROUP	PERIL GROUP	COVERAGE	PAID LOSS	*DIST.*	EXPENSE	% TO PAID	CWA	CWP	CLOSURES	*DIST.*	CLOSED COST	AVG EXPENSE
OWNERS	OTHER EC	AA	18,795,268	73%	412,382	2.19%	11905	4506	16411	66%	1,170	25
OWNERS	OTHER EC	BB	2,072,461	8%	23,705	1.14%	2400	880	3280	13%	639	7
OWNERS	OTHER EC	CC	4,360,357	17%	10,923	0.25%	3346	1224	4570	18%	957	2
OWNERS	OTHER EC	DD	497,562	2%	695	0.14%	506	149	655	3%	761	1
			25,725,647		447,705	1.74%	18,157	6,759	24,916		1,050	18
OWNERS	OTHER AEC	AA	8,836,387	89%	242,957	2.75%	6368	2928	9296	87%	977	26
OWNERS	OTHER AEC	BB	447,390	5%	4,642	1.04%	310	170	480	4%	942	10
OWNERS	OTHER AEC	CC	583,042	6%	2,720	0.47%	510	340	850	8%	689	3
OWNERS	OTHER AEC	DD	43,886	0%	61	0.14%	79	20	99	1%	444	1
			9,910,705		250,380	2.53%	7,267	3,458	10,725		947	23
OWNERS	FIRE	AA	118,574,184	64%	2,201,223	1.86%	13492	1565	15057	48%	8,021	146
OWNERS	FIRE	BB	5,102,326	3%	84,568	1.66%	1294	256	1550	5%	3,346	55
OWNERS	FIRE	CC	53,187,545	29%	159,613	0.30%	9373	2021	11394	36%	4,682	14
OWNERS	FIRE	DD	7,833,550	4%	11,187	0.14%	2742	845	3587	11%	2,187	3
			184,697,605		2,456,590	1.33%	26,901	4,687	31,588		5,925	78
OWNERS	LIGHTNING	AA	17,133,636	57%	408,173	2.38%	17227	4919	22146	49%	792	18
OWNERS	LIGHTNING	BB	561,707	2%	5,703	1.02%	785	286	1071	2%	530	5
OWNERS	LIGHTNING	CC	12,172,751	41%	67,510	0.55%	15809	6135	21944	48%	558	3
OWNERS	LIGHTNING	DD	107,791	0%	0	0.00%	109	31	140	0%	770	0
			29,975,886		481,387	1.61%	33,930	11,371	45,301		672	11
OWNERS	THEFT	AA	6,879,222	8%	236,184	3.43%	12259	4897	17156	21%	415	14
OWNERS	THEFT	BB	364,035	0%	411	0.11%	972	440	1412	2%	258	0
OWNERS	THEFT	CC	75,764,680	91%	569,184	0.75%	53253	10696	63949	77%	1,194	9
OWNERS	THEFT	DD	17,142	0%	0	0.00%	35	13	48	0%	357	0
			83,025,079		805,779	0.97%	66,519	16,046	82,565		1,015	10
OWNERS	WATER	AA	146,417,223	90%	4,574,776	3.12%	85062	31027	116089	82%	1,301	39
OWNERS	WATER	BB	607,140	0%	18,892	3.11%	476	491	967	1%	647	20
OWNERS	WATER	CC	15,145,853	9%	45,147	0.30%	14936	7861	22797	16%	666	2
OWNERS	WATER	DD	1,335,433	1%	175	0.01%	1586	448	2034	1%	657	0
			163,505,649		4,638,989	2.84%	102,060	39,827	141,887		1,185	33
OWNERS	WINDSTORM	AA	75,630,797	88%	2,655,309	3.51%	50920	17409	68329	80%	1,146	39
OWNERS	WINDSTORM	BB	8,005,763	9%	82,910	1.04%	9475	2132	11607	14%	697	7
OWNERS	WINDSTORM	CC	2,197,048	3%	6,587	0.30%	3856	1768	5624	7%	392	1
OWNERS	WINDSTORM	DD	180,666	0%	0	0.00%	118	38	156	0%	1,158	0
			86,014,274		2,744,806	3.19%	64,369	21,347	85,716		1,036	32
OWNERS	TOTAL	AA	392,266,716	67%	10,731,004	2.74%	197,233	67,251	264,484	63%	1,524	41
OWNERS	TOTAL	BB	17,160,822	3%	220,831	1.29%	15,712	4,655	20,367	5%	853	11
OWNERS	TOTAL	CC	163,411,276	28%	861,684	0.53%	101,083	30,045	131,128	31%	1,253	7
OWNERS	TOTAL	DD	10,016,030	2%	12,117	0.12%	5,175	1,544	6,719	2%	1,493	2
			582,854,844		11,825,636	2.03%	319,203	103,495	422,698		1,407	28

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CCPR PROPERTY COVERAGE ANALYSIS - AUGUST YTD 1996

LINE GROUP	PERIL GROUP	COVERAGE	PAID LOSS	*DIST.*	EXPENSE	% TO PAID	CWA	CWP	CLOSURES	*DIST.*	CLOSED COST	AVG EXPENSE
RENT/CONDO	OTHER EC	AA	301,311	31%	35,079	11.64%	257	131	388	37%	867	90
RENT/CONDO	OTHER EC	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	OTHER EC	CC	600,974	62%	12,227	2.03%	382	208	590	57%	1,039	21
RENT/CONDO	OTHER EC	DD	67,153	7%	0	0.00%	50	14	64	6%	1,049	0
			969,438		47,306	4.88%	689	353	1,042		976	45
RENT/CONDO	OTHER AEC	AA	130,674	65%	3,099	2.37%	191	108	299	76%	447	10
RENT/CONDO	OTHER AEC	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	OTHER AEC	CC	68,040	34%	454	0.67%	39	47	86	22%	796	5
RENT/CONDO	OTHER AEC	DD	882	0%	0	0.00%	3	3	6	2%	147	0
			199,597		3,553	1.78%	233	158	391		520	9
RENT/CONDO	FIRE	AA	932,549	11%	26,798	2.87%	520	139	659	24%	1,456	41
RENT/CONDO	FIRE	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	FIRE	CC	6,928,652	79%	105,845	1.53%	1232	276	1508	56%	4,665	70
RENT/CONDO	FIRE	DD	856,010	10%	983	0.11%	435	108	543	20%	1,578	2
			8,717,211		133,626	1.53%	2,187	523	2,710		3,266	49
RENT/CONDO	LIGHTNING	AA	120,882	11%	2,101	1.74%	179	49	228	9%	539	9
RENT/CONDO	LIGHTNING	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	LIGHTNING	CC	1,011,208	89%	9,618	0.95%	1599	723	2322	91%	440	4
RENT/CONDO	LIGHTNING	DD	7,668	1%	0	0.00%	6	1	7	0%	1,095	0
			1,139,757		11,719	1.03%	1,784	773	2,557		450	5
RENT/CONDO	THEFT	AA	126,417	1%	2,089	1.65%	265	130	395	3%	325	5
RENT/CONDO	THEFT	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	THEFT	CC	16,230,035	99%	182,352	1.12%	12557	2614	15171	97%	1,082	12
RENT/CONDO	THEFT	DD	1,443	0%	1,107	76.71%	5	2	7	0%	364	158
			16,357,895		185,549	1.13%	12,827	2,746	15,573		1,062	12
RENT/CONDO	WATER	AA	8,457,117	67%	220,023	2.60%	6398	2499	8897	63%	975	25
RENT/CONDO	WATER	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	WATER	CC	3,909,577	31%	35,296	0.90%	2798	1919	4717	34%	836	7
RENT/CONDO	WATER	DD	335,745	3%	179	0.05%	323	79	402	3%	836	0
			12,702,439		255,498	2.01%	9,519	4,497	14,016		925	18
RENT/CONDO	WINDSTORM	AA	202,549	55%	8,513	4.20%	226	110	336	57%	628	25
RENT/CONDO	WINDSTORM	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	WINDSTORM	CC	160,794	44%	2,325	1.45%	145	96	241	41%	677	10
RENT/CONDO	WINDSTORM	DD	4,863	1%	0	0.00%	7	4	11	2%	442	0
			368,207		10,838	2.94%	378	210	588		645	18
RENT/CONDO	TOTAL	AA	10,271,499	25%	297,701	2.90%	8,036	3,166	11,202	30%	944	27
RENT/CONDO	TOTAL	BB	0	0%	0		0	0	0	0%		
RENT/CONDO	TOTAL	CC	28,909,280	71%	348,118	1.20%	18,752	5,883	24,635	67%	1,188	14
RENT/CONDO	TOTAL	DD	1,273,765	3%	2,269	0.18%	829	211	1,040	3%	1,227	2
			40,454,544		648,089	1.60%	27,617	9,260	36,877		1,115	18

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CCPR PROPERTY COVERAGE ANALYSIS - AUGUST YTD 1996

LINE GROUP	PERIL GROUP	COVERAGE	PAID LOSS	*DIST.*	EXPENSE	% TO PAID	CWA	CWP	CLOSURES	*DIST.*	CLOSED COST	AVG EXPENSE
MOBILEHOME	OTHER EC	AA	433,414	74%	11,414	2.63%	386	190	576	73%	772	20
MOBILEHOME	OTHER EC	BB	142,389	24%	100	0.07%	131	64	195	25%	731	1
MOBILEHOME	OTHER EC	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	OTHER EC	DD	5,994	1%	0	0.00%	13	5	18	2%	333	0
			581,798		11,514	1.98%	530	259	789		752	15
MOBILEHOME	OTHER AEC	AA	402,173	72%	5,356	1.33%	67	20	87	55%	4,684	62
MOBILEHOME	OTHER AEC	BB	143,034	26%	0	0.00%	44	12	56	35%	2,554	0
MOBILEHOME	OTHER AEC	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	OTHER AEC	DD	13,587	2%	0	0.00%	11	4	15	9%	906	0
			558,794		5,356	0.96%	122	36	158		3,571	34
MOBILEHOME	FIRE	AA	5,251,444	61%	192,078	3.66%	730	115	845	46%	6,442	227
MOBILEHOME	FIRE	BB	3,093,295	36%	7,342	0.24%	607	126	733	40%	4,230	10
MOBILEHOME	FIRE	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	FIRE	DD	303,931	4%	95	0.03%	207	66	273	15%	1,114	0
			8,648,670		199,514	2.31%	1,544	307	1,851		4,780	108
MOBILEHOME	LIGHTNING	AA	884,980	50%	18,961	2.14%	1312	368	1680	45%	538	11
MOBILEHOME	LIGHTNING	BB	867,631	49%	3,667	0.42%	1478	550	2028	54%	430	2
MOBILEHOME	LIGHTNING	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	LIGHTNING	DD	1,810	0%	0	0.00%	10	7	17	0%	106	0
			1,754,421		22,628	1.29%	2,800	925	3,725		477	6
MOBILEHOME	THEFT	AA	314,583	11%	628	0.20%	698	334	1032	26%	305	1
MOBILEHOME	THEFT	BB	2,571,391	89%	21,812	0.85%	2449	504	2953	74%	878	7
MOBILEHOME	THEFT	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	THEFT	DD	335	0%	0	0.00%	2	1	3	0%	112	0
			2,886,309		22,440	0.78%	3,149	839	3,988		729	6
MOBILEHOME	WATER	AA	8,802,239	96%	264,437	3.00%	6603	1822	8425	87%	1,076	31
MOBILEHOME	WATER	BB	342,552	4%	1,343	0.39%	676	371	1047	11%	328	1
MOBILEHOME	WATER	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	WATER	DD	56,564	1%	0	0.00%	116	49	165	2%	343	0
			9,201,355		265,780	2.89%	7,395	2,242	9,637		982	28
MOBILEHOME	WINDSTORM	AA	4,173,800	94%	116,392	2.79%	3468	870	4338	88%	989	27
MOBILEHOME	WINDSTORM	BB	249,560	6%	1,001	0.40%	403	133	536	11%	467	2
MOBILEHOME	WINDSTORM	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	WINDSTORM	DD	18,089	0%	0	0.00%	22	11	33	1%	548	0
			4,441,449		117,393	2.64%	3,893	1,014	4,907		929	24
MOBILEHOME	TOTAL	AA	20,262,633	72%	609,267	3.01%	13,264	3,719	16,983	68%	1,229	36
MOBILEHOME	TOTAL	BB	7,409,852	26%	35,265	0.48%	5,788	1,760	7,548	30%	986	5
MOBILEHOME	TOTAL	CC	0	0%	0		0	0	0	0%		
MOBILEHOME	TOTAL	DD	400,310	1%	95	0.02%	381	143	524	2%	764	0
			28,072,796		644,626	2.30%	19,433	5,622	25,055		1,146	26

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FIRE GAP STATES

	FIRE Aug-96 SEVERITY	96/95 % VAR	95/94 % VAR	94/93 % VAR	Aug-96 CWA's
CONNECTICUT	13,522	18	-6	19	507
FLORIDA (ATLANTIC)	9,258	1	8	16	831
FLORIDA (GULF)	9,702	3	26	-5	977
MAINE	8,377	28	32	-29	151
MARYLAND	9,001	-19	19	-4	1,060
NEW HAMPSHIRE	12,108	66	-26	-12	128
NEW JERSEY	16,272	10	-3	25	803
NEW YORK (LONG ISLAND)	16,545	15	15	-2	789
RHODE ISLAND	11,347	9	-13	73	123
VERMONT	12,166	27	46	-54	75
VIRGINIA	7,149	-18	24	6	1,341
TOTAL FIRE GAP	10,965	0	11	5	6,785
TOTAL STATES	11,032	6	2	12	30,771
GAP PT. VAR		*-6*	*9*	*-7*	

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ALLOCATED EXPENSE PER CLOSURE ANALYSIS

TOTAL PROPERTY
EXCLUDING CATS

AUGUST YTD 1995	F/L	EC	AEC	CPL	THEFT	ALL PERILS
ALLOCATED EXPENSE	$10,331,924	$2,659,693	$6,343,943	$22,525,536	$3,788,626	$49,632,914
CWAs	75,282	84,143	142,463	23,596	100,574	479,641
CWPs	17,052	30,469	64,131	19,814	25,187	170,448
TOTAL CLOSURES	92,334	114,612	206,594	43,410	125,761	650,089
EXPENSE PER CLOSURE	$112	$23	$31	$519	$30	$76

AUGUST YTD 1996	F/L	EC	AEC	CPL	THEFT	ALL PERILS
ALLOCATED EXPENSE	$11,825,605	$4,636,845	$11,230,549	$25,211,182	$4,556,888	$62,295,927
CWAs	68,390	97,185	159,719	21,398	89,468	487,159
CWPs	15,832	34,253	70,506	19,344	23,574	177,232
TOTAL CLOSURES	84,222	131,438	230,225	40,742	113,042	664,391
EXPENSE PER CLOSURE	$140	$35	$49	$619	$40	$94
% VAR PER CLOSURE	25.48%	52.02%	58.86%	19.25%	33.81%	22.81%

SUPPLEMENT

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% ALLOCATED EXPENSE TO GROSS PAID

	Aug-96 ALLOCATED EXPENSE	Aug-96 % TO GROSS PAID * *	Aug-95 % TO GROSS PAID	96/95 CHG
TEXAS (HOUSTON)	3,213,155	9.66%	7.11%	2.56%
CALIFORNIA (SO CAL)	2,451,243	8.69%	5.80%	2.88%
CALIFORNIA (SACRAMENTO)	2,312,189	8.60%	6.88%	1.71%
HAWAII	122,111	8.54%	4.75%	3.78%
NEW YORK (NEW YORK LIBERTY)	2,921,680	8.00%	5.38%	2.63%
IOWA	99,233	6.97%	2.96%	4.01%
TENNESSEE	1,169,596	6.27%	5.35%	0.92%
NEW HAMPSHIRE	226,783	5.96%	4.45%	1.51%
LOUISIANA	1,415,079	5.88%	4.64%	1.23%
MONTANA	106,660	5.64%	2.39%	3.25%
FLORIDA (ATLANTIC)	1,633,632	5.61%	3.81%	1.80%
NEW YORK (LONG ISLAND METRO)	2,010,755	5.59%	4.47%	1.12%
RHODE ISLAND	202,027	5.33%	5.60%	-0.27%
NEW JERSEY	1,715,481	4.99%	5.14%	-0.16%
MINNESOTA	353,300	4.91%	3.67%	1.24%
FLORIDA (GULF)	1,476,674	4.89%	3.74%	1.15%
MISSOURI	295,018	4.74%	2.59%	2.15%
WYOMING	80,319	4.69%	7.57%	-2.88%
PENNSYLVANIA	2,152,391	4.52%	2.98%	1.54%
SOUTH DAKOTA	13,104	4.38%	1.58%	2.80%
KANSAS	166,634	4.32%	2.87%	1.45%
NEBRASKA	89,880	4.18%	5.22%	-1.04%
WISCONSIN	235,440	3.96%	3.52%	0.44%
NEW MEXICO	251,410	3.86%	3.20%	0.66%
OREGON	379,833	3.81%	2.71%	1.10%
WEST VIRGINIA	189,008	3.79%	2.57%	1.22%
WASHINGTON	652,292	3.70%	2.88%	0.82%
MAINE	91,912	3.63%	3.00%	0.63%
KENTUCKY	277,658	3.61%	3.92%	-0.31%
TEXAS (DALLAS)	1,388,079	3.61%	1.99%	1.62%
NEVADA	285,715	3.51%	2.53%	0.98%
NEW YORK (ROCHESTER)	849,474	3.46%	2.47%	0.99%
ALASKA	197,915	3.39%	5.84%	-2.46%
MISSISSIPPI	182,616	3.25%	2.57%	0.67%
TOTAL ILLINOIS	1,651,413	3.23%	2.91%	0.32%
ARIZONA	450,230	3.21%	2.30%	0.91%
OHIO	888,566	3.15%	2.93%	0.22%
UTAH	203,733	3.04%	2.67%	0.37%
CONNECTICUT	623,610	2.92%	2.81%	0.12%
MICHIGAN	1,214,317	2.87%	3.17%	-0.30%
OKLAHOMA	253,109	2.86%	5.43%	-2.57%
COLORADO	287,494	2.66%	3.22%	-0.57%
ARKANSAS	144,065	2.63%	1.02%	1.61%
IDAHO	60,278	2.57%	5.13%	-2.56%
SOUTH CAROLINA	359,917	2.53%	2.11%	0.42%
GEORGIA	637,045	2.42%	2.29%	0.13%
VERMONT	60,731	2.31%	3.01%	-0.70%
INDIANA	374,027	2.27%	1.74%	0.53%
DISTRICT OF COLUMBIA	29,625	2.10%	1.13%	0.97%
NORTH CAROLINA	451,934	1.94%	1.16%	0.78%
ALABAMA	295,872	1.93%	1.97%	-0.04%
DELAWARE	26,816	1.92%	3.34%	-1.42%
NORTH DAKOTA	16,482	1.63%	0.81%	0.82%
MARYLAND	449,487	1.56%	1.02%	0.53%
VIRGINIA	202,590	0.80%	1.04%	-0.23%
TOTAL US STATES		4.88%	4.13%	0.76%

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KEY ISSUES TO DISCUSS IN LEADERSHIP TEAM MEETING

1. Agree on near-term team structure and activities
   - Need for additional CFR resources or not
   - Fire vs. design teams
2. Agree on key decision points
   - Timing and basis for decision on peril/cross-peril focus
   - Timing and basis for decision on Phase 1 test sites
3. Address personnel issue

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METHODOLOGY FOR CALCULATING CFR STAFFING NEEDS

Files required — 250-300 per peril subgroup

- Wind/hail (non-CAT)
- Theft
- Wind/hail (CAT)

Total	= 750-900
Files reviewed during scan	= ~300
Files required from CFR	**= 450-600**

Reviewing capacity

Team of 4:	2-1/2	– CFR
Time	1	– Reinspections
Allocation	1/2	– Interviews

Files per person per day: 5

Total files per team per week
2-1/2 FTE x 4 full days x 5 files/FTE day = **50 files**

Additional files per person added
3/4 FTE x 4 full days x 5 files/FTE-day = **15 files**

Number of weeks required

With design team only:
450-600/100 files = **4-1/2-6 weeks**

With full core team:
450-600/100 + 60 files = **3-4 weeks**

With design team plus:
450-600/100+30 files (part-time fire or 2 additional resources) = **3-1/2-41/2 weeks**

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OPTIONS FOR TEAM STRUCTURE/FOCUS GOING FORWARD – SHORT/MEDIUM TERM

- Keep fire and design teams completely separate
  - Allow fire to focus on design and testing
  - Recruit additional resources to support design CFR
- Role fire into design team
  - Use entire team to complete design CFR
  - Begin design and test phase together
- Incorporate fire into overall team with split focus
  - Allow fire to begin design phase
  - Use fire team to "fill out" CFR need on part-time basis

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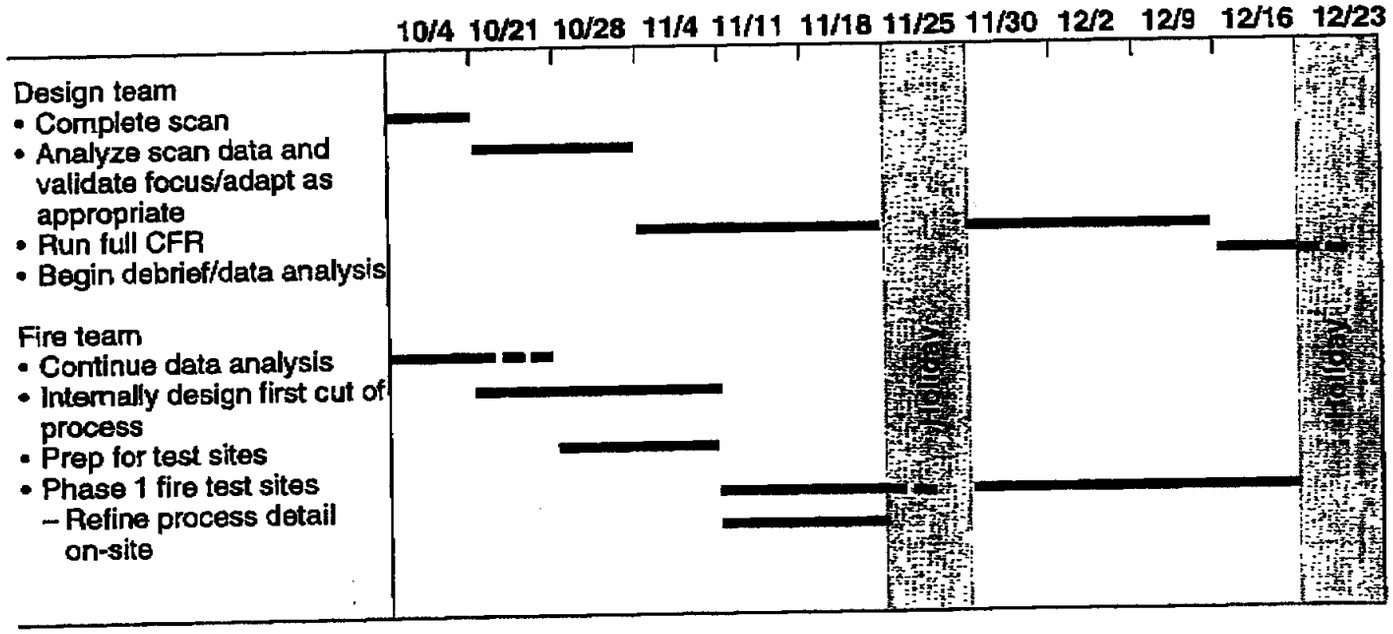
OPTION 1



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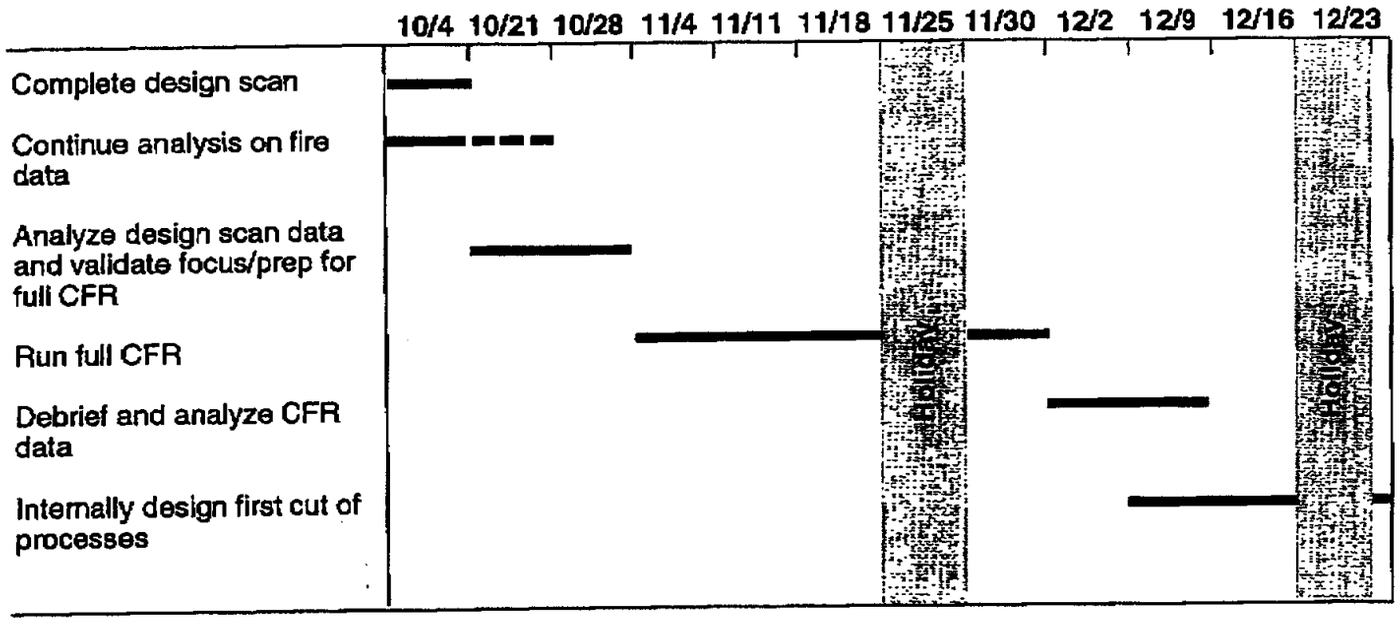
OPTION 2



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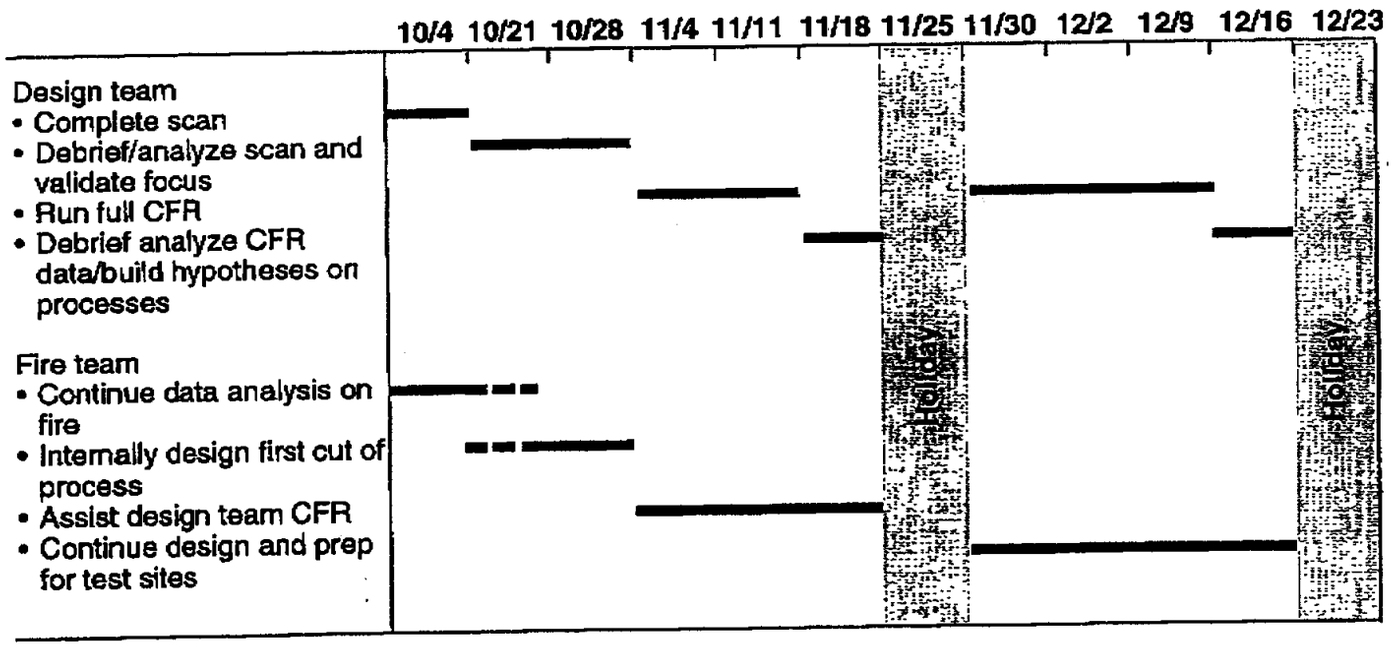
OPTION 3



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OPTION TRADE-OFFS

	Pros	Cons
Option 1 – fully separate teams	• Maintains fire's focus and momentum	• Creates significant time lags between design efforts • Potentially requires additional resources for design CFR
Option 2 – 1 fully integrated team	• Allows more speedy completion of design CFR with core team only • Aligns timing of design efforts	• Kills momentum of fire team
Option 3 – partially integrated teams	• Allows fire to maintain some critical momentum • Provides design team enough support to complete CFR without additional resources • Keeps thinking and hypotheses of 2 teams linked (especially on cross-peril issues)	• Forces fire team to have split focus • Slows fire design process

Merge the fire/design team
cross peril
do.

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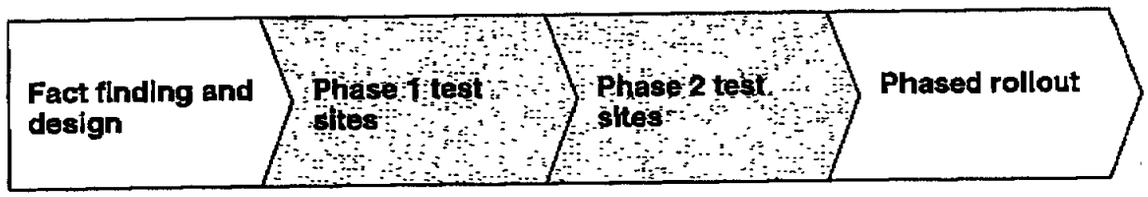
LONGER-TERM PROJECT STRATEGY



Description	Test processes for individual perils in separate locations to allow focus and isolated attention	Test processes as a combined, integrated solution Include appropriate "support" redesign (e.g., staffing and cross-staffing, management alignment, local vs. regional spans of control, etc.)	Roll out in groupings small enough to allow for sufficient focus and time to ensure success Make effort to specifically prep rollout sites to ensure they are able to take full advantage of rollout

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PRELIMINARY FINDINGS REGARDING AREAS OF OPPORTUNITY

Findings

- There is still significant opportunity both in process and nonprocess issues in fire
- The opportunities in both wind/hail and theft are consistent with or even greater than indicated by initial hit analysis
- Reinspection of wind/hail losses indicate even greater levels of opportunity
- Contents and independents are 2 quite important cross-peril issues
- The roll-back of the QVP program has made QVP less of an issue though still important in spots (e.g., fire cleaning)
- In affected MCOs, CATs have a substantial detrimental effect on the entire property claims area
- Staffing in the field is extremely stretched in much of the field

Implications

- The fire peril will require a relatively comprehensive design effort
- The perils of wind/hail and theft continue to display substantial opportunity
- The cross-peril issues targeted (contents, independents, QVP) are also proving out, though to somewhat differing degrees
- CATs, particularly small/medium CATs may need to be more actively considered in the upfront solutions
- The staffing situation in the field will require particular attention not only in rollout, but in testing as well

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NO. 0843 P. 11
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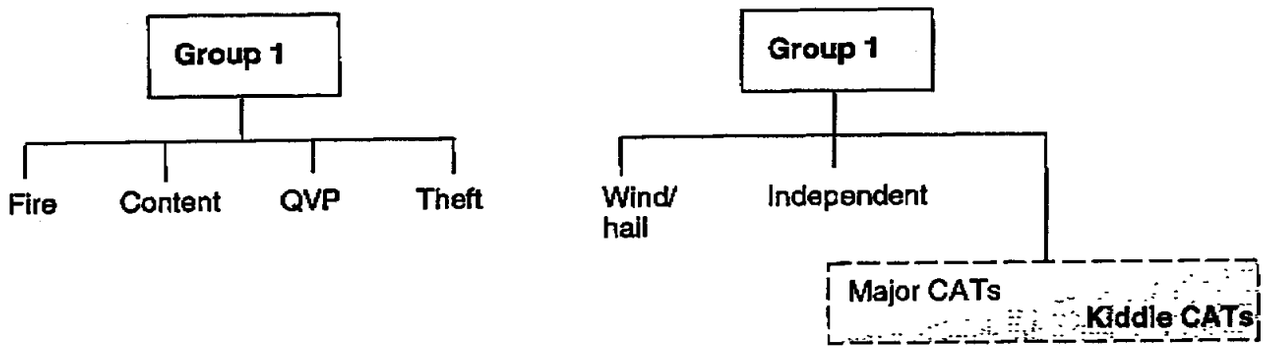
POTENTIAL PROCESS DESIGN TEAM ALIGNMENT



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NO. 0843 P. 12

KEY DECISION POINTS

Issue	Timing
Which perils/cross-peril issues will be in-scope	End October (after design team scan debrief)
Leadership of peril/cross-peril design efforts	
Structured and timing of first test cycles	End November
Selection of test sites	

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NEXT STEPS

- Agree on short-term team approach
- Set dates and times for next full team reviews and leadership meetings
- Agree on disposition of personnel issue

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PIC: * AccuPro training
* Mgt. Independents
Homeowner Meeting 10/11/96

Brian Dittle:

Need graphs for financial picture
Pie charts
- by coverage / by line
- by peril / by line
- including & excluding cats
- expenses

Jim Lyon:

Remove MCO names from all packs
Pilot exceptions: no cl#s - only if 100% pilot

Water Process: Measurement Brian Hansa

* Evaluation Issues:
- Accupro system need training

Put #'s to opportunity

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HOMEOWNER
10/30/96

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HOMEOWNER
10/30/96

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fin

Homeowner
10/30/96

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CONFIDENTIAL

Cross-Peril Opportunities

ALLSTATE INSURANCE COMPANY

Team debrief

October 30, 1996

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KEY FINDINGS/BELIEFS

- **Approximately 93% or $478 million of opportunity is captured in evaluation, coverage, and subrogation**
  - **On the more macro level, issues within these process steps are for the most part common across perils**
  - **Opportunity is driven by improper or nonapplication of basic adjusting techniques**
- The largest cross-peril issue is contents/replacement which drives $76 million of opportunity. Independents account for $27 million of opportunity in non-CAT. QVPs, which represent $14 million of opportunity, are used almost exclusively in fire losses
- The underlying causes within process steps and for cross-peril issues fall into 3 main areas
  - Inadequate staffing
  - Lack of management involvement in the claims process
  - Lack of training/basic adjusting skills
- Although there is more fact finding to be done, going forward it would appear that we need to focus on resolving issue-specific as opposed to peril-specific opportunities. Furthermore, we need to take a holistic approach to potential solutions. As a result, we will address a number of additional items during field visits

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The largest opportunities across perils exist in evaluation of structure and contents, coverage, and subrogation.

OVERALL OPPORTUNITY BY PROCESS STEP

	Mitigation	Coverage	Fraud	Evaluation (structure and contents)	Evaluation (cleaning and ALE)	Negotiation	Subro-gration	Salvage	Total
Overall									
$ millions	5.8	94.6	8.1	347.2	14.4	3.1	40.8	3.1	517.1
Percent	0.3	5.4	0.5	19.8	0.8	0.2	2.3	0.2	29.5
Cat									
$ millions	0	66.3	0	235.3	0	0	0	0	301.6
Percent	0	7.3	0	25.9	0	0	0	0	33.2
Fire									
$ millions	5.1	3.7	0	72.6	14.4	3.1	32.8	3.1	134.8
Percent	1.0	0.7	0	14.1	2.8	0.6	6.4	0.6	26.2
Theft									
$ millions	0	11.3	7.7	16.9	0	0	6.0	0	41.9
Percent)	0	6.1	4.1	9.1	0	0	3.2	0	22.6
Wind/hail (noncat)									
$ millions	0.7	13.3	0.4	22.4	0	0	2.0	0	38.8
Percent	0.5	9.8	0.3	16.5	0	0	1.4	0	28.5

Source: CFR; reinspections; OIS; C074 audit; working team analysis

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NO. 1328 P. 5

Coverage not investigated is a common issue across theft, wind/hail, and CATs. It is also the largest driver of coverage opportunity. Other coverage issues are similar across wind/hail and CATs.

COVERAGE

Issue	Fire	Theft	Wind/hail	Cats
Coverage not investigated		✔	✔	✔
Other insurance		✔		
Improper policy interpretation			✔	✔
Multiple losses			✔	✔

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Incorrect depreciation/improper use of FRC versus ACV was a common issue across all perils. Improper estimate calculation was common in perils where structural losses occur frequently.

EVALUATION – STRUCTURE

Issue	Subissue	Fire	Theft	Wind/hail	Cats
Scoping	Clean vs. replace	✔			
	Alternative repair methods	✔			
	Damages not related to loss			✔	✔
	Maintenance-related damages			✔	✔
Lack of estimating fundamentals	Improper estimate calculations (e.g., improper use of ACCUPRO)	✔		✔	✔
	Incorrect depreciation/FRC vs. ACV	✔	✔	✔	✔

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In contents evaluation, incorrect depreciation/improper use of FRC versus ACV was again a common issue. Most other issues were shared across fire and theft where contents losses are frequent.

EVALUATION – CONTENTS

Issue	Subissue	Fire	Theft	Wind/hail	Cats
Inventory	Accept insured's inventory sheet without verification	✔	✔		
	Clean vs. *repair*	✔			
Lack of estimating fundamentals	Accept insured's prices without verification	✔	✔		
	Little or no use of national replacement centers	✔	✔		
	Incorrect depreciation/FRC vs. ACV	✔	✔		✔

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NO. 1328 P. 8

Most of the issues related to subrogation were common across all perils. Subrogation was more likely to be pursued in fire where losses are often quite large.

SUBROGATION

Issue	Fire	Theft	Wind/hail	Cats
Limited or no investigation	✔	✔	✔	✔
Lack of identification	✔	✔	✔	✔
Poor handling by NAVP	✔			
Not pursued when recognized		✔	✔	✔

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KEY FINDINGS/BELIEFS

- Approximately 93% or $478 million of opportunity is captured in evaluation, coverage, and subrogation
  - On the more macro level, issues within these process steps are for the most part common across perils
  - Opportunity is driven by improper or nonapplication of basic adjusting techniques
- **The largest cross-peril issue is contents/replacement which drives $76 million of opportunity. Independents account for $27 million of opportunity in non-CAT. QVPs, which represent $14 million of opportunity, are used almost exclusively in fire losses**
- The underlying causes within process steps and for cross-peril issues fall into 3 main areas
  - Inadequate staffing
  - Lack of management involvement in the claims process
  - Lack of training/basic adjusting skills
- Although there is more fact finding to be done, going forward it would appear that we need to focus on resolving issue-specific as opposed to peril-specific opportunities. Furthermore, we need to take a holistic approach to potential solutions. As a result, we will address a number of additional items during field visits

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NO. 1328 P. 10

Our findings matched our original hypotheses about contents/replacement and independents. We found less use of QVPs than we expected.

CROSS-PERIL HYPOTHESES

Issue	Original hypotheses	What we found
Contents/ replacement programs	• Segmentation of structure and contents may be the most effective handling method • Replacement activity is below needed levels • Can impact severity positively if used properly	• The insured routinely priced and submitted the contents inventory • Some adjusters handle both the structural and contents portion of losses. It appears that this method of handling does not provide the best severity control • Replacement activity is relatively low • General lack of knowledge of available replacement resources • The carpet replacement evaluation process appears to take too long • Contents receiving secondary priority
Independents	• Heavily used in field due to inadequate staffing • Major driver of cross-peril opportunity • Frequently not managed	• Confirmed hypotheses • Replaced QVPs in the adjusting force • Represent significant economic opportunity • Receive little or no Allstate supervision • Heavily represented by Pilot adjusters
QVP	• QVP negatively impacts severity • Role of QVP may not be clearly defined in the field	• QVPs were not widely used in wind/hail and theft losses • Were a driver of opportunity in fire, mostly in the evaluation of large structural losses

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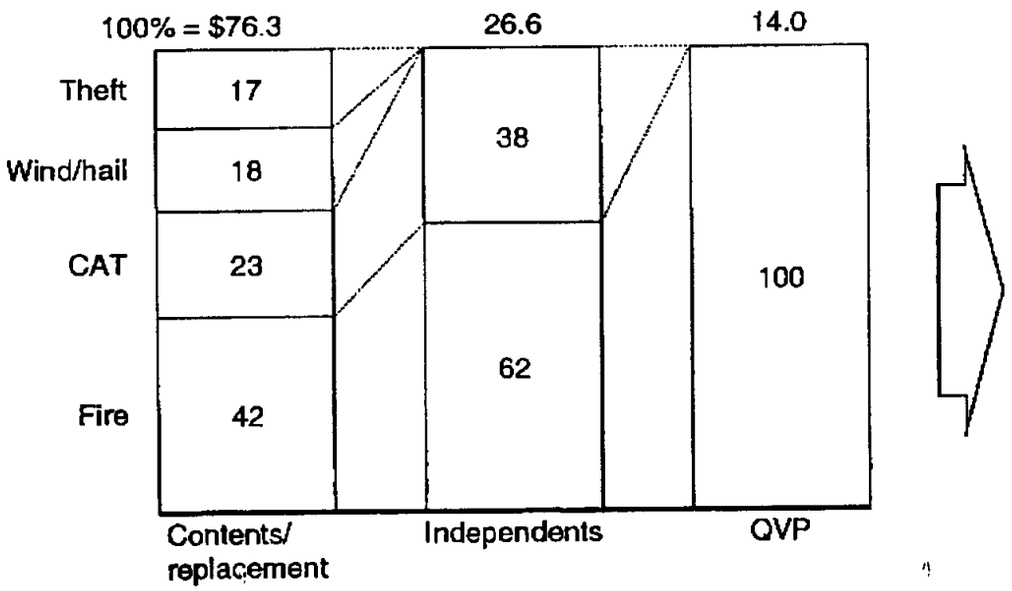
Contents/replacement is the largest cross peril. Independents are also a significant issue. QVP usage appears to be limited to fire losses.

OPPORTUNITY FOR INDEPENDENTS AND QVPs

$ Millions; percent



Methodology

- Identified files with independent or QVP involvement
- Determined which process steps involve independents or QVPs
- Calculated opportunity in process steps for independents or QVPs
- Calculated percent opportunity
- Multiplied percent opportunity by total paid loss to get total opportunity

Source: CFR; working team analysis

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KEY FINDINGS/BELIEFS

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  - **Lack of management involvement in the claims process**
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Three areas were frequently identified as the primary drivers of opportunity.

UNDERLYING CAUSES OF OPPORTUNITY ACROSS PERILS

Area	Description
Inadequate staffing	• Adjusters feel rushed to settle claims due to high work load; "short cuts" lead to errors • Adjusters settle losses that they are inadequately trained to handle • Independents, who lack appropriate customer service skills and receive little or no Allstate supervision, are used to settle losses
Lack of management involvement	• It appears that front-line managers are heavily involved in nonfront-line management activities • Managers' time is heavily involved in complaint handling • Front-line managers are often new to the position, and are still learning the job • There appears to be a lack of quality reinspections • Some managers lack technical background
Lack of skills/ training	• Manager unable to provide ongoing training – lack of time and/or ability • Poor reinspection activity leads to lack of identification of skill gaps • Lack of management ride-along activity to reinforce and train appropriate skills and behaviors • There appears to be little continuing training • Inadequate technical training to support our needs • Lack of available training resources (e.g., CPS training systems)

Source: CFR; interviews; team observations

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KEY FINDINGS/BELIEFS

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Moving forward, the team needs to further understand a number of issues.
That may impact the ultimate solution.

ISSUES TO ADDRESS MOVING FORWARD

PRELIMINARY

Staffing

- Current role definitions
- Current use of QVP and independents, and their effectiveness
- Volatility and seasonality of various perils, and their impact on claim processes
- Effectiveness of inside and field claim reps
- Impact of specialization/segmentation

Management

- Current role of management
- Management of Allstate staff vs. independents
- Management issues across perils
- Impact of specialization on management resources\
- Performance measurements

Skills/training

- Strong vs. weak skills
- Availability of training
- Methods of training administration

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Results from Design Team CFR Scan

ALLSTATE INSURANCE COMPANY

October 30, 1996

Team debrief

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The design team visited 6 MCOs over a 3-week period, conducting reinspections, interviews, and ride-alongs.

ACTIVITIES TO DATE

Equal number of files selected from quartiles based on loss size
- Theft quartiles
  - $100-1,000
  - 1,001-2,500
  - 2,500-5,000
  - 5,001+
- Wind/hail quartiles
  - $100-750
  - 751-1,500
  - 1,501-2,500
  - 2,501+

Visited 6 MCOs between September 30 and October 17, 1996
- 3 multiline
- 3 specialty

- Reviewed 323 files
  - 113 non-CAT wind/hail
  - 106 theft
  - 104 CAT wind/hail
- Conducted 95 reinspections
- Interviewed 36 field personnel
- Rode along with adjusters inspecting claims for 4 days

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KEY FINDINGS

- The CFR Scan uncovered significant opportunity in both theft and wind/hail
  - The opportunity in theft appears to be $42 million or 23%
  - Non-CAT wind/hail has a $39 million or 28% opportunity. Reinspections suggest the opportunity could be much higher. Opportunity appears to be consistent for both Allstate claim reps and independent adjusters
  - The team was unable to fully capture the CAT wind/hail opportunity due to the lack of information in the files, but it appears to be substantial*. This opportunity will be addressed by the CAT team
- The largest opportunities exist within the evaluation and coverage process steps. Significant opportunities also exist in theft around fraud and subrogation
  - Within these process steps, opportunity drivers focus around improper or nonapplication of basic adjusting techniques for both perils
  - Although the size varies, significant opportunity exists for almost all claim handlers

* CFR scan revealed $70 million or 16% opportunity in CAT wind/hail

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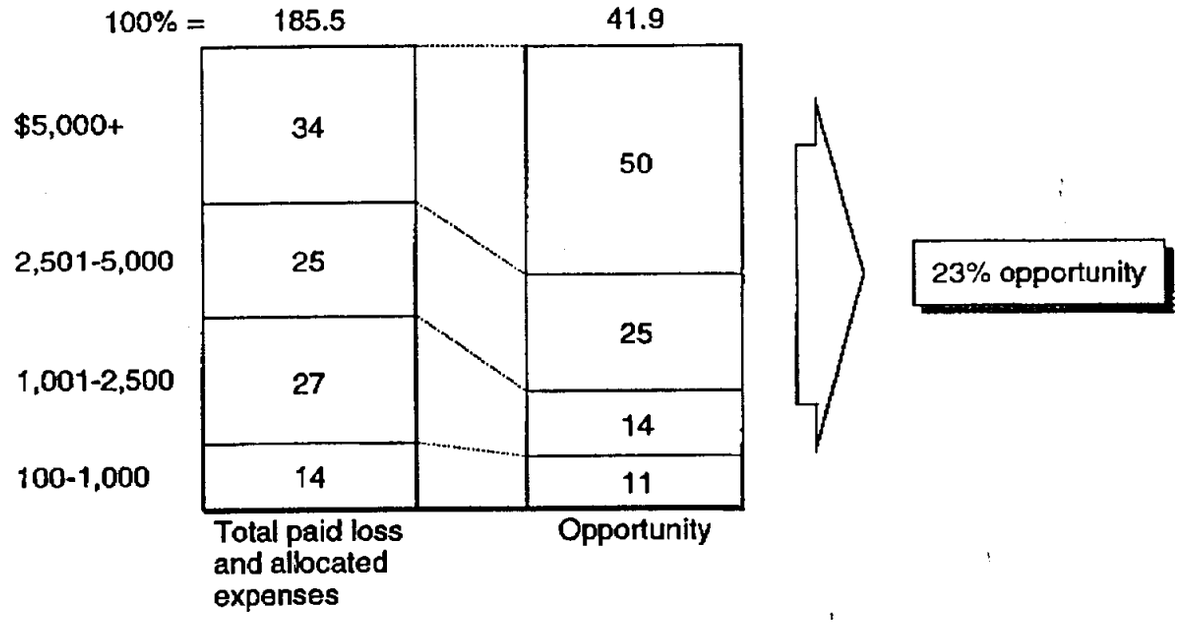
Economic opportunity of approximately $42 million exists in theft losses.

OVERALL THEFT OPPORTUNITY

$ Millions; percent



* Based on C074 audit of 5 CSAs

Source: CFR scan; OIS; C074 audit; working team analysis

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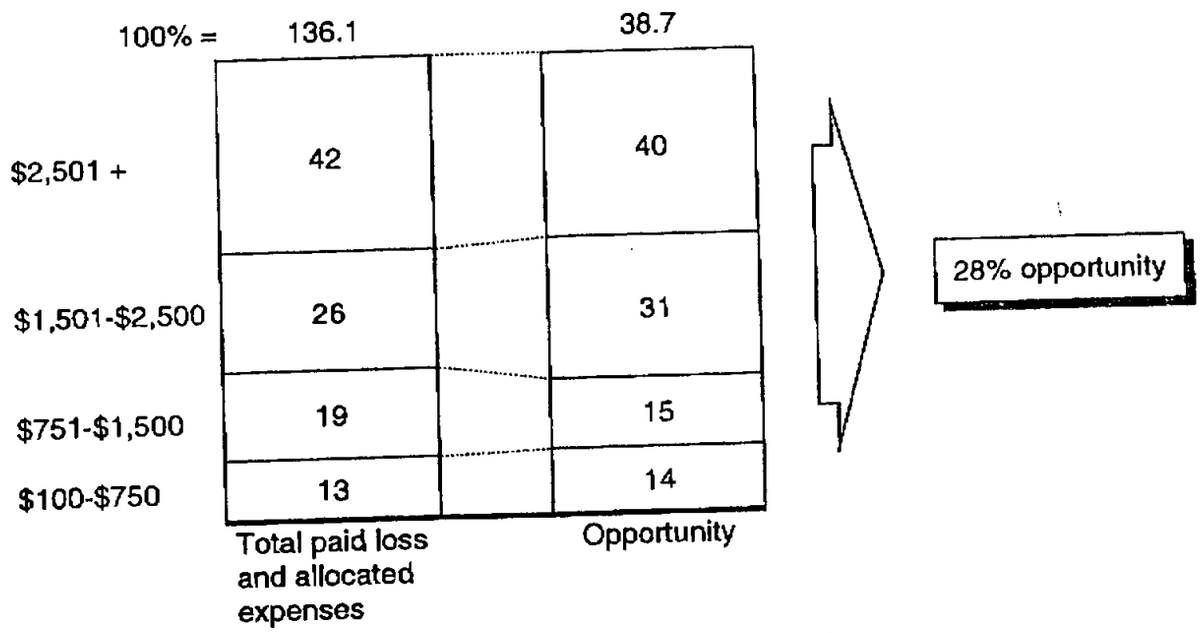
Based on the CFR scan results, approximately $39 million of opportunity exists in non-CAT wind/hail claims.

OVERALL NONCAT WIND/HAIL OPPORTUNITY

$ Millions; percent



- Based on C074 audit of 5 CSAs

Source: CFR scan; OIS; C074 audit; working team analysis

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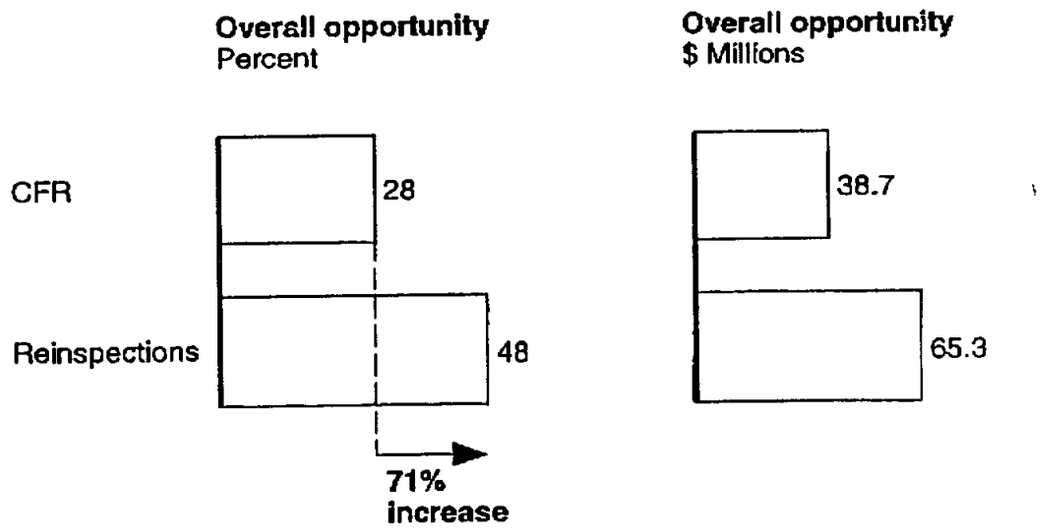
However, reinspections suggest the opportunity in non-CAT wind/hail claims is closer to $65 million.

OVERALL NON-CAT WIND/HAIL OPPORTUNITY FROM CFR VS. FROM REINSPECTIONS



Source: CFR; Field Reinspections; working team analysis

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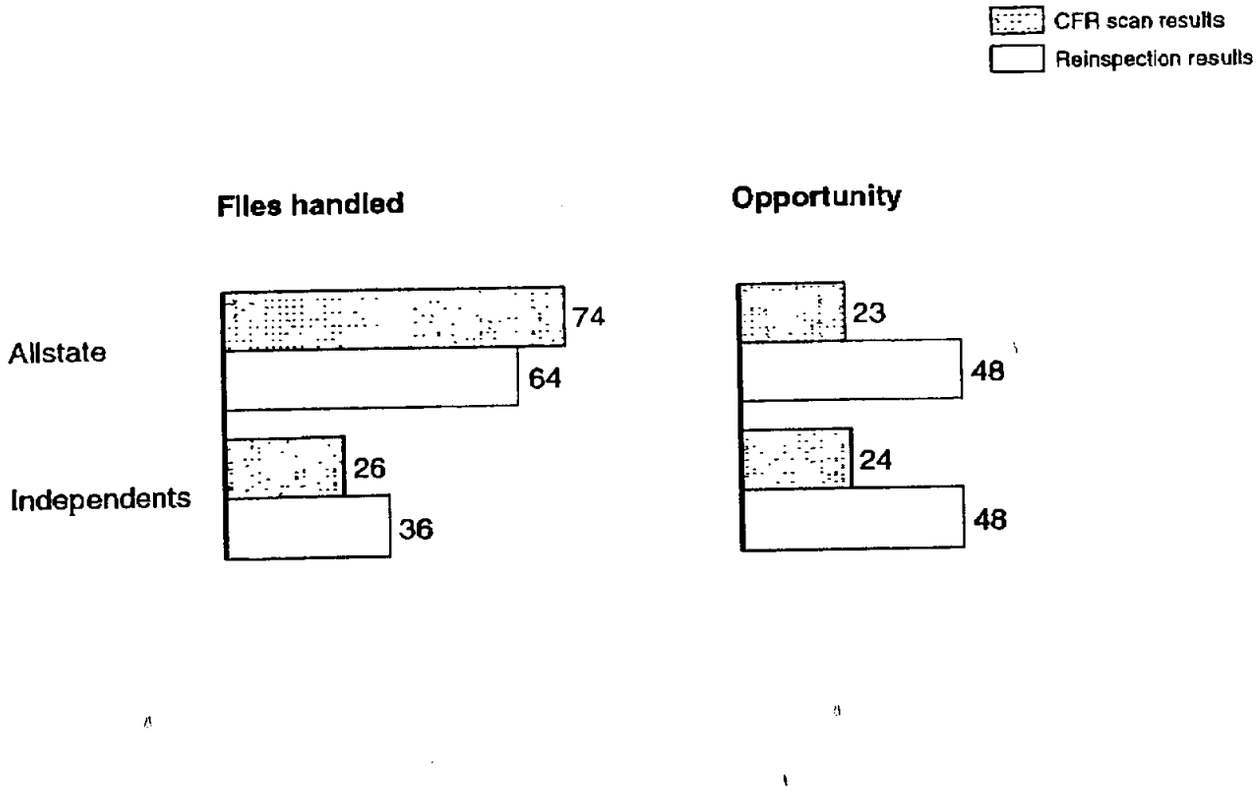
Both the CFR scan and reinspection results suggest the opportunity in non-CAT wind/hail is the same for Allstate and independent handled claims.

WIND/HAIL OPPORTUNITY FROM CFR AND REINSPECTIONS BY PRIMARY CLAIM HANDLER*

Percent



* Primary claim handler is defined as the person who handles the evaluation step of the claim

Source: CFR scan; Field Reinspections; working team analysis

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KEY FINDINGS

- The CFR Scan uncovered significant opportunity in both theft and wind/hail
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  - Non-CAT wind/hail has a $39 million or 28% opportunity. Reinspections suggest the opportunity could be much higher. Opportunity appears to be consistent for both Allstate claim reps and independent adjusters
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The largest buckets of opportunity for theft are evaluation, coverage, fraud, and subrogation. In wind/hail claims opportunity exists primarily in evaluation and coverage.

OPPORTUNITY BY PROCESS STEP

	Mitigation	Coverage	Fraud	Evaluation	Subro-gation	Total
Theft*						
$ Millions	0.0	11.3	7.7	16.9	6.0	41.9
Percent	0.0	6.1	4.1	9.1	3.2	22.6
Wind/hail						
Non-CAT						
• $ Millions	0.7	13.3	0.4	22.4	2.0	38.8
• Percent	0.5	9.8	0.3	16.5	1.4	28.5

* Adjusted by quartiles

Source: CFR scan; OIS; working team analysis

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The primary driver of both theft and wind/hail coverage opportunity is failure to analyze coverage.

COVERAGE OPPORTUNITY

Peril	Key drivers/issues	Description/example
Theft	• Coverage analysis not addressed	• Coverage issues ignored (e.g., single female living alone reports 3-4 men's suits were stolen from her house, no attempt to verify ownership) • Paid for dwelling loss with no indication of damage
	• Other insurance	• Lack of investigation for additional coverage
Wind/hail	• Coverage analysis not addressed	• All damages covered • No consideration of coverage issues
	• Improper policy interpretation	• Policy settlement options not properly applied (e.g., $2,500 FRC option) • Misapplication of sudden and accidental (e.g., roof leaked various times, damaging drywall; interior loss covered, despite not being sudden and accidental) • Loss not reported promptly, but covered
	• Multiple losses	• Roof damaged by various hailstorms; all losses covered under same claim

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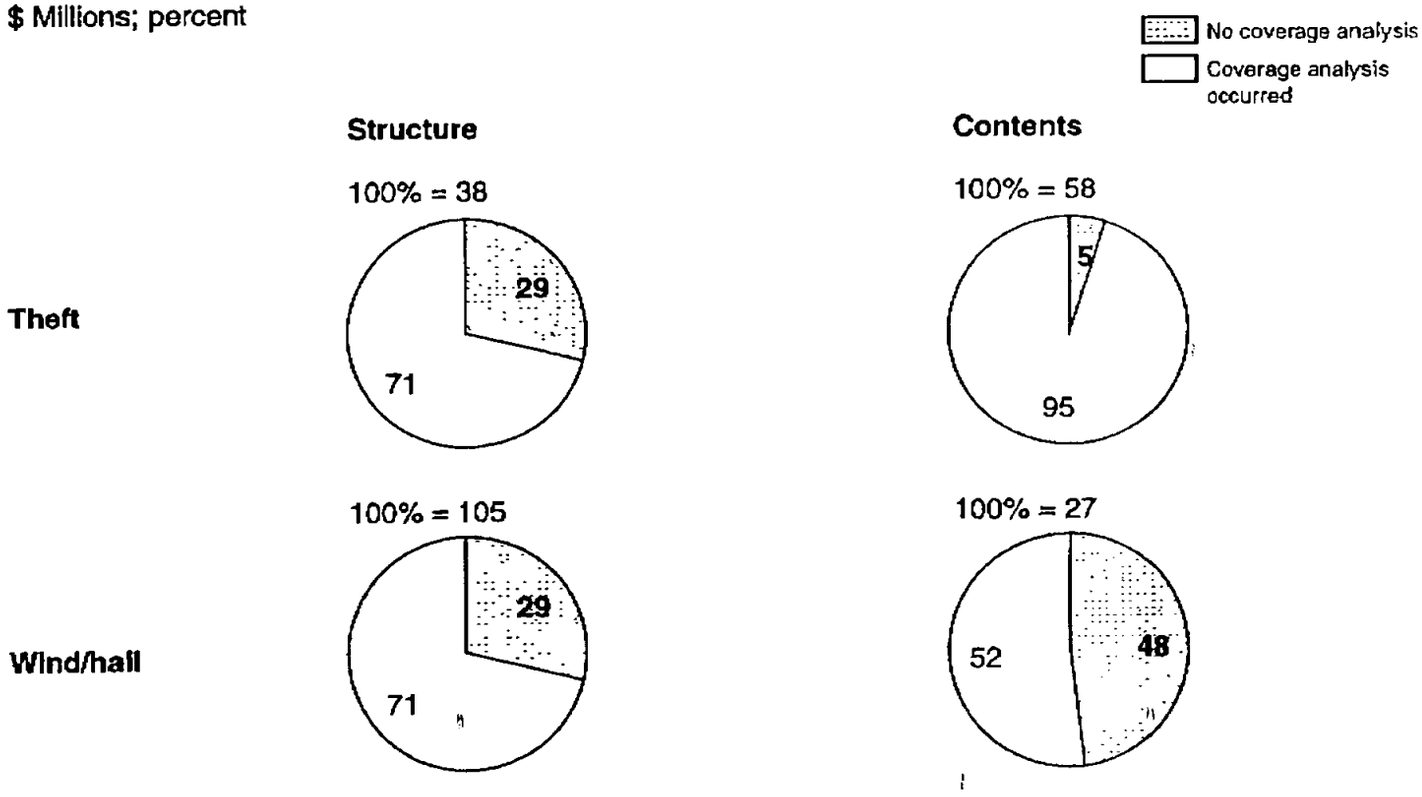
In theft files, adjusters failed to address coverage issues primarily when analyzing structural damage. However, the 5 percent of the time when they did not address contents coverage issues drove opportunity. Coverage analysis in wind/hail claims is frequently lacking for both structure and contents losses.

OCCURRENCE OF COVERAGE ANALYSIS IN FILES WHERE COVERAGE ISSUES EXISTED

$ Millions; percent



Source: CFR scan; working team analysis

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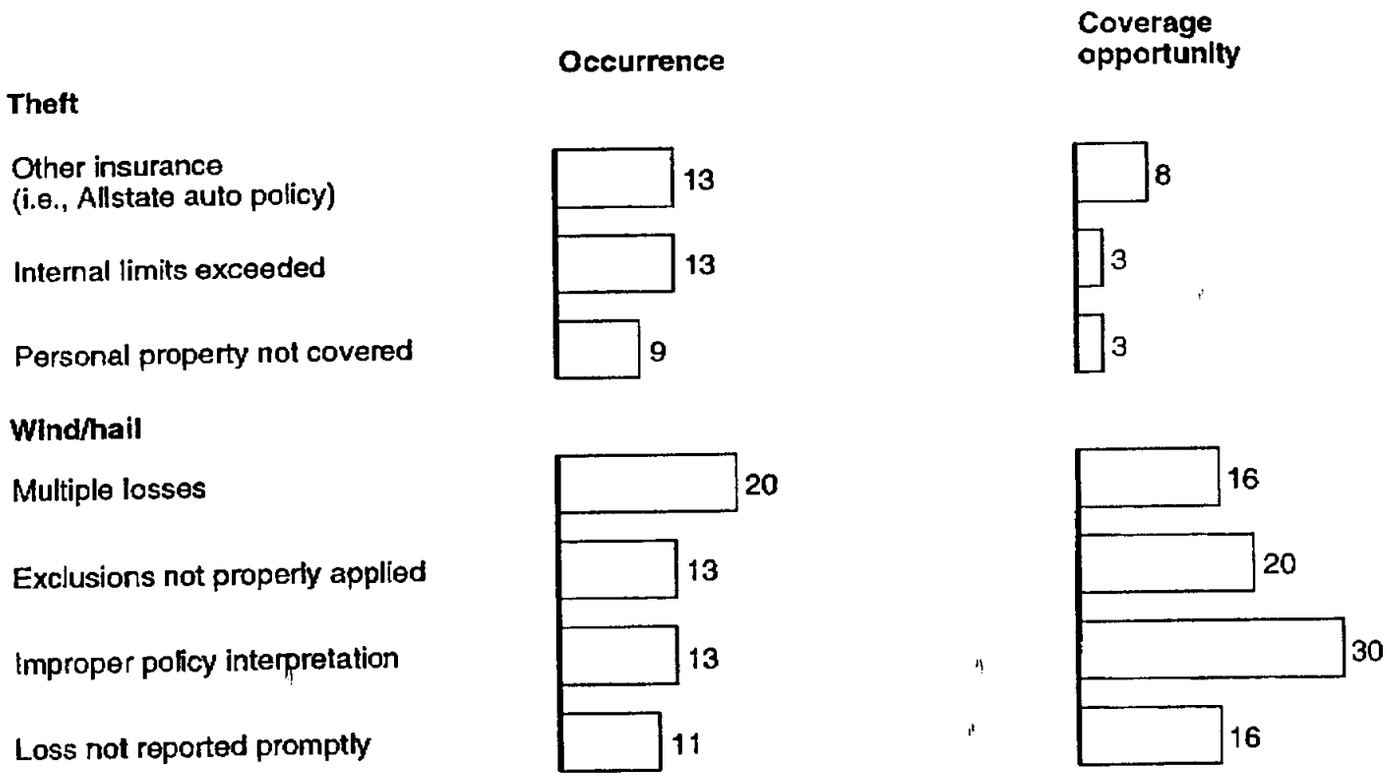
In theft files, adjusters most frequently failed to investigate other insurance and exceeded internal limits. In wind/hail claims, multiple losses occur most often. The largest opportunity appears to be in improper policy interpretation.

COVERAGE ISSUES DURING CLAIM HANDLING

Percent



Source: CFR scan; working team analysis

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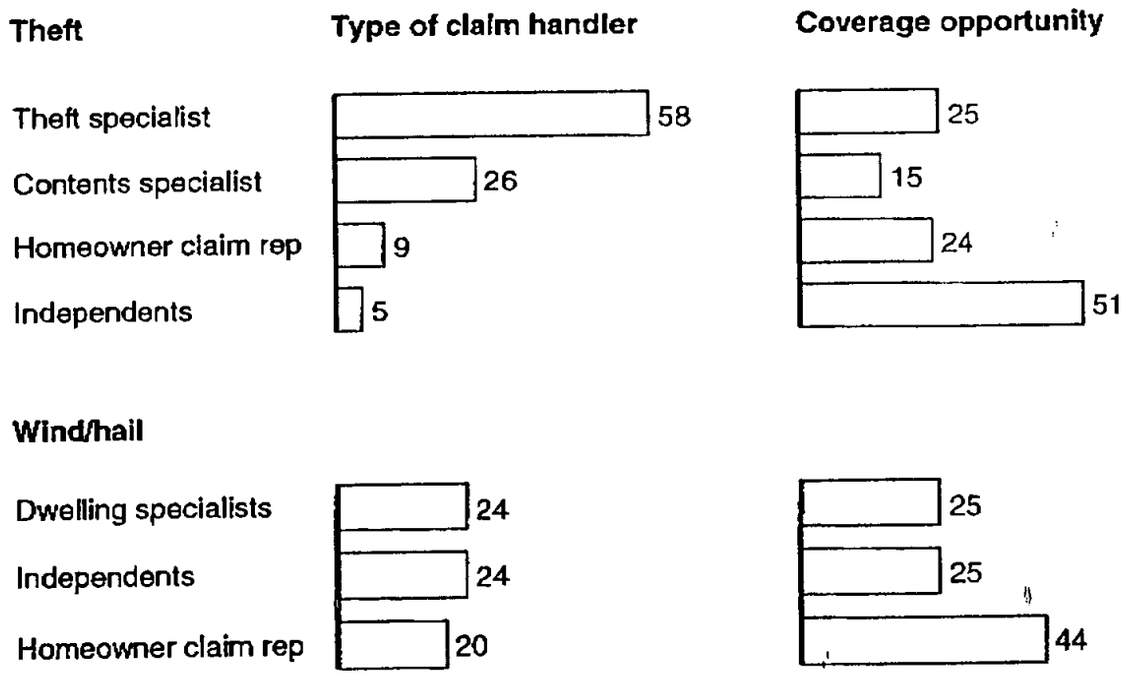
For both theft and wind/hail, double-digit coverage opportunity exists for the primary claim handlers.

COVERAGE OPPORTUNITY BY TYPE OF CLAIM HANDLER

Percent



Source: CFR scan; working team analysis

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Fraud opportunity is driven by failure to investigate when fraud indicators exist in a file.

FRAUD OPPORTUNITY

Peril	Key drivers/issues	Description/example
Theft	• Lack of fraud investigation when fraud indicators are present	• Little evidence that adjusters recognized fraud indicators • Theft specialists believe they will not be supported by management when investigating fraud claims • SIU guidelines discourage transfer of files • SIU guidelines inconsistent across CSAs

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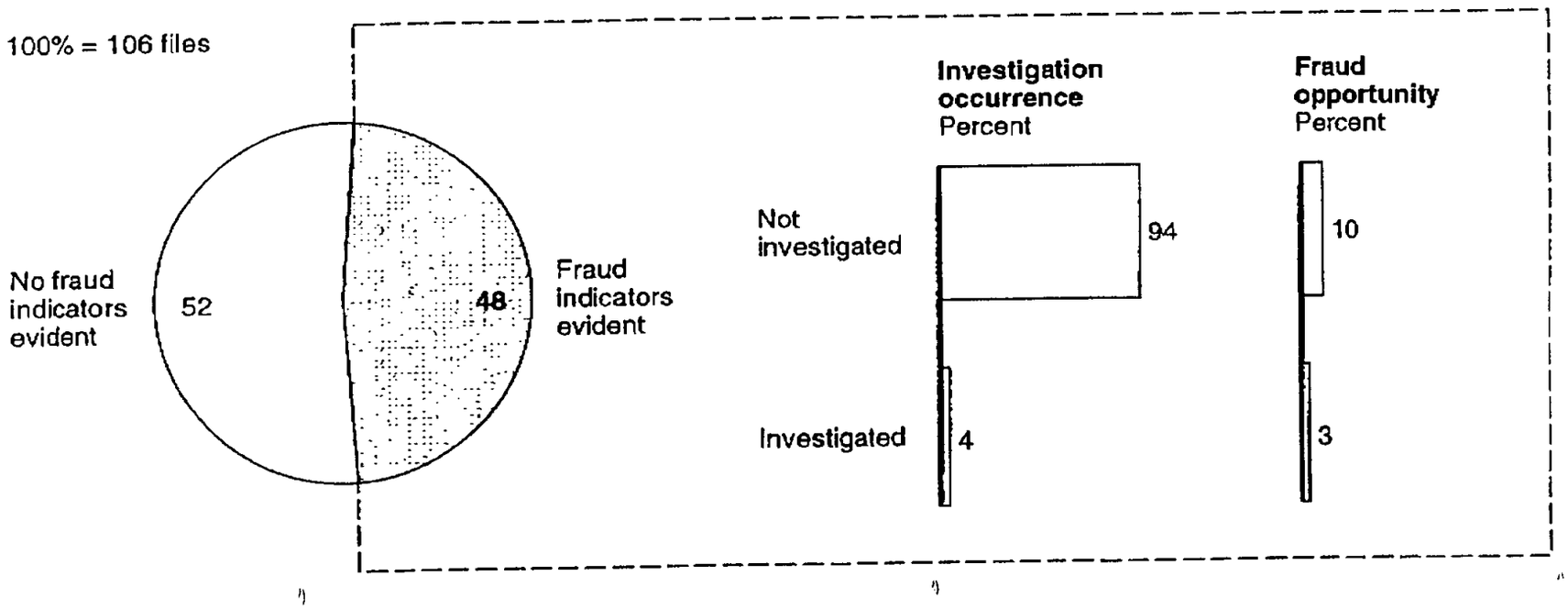
NO. 1015 P. 7

Fraud indicators were present in theft files 48 percent of the time. In those files, adjusters failed to investigate fraud 94 percent of the time.

PERCENT OF THEFT FILES INVESTIGATED WHEN INDICATORS EVIDENT

Number of files; Percent



Source: CFR scan; working team analysis

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Incorrect or no application of depreciation drives evaluation opportunity in both theft and wind/hail.

EVALUATION OPPORTUNITY

Peril	Key drivers/issues	Description/example
Theft – contents	• Incorrect or no application of depreciation	• No depreciation applied to 5-year-old microwave
	• Incorrect pricing	• Insured's inventory sheet price accepted without verification
Wind/hail – structure	• Incorrect or no application of depreciation	• 15-year-old roof depreciated only 10%
	• Damages not related to loss	• Tree fell on 1 side of house; damage on other side of house included in estimate and payment
	• Maintenance-related damages/repair	• Roof replaced because it is worn out
	• Improper estimate calculation (including improper use of ACCUPRO)	• Incorrect/improper application of labor rate, overhead and profit, etc. • Addition errors • Most adjusters inadequately trained to use ACCUPRO correctly • Adjuster retyped contractor estimate directly into ACCUPRO, causing double counting of labor, overhead, and profit

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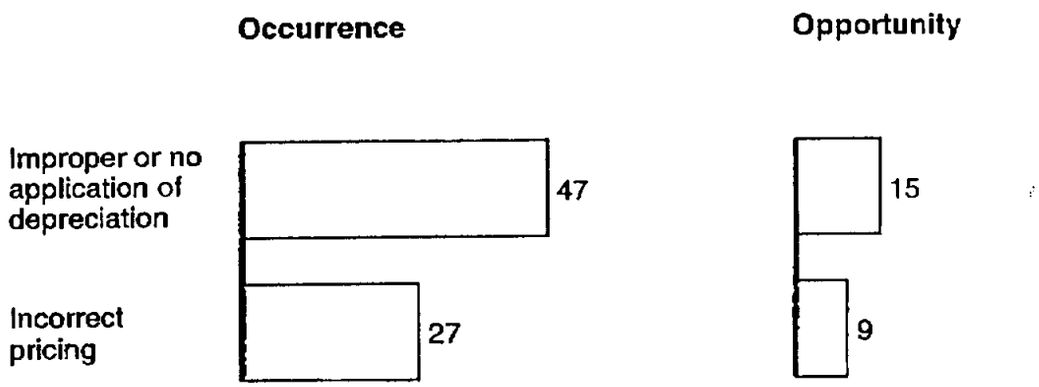
Depreciation was improperly or not applied in almost half the theft files. Incorrect pricing occurred more than a quarter of the time.

THEFT EVALUATION ISSUES

Percent



Source: CFR scan; working team analysis

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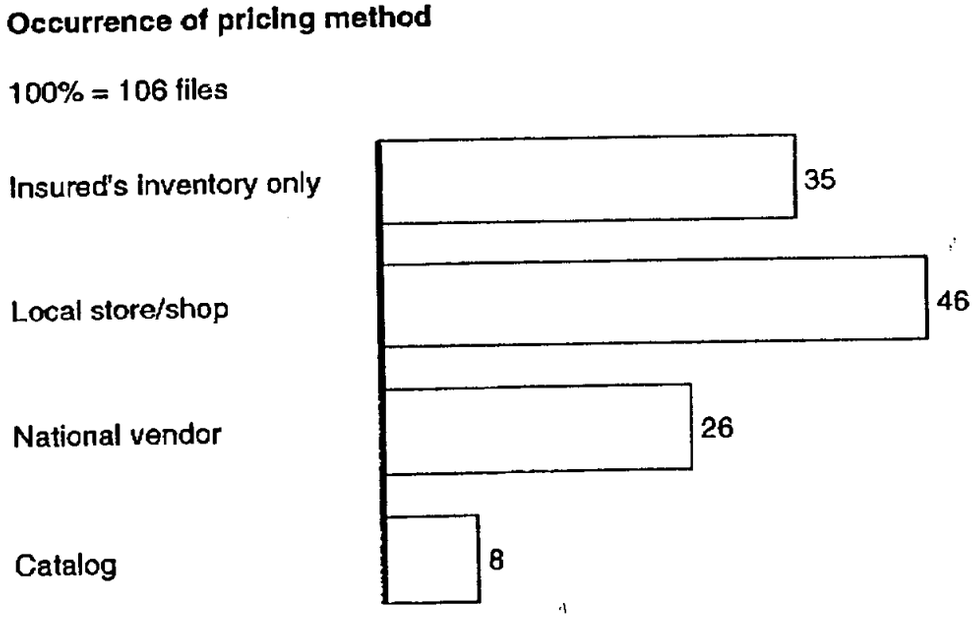
Incorrect pricing appears to be driven by the fact that adjusters used only the insured's inventory sheets to price contents 35 percent of the time.

THEFT PRICING METHOD DISTRIBUTION

Number of files; percent



Source: CFR scan; working team analysis

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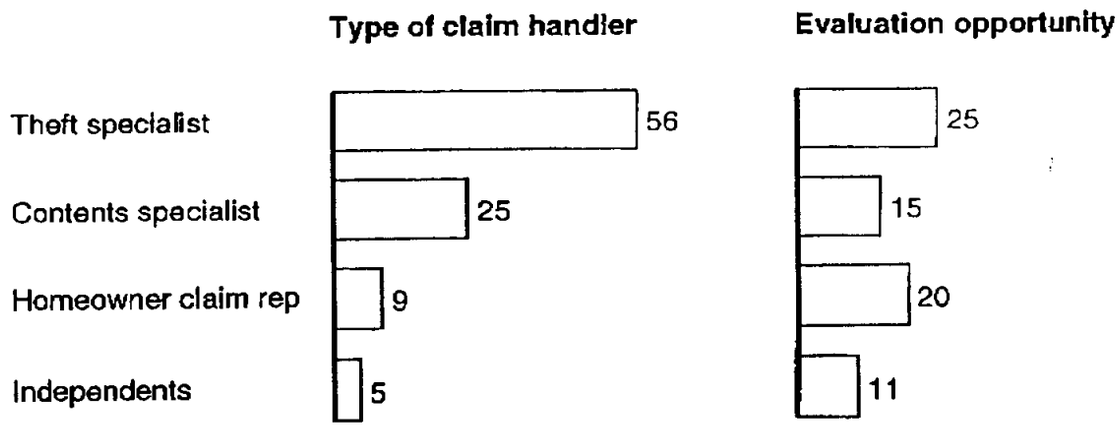
Theft specialists evaluate the bulk of theft claims and have the largest opportunity.

EVALUATION OPPORTUNITY BY TYPE OF CLAIM HANDLER – THEFT

Percent



Source: CFR scan; OIS; working team analysis

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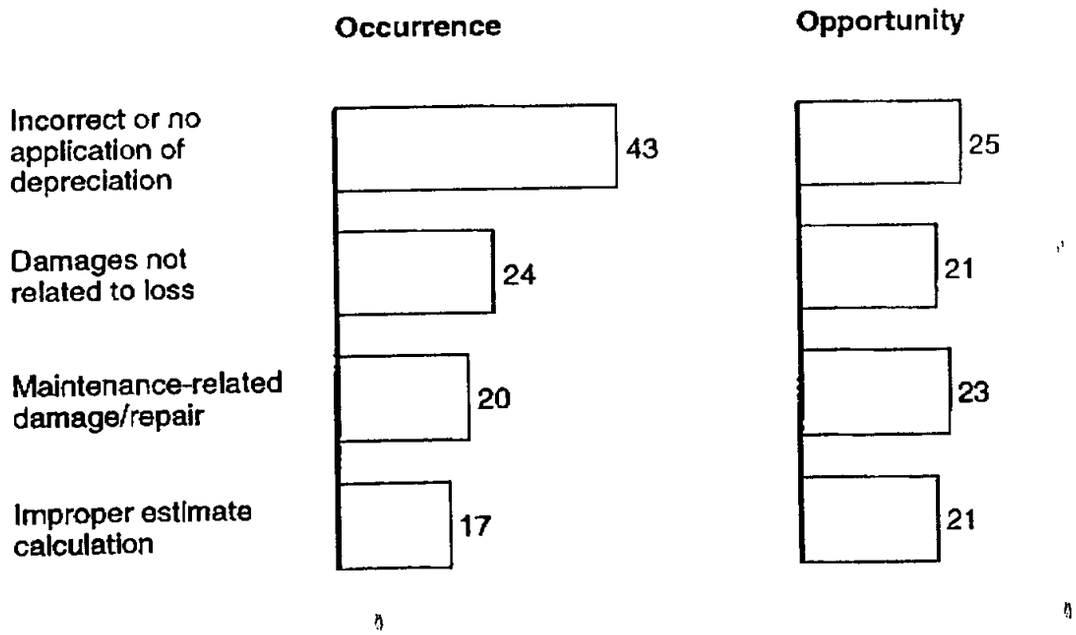
In evaluating wind/hail claims, depreciation was mishandled most frequently. Nevertheless, a number of issues drove opportunity.

WIND/HAIL EVALUATION ISSUES

Percent



Source: CFR scan; working team analysis

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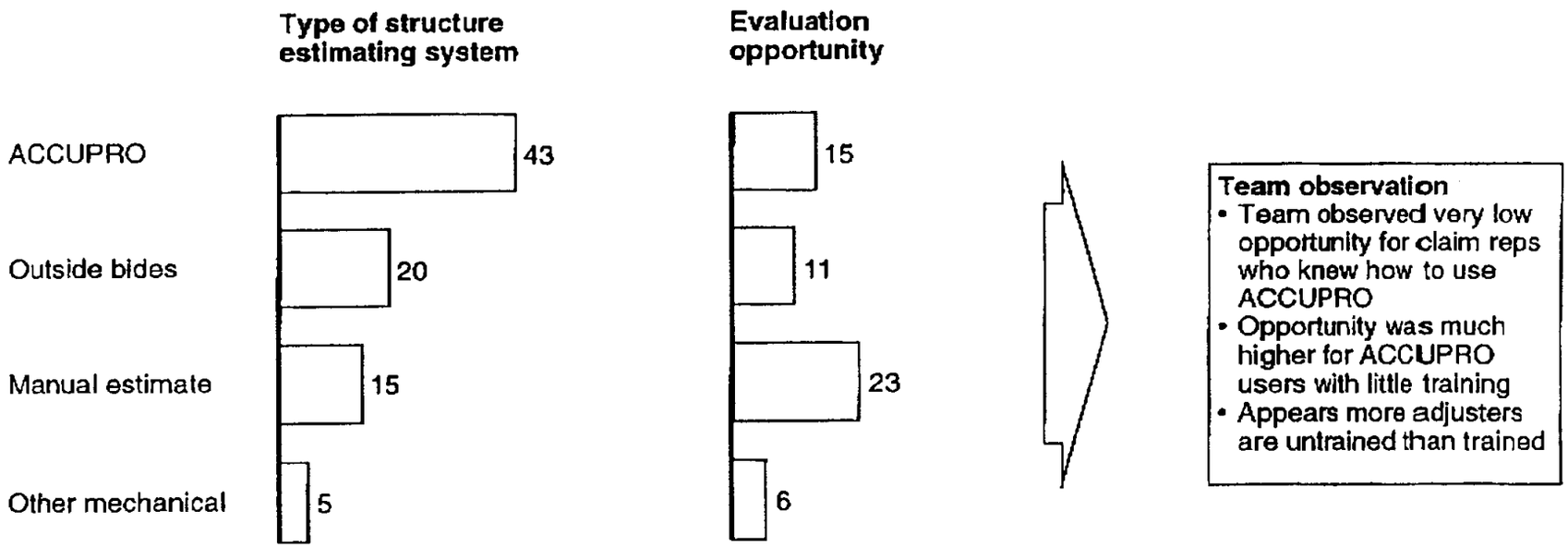
Improper use of ACCUPRO drives opportunity. Lack of knowledge about ACCUPRO causes much of the improper calculation of estimates.

EVALUATION OPPORTUNITY BY STRUCTURE ESTIMATING METHOD FOR WIND/HAIL CLAIMS

Percent



Source: CFR scan; interviews; working team analysis

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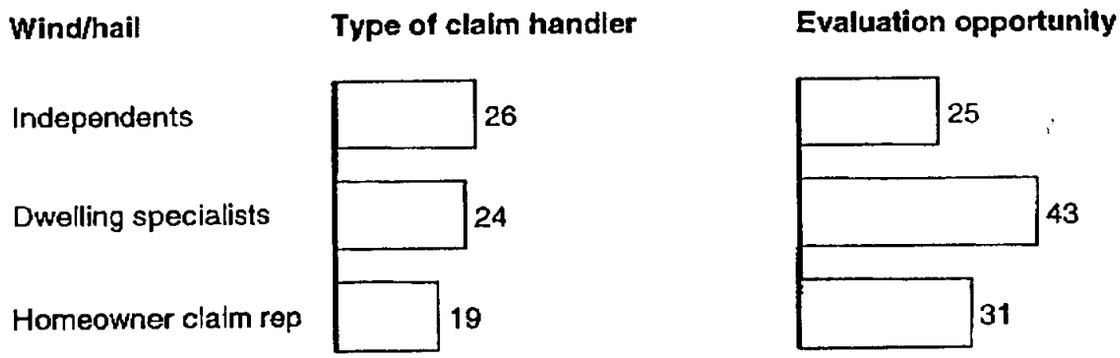
Wind/hail evaluation opportunity is particularly high for all primary claim handlers.

EVALUATION OPPORTUNITY BY TYPE OF CLAIM HANDLER – WIND/HAIL

Percent



Source: CFR scan; OIS; working team analysis

OCT. 29. 1996 11:16PM CH REPORT PRODUCTION NO. 1013 P. 23

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The primary driver of subro opportunity is the failure to recognize potential. However, even when the potential is recognized, adjusters fail to pursue it.

SUBROGATION OPPORTUNITY*

Peril	Key drivers/issues	Description/example
Theft	• Lack of recognition	• Diary occasionally stated that there was not subro opportunity before the claim rep spoke to insured • Subro template checked off without actually examining subro potential
	• Opportunities not pursued	• In interviews, claim reps admitted they ignore subro opportunity because they do not have time to pursue it • No follow-up/investigation of potential perpetrators, e.g., – Moving company "stole" items, no one followed up with moving company – Diary stated that suspects were caught and convicted, but adjuster made no attempt to follow up with police or courts

* Only 3 wind/hail files had subrogation potential

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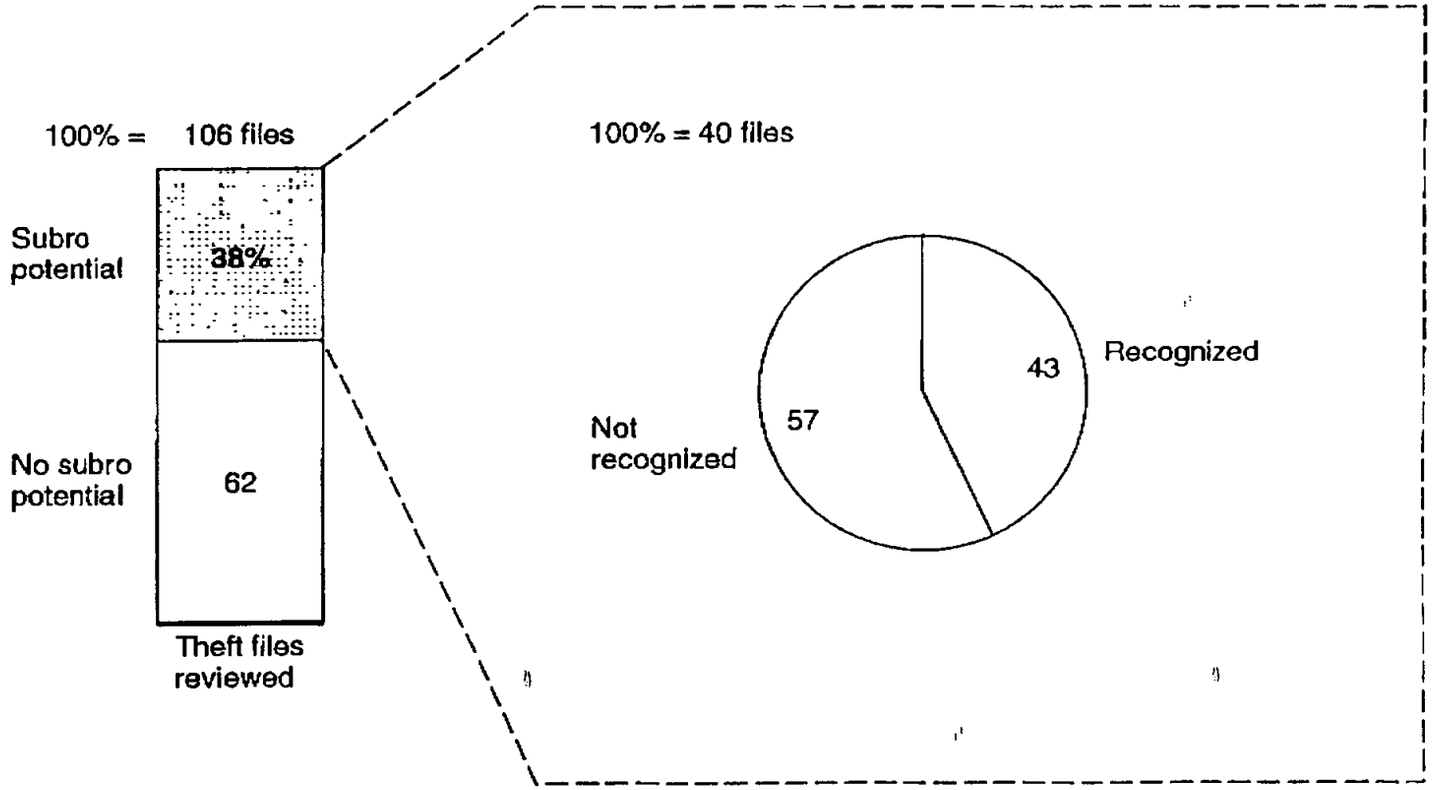
Subro potential was recognized in less than half of the files where it existed.

RECOGNITION OF THEFT SUBROGATION POTENTIAL

Number of files; percent



Source: CFR scan; working team analysis

H000000763

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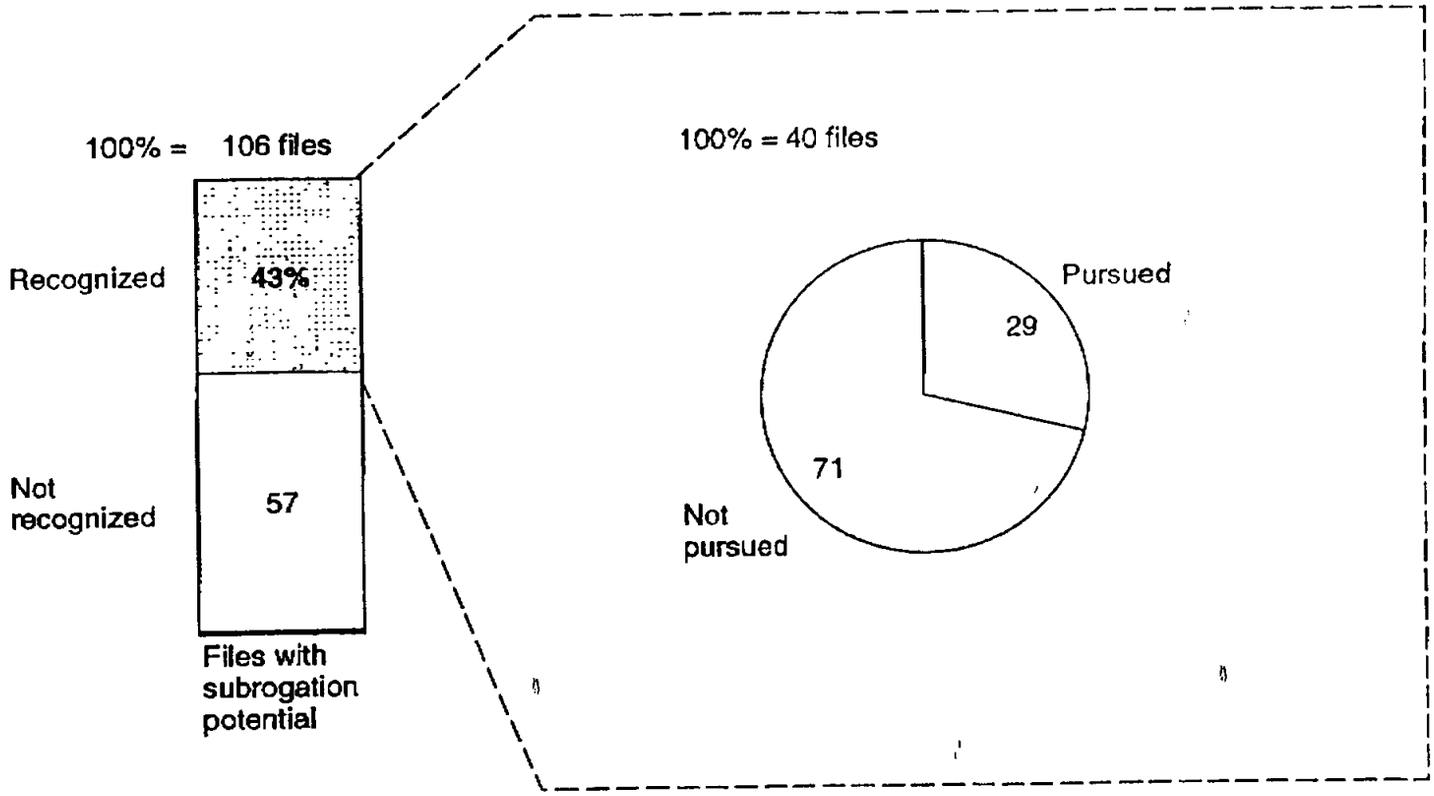
NO. 1013 P. 26
OCT. 29. 1996 11:19PM CH REPORT REPRODUCTION

Once the potential was recognized, it was only pursued 29 percent of the time.

PURSUANCE OF THEFT SUBROGATION POTENTIAL

Number of files; percent



Source: CFR scan; working team analysis

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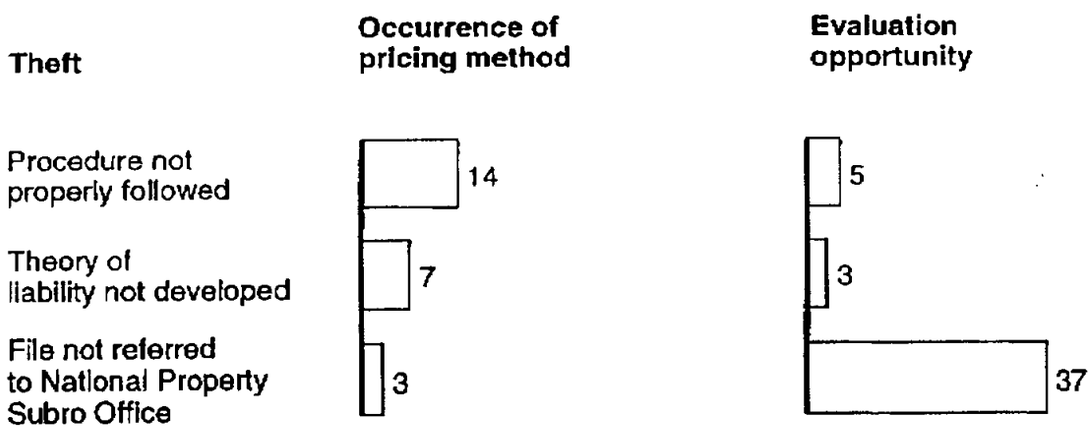
NO. 1015 P. 27

In many files the subro investigation procedure was not properly followed.

ISSUES WITH SUBROGATION INVESTIGATION

Percent



Source: CFR scan; OIS; working team analysis

OCT. 29. 1990 11:19PM CA REPORT

H000000765

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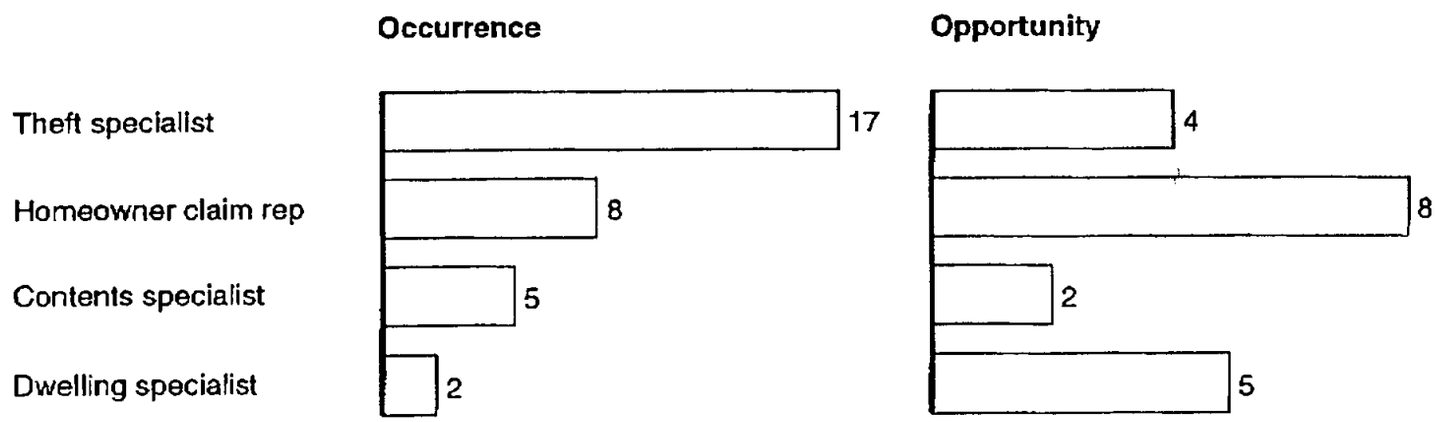
Opportunity varies by claim handler in subrogation.

THEFT SUBRO OPPORTUNITY BY TYPE OF CLAIM REP

Percent



Source: CFR scan; working team analysis

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Appendix

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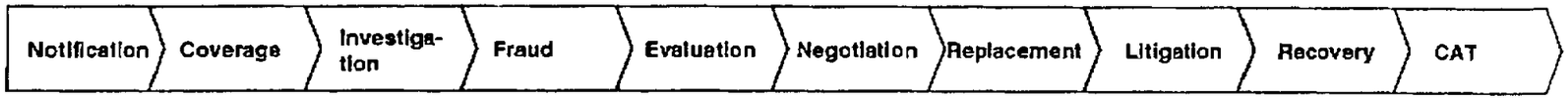
OCT. 23. 1990 11:22PM CH REPORT PRODUCTION NO. 1014 P. 2

OPPORTUNITY MEASUREMENT PROCESS STEPS

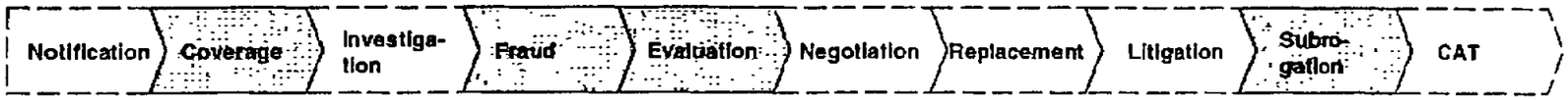
HIT process steps



Issues

- Calculation of opportunity too subjective
- Includes elements of coverage, fraud, evaluation, and recovery
- Drove opportunity
- Calculation of opportunity too subjective
- Overlaps with evaluation
- Calculation of opportunity too subjective
- No opportunity identified by HIT team
- Primary opportunity in subro (salvage recovery potential very small)
- Limited information available in many files

Design Team process steps



Issues

- Eliminated due to subjectivity
- Combined relevant pieces with coverage, fraud, evaluation, and subro-gation
- Eliminated due to subjectivity
- Combined with evaluation
- Eliminated due to small size and subjectivity
- Focused recovery on subro-gation
- Created separate team to address CAT processes

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OCT. 30. 1996 8:17AM CH REPORT PRODUCTION NO. 1320 P. 3

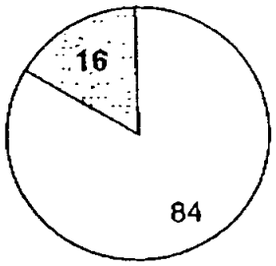
CAT WIND/HAIL OPPORTUNITY

$ Millions; percent

Opportunity

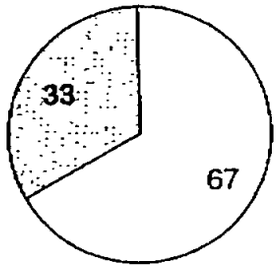
CFR results

100% = $430.8 million



Reinspection results*

100% = $430.8 million



- Opportunity identified in CFR scan is limited due to lack of information in file
- Wind/hail CAT opportunity to be assessed by CAT team through reinspections

* Based on 59 reinspections from 6 CFR scan sites

Source: CFR scan; working team analysis

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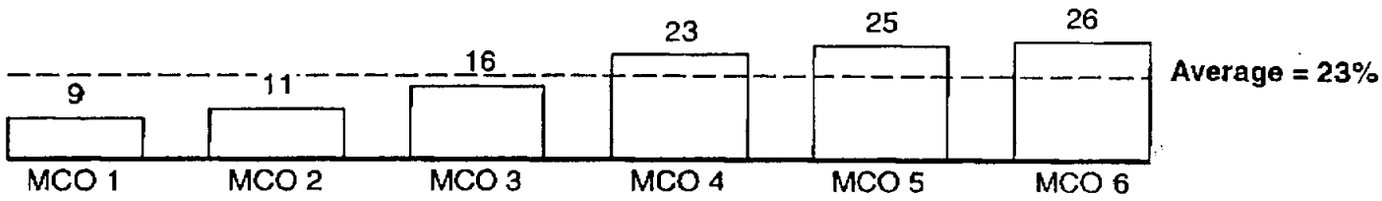
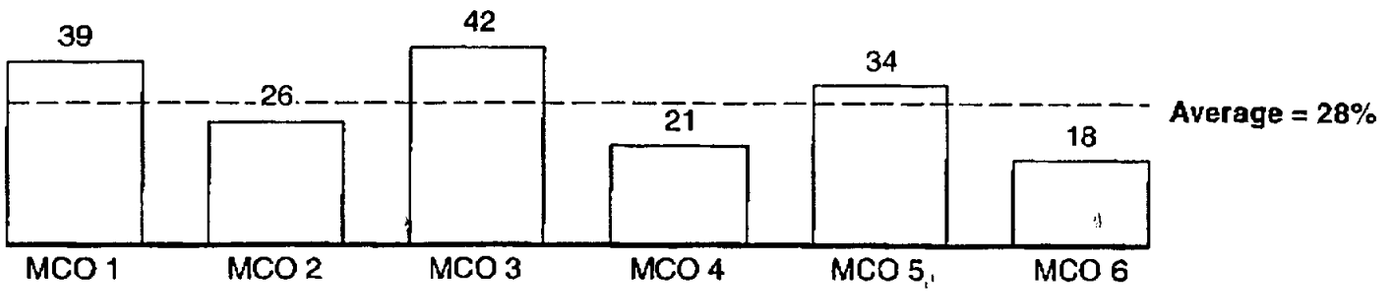
OPPORTUNITY BY MCO

Percent

Theft



Wind/hail



Source: CFR scan; working team analysis

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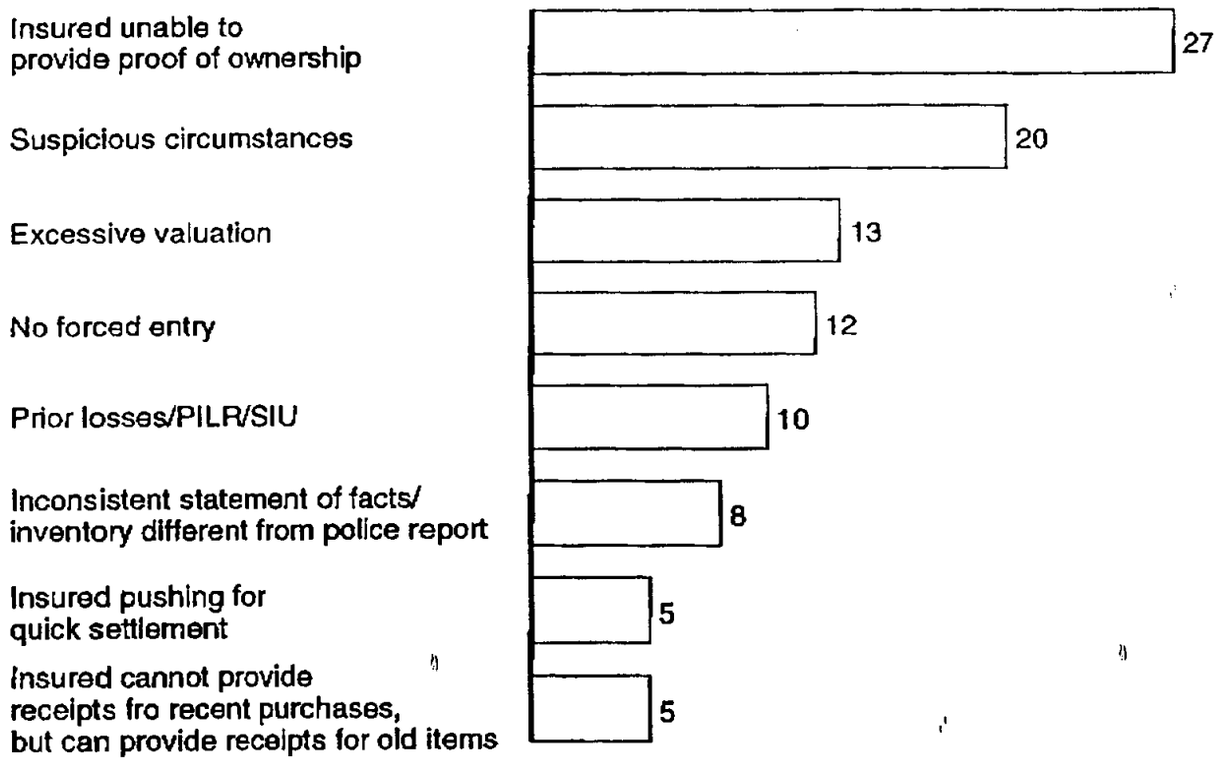
NO.1014 P. 6
OCT. 29. 1996 11:22PM CH REPORT

MOST FREQUENTLY OCCURRING THEFT FRAUD INDICATORS

Percent



Source: CFR scan; working team analysis

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CONFIDENTIAL

Initial Findings From CAT Sites Scan

ALLSTATE

Team debrief

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CAT HANDLING REVIEW ACTIVITY TO DATE

- Visited 6 MCOs
- 2 special CAT handling locations

- Conducted 90 reinspections of major CAT ($15+ million) losses
- Completed 100 closed file reviews of CAT losses
- Conducted 29 customer interviews
- Conducted selected employee interviews (e.g., CAT managers, QCRs, examiners, pilot adjusters)

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OCT. 29. 1996 2:30PM CH REPORT PRODUCTION NO. 1004 P. 4

CATASTROPHE EARLY ANALYSIS

PRELIMINARY

- ¶ A combined 221 CAT CFRs and reinspections have been completed to date.
  - Based upon early findings, there is significant opportunity in catastrophe loss handling. Total opportunity is 33.2 percent.
- ¶ The major driver of opportunity is evaluation. The key issues are scoping, estimating techniques, and timing.
- ¶ Coverage also represents significant opportunity, and poor understanding or application of policy coverage being the key.
- ¶ Initial customer interviews indicate we can enhance customer satisfaction in a number of areas.

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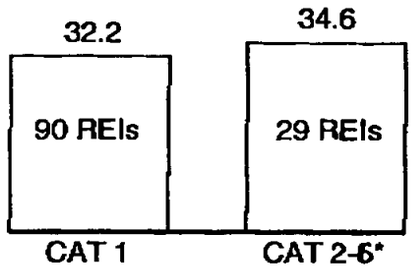
CATASTROPHE OPPORTUNITY EARLY ANALYSIS

Percent

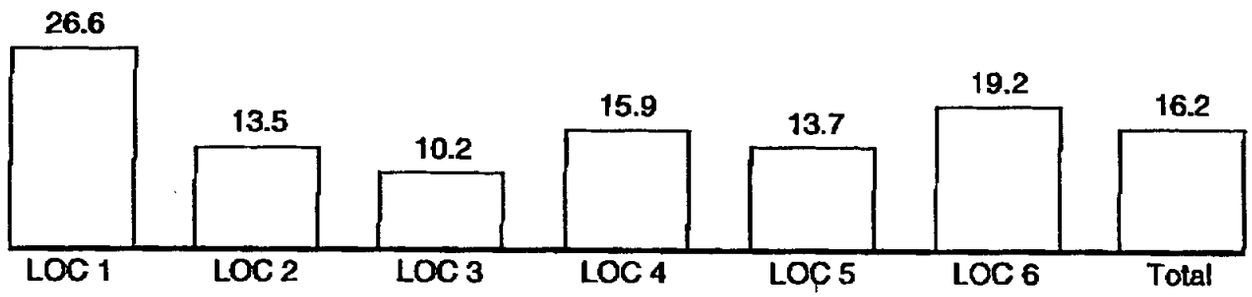
From reinspections



Overall opportunity identified in reinspections is significant

Gap in opportunity identified between reinspections and CFR is believed to be driven primarily by the lack/limit of data available in CFR

From CFRs**



* CAT 2-5 represents reinspections performed in original CFR locations

** Based on 6 MCOs within 6 CSAs; sample size varied from 6-20 files

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CATASTROPHE EARLY ANALYSIS

PRELIMINARY

- ¶ A combined 221 CAT CFRs and reinspections have been completed to date.
- ⇨ • **Based upon early findings, there is significant opportunity in catastrophe loss handling. Total opportunity is 33.2 percent.**
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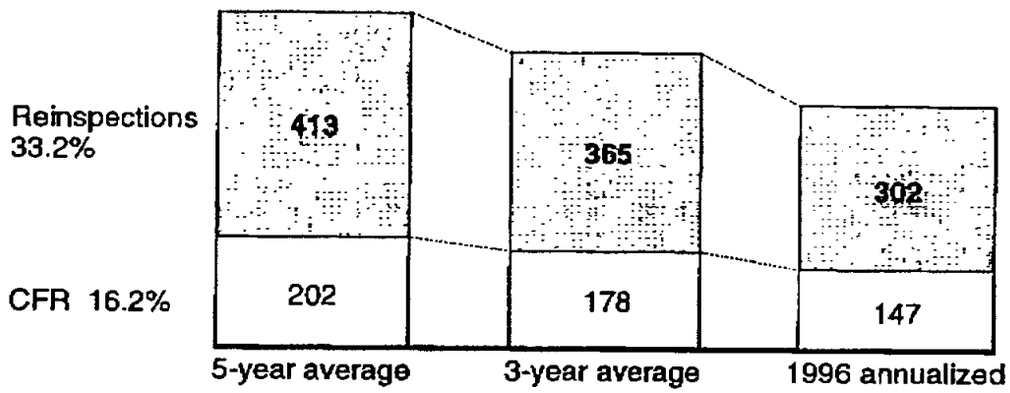
Significant economic opportunity exists based upon both the closed file review and reinspection results.

OVERALL OPPORTUNITY IN CAT HANDLING

$ Millions



	5-year average	3-year average	1996 annualized
CAT $ paid including exp.	1,244,168	1,098,778	908,699

Source: OIS; Total property – all perils

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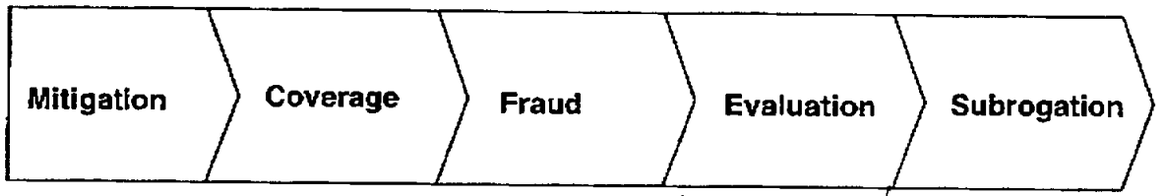
Both the CFR and reinspection process identify coverage and evaluation as the big buckets.

CAT OPPORTUNITY BY PROCESS STEP



100 CFR	0.8%	3.5%	0	11.5%	0.4%	= 16.2%
121 REI	n/a	7.3%	n/a	25.9%	n/a	= 33.2%

- The identification of opportunity in the big buckets is significantly more dramatic through the reinspection process

Source: CFR scan; reinspections; team analysis

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CATASTROPHE EARLY ANALYSIS

PRELIMINARY

- ¶ A combined 221 CAT CFRs and reinspections have been completed to date.
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Based upon the early analysis, there are three areas which effect evaluation of catastrophe losses.

DRIVERS OF OPPORTUNITY IN EVALUATION

Issues	Description
Scoping	• Alternative repair methods • Roof replacement is too often standard vs. repair • Unnecessary replacement of roof vents • Fences written to replace vs. repair • Excessive allowance for tree and debris removal
Estimating techniques	• Writing damage where none exists • Inappropriate use of unit costs • Multiple minimum charges on same estimate for same or similar trades • Lump sums • Little or no verification of paid bills
Timing	• Adjusters do not immediately complete estimate after initial scope and inspection (up to 2 weeks) • Errors due to time and memory lapses

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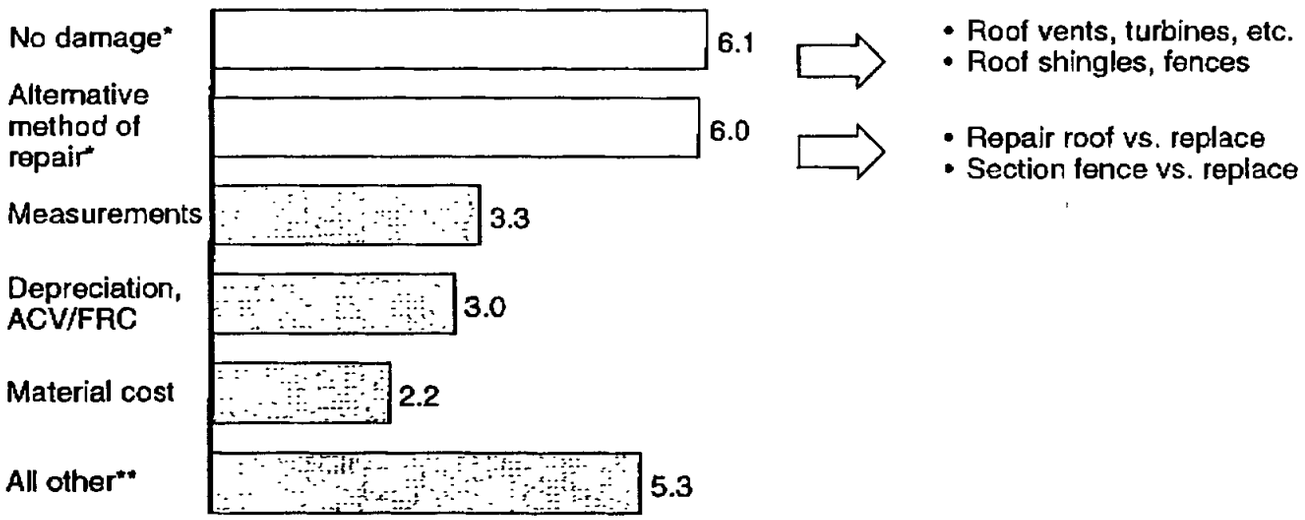
"No damage" and "alternative methods of repair" make up 12.1 percent of total opportunity.

MAJOR AREAS OF OPPORTUNITY IN EVALUATION

Percent



* There is a relationship between no damage and alternate and alternate method of repair. Depending on who did the reinspection, there is some spillage from one to the other

** The remaining 6.3% opportunity is spread over 18 other evaluation categories

Source: Field reinspections

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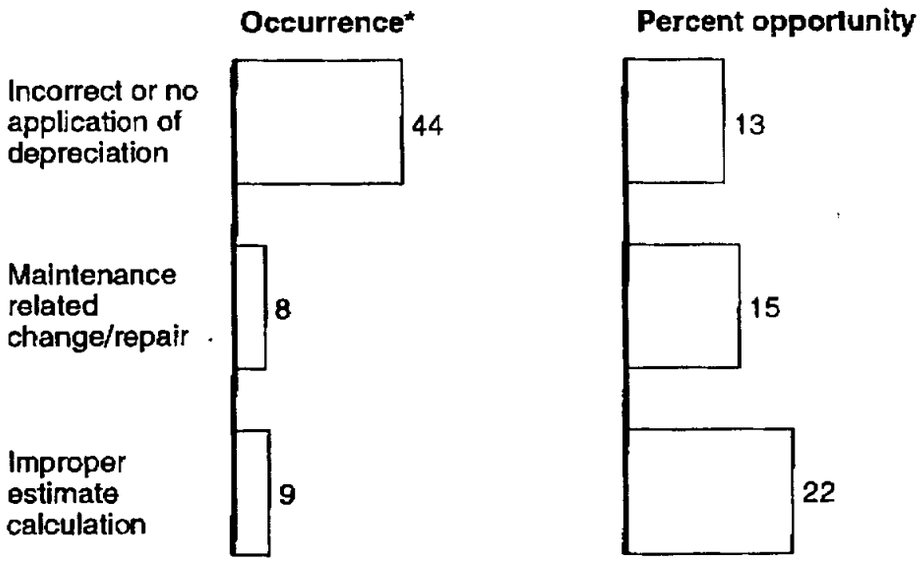
The drivers identified by the CFR represent areas of opportunity classified as "all other" on the previous page, due to the inability fo the CFR to capture some of the more pertinent drivers. This also explains, at least in part, the discrepancy in total opportunity identified.

STRUCTURAL EVALUATION ISSUES IDENTIFIED IN CFR – CAT ONLY

Percent



* Percent occurrence in files with structural evaluation only

Source: CFR

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CATASTROPHE EARLY ANALYSIS

PRELIMINARY

¶ A combined 221 CAT CFRs and reinspections have been completed to date.

- Based upon early findings, there is significant opportunity in catastrophe loss handling. Total opportunity is 33.2 percent.

¶ The major driver of opportunity is evaluation. The key issues are scoping, estimating techniques, and timing.

⇨ **¶ Coverage also represents significant opportunity, and poor understanding or application of policy coverage being the key.**

¶ Initial customer interviews indicate we can enhance customer satisfaction in a number of areas.

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The initial CAT scan indicated several drivers in the coverage step.

DRIVERS OF OPPORTUNITY IN COVERAGE

Issues	Description/examples
Trees/tree debris	• Excess amounts paid for removal of trees from covered property • Debris removal paid when there was no damage to covered property
Covered property	• Paid for nonowned property (e.g., neighbor's fence, fence around school yard) • Paid for surface water damage to contents • Paid for several food spoilage losses – no on premises power interruption – no coverage in this state
Multiple losses/old damage	• Paid for 8 windows in which cracks were filled with paint • Gutters included that had end caps cut off prior to loss • Paid $732 for screens on a porch torn by children • Paid for old, fogged-up thermal-pane windows

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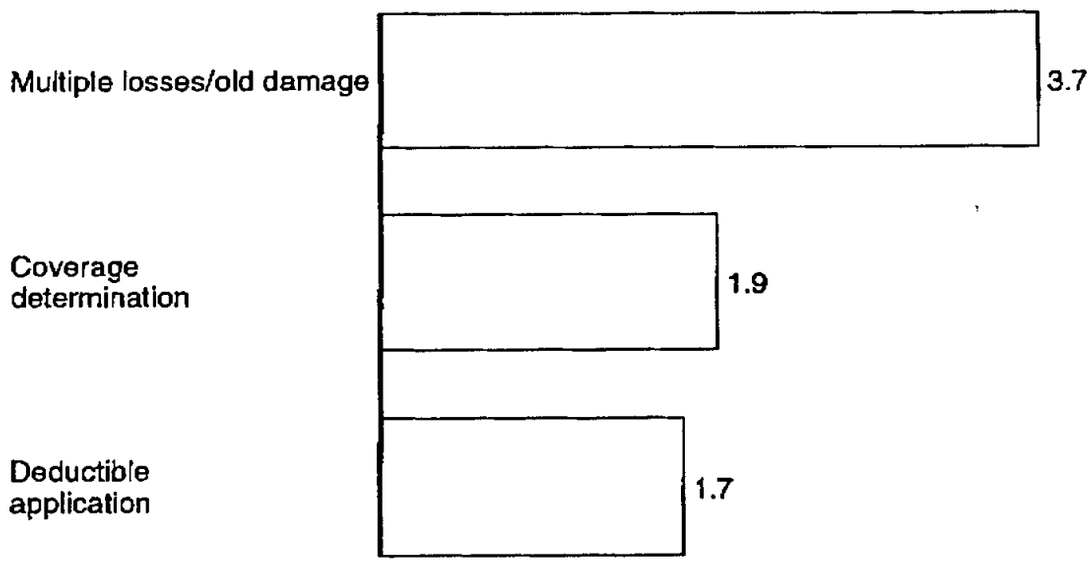
Reinspections indicate a 7.3 percent opportunity in coverage.

COVERAGE

Percent



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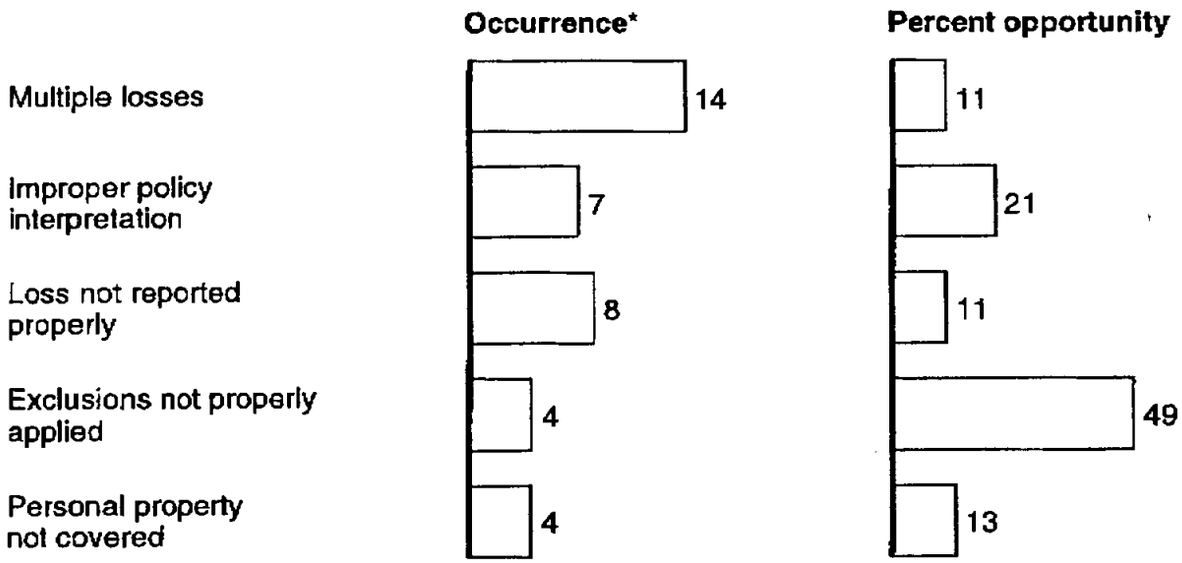
COVERAGE ISSUES IDENTIFIED IN CFR – WIND/HAIL CAT ONLY

Percent



* Percent occurrence in all files reviewed

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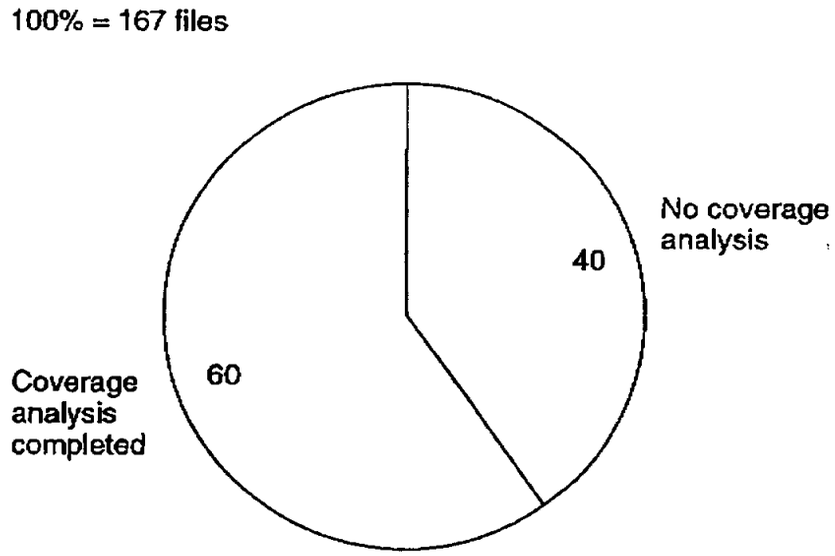
On a large proportion of claims, coverage analysis was not completed.

COVERAGE ANALYSIS COMPLETED ON STRUCTURE ELEMENT OF CLAIM

Percent



Source: CFR scan

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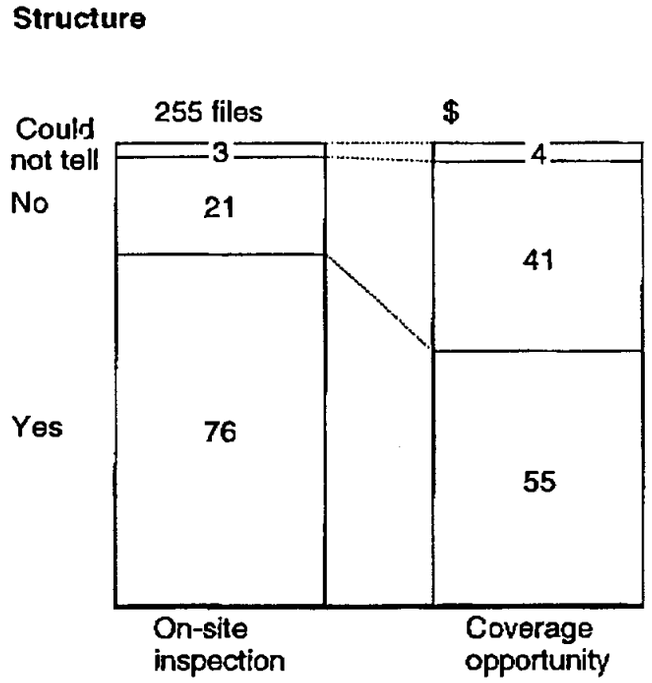
When on-site inspection was not performed, the opportunity was significantly greater.

ON-SITE INSPECTION COMPARED TO COVERAGE OPPORTUNITY – CAT ONLY



Source: CFR scan; OIS; working team analysis

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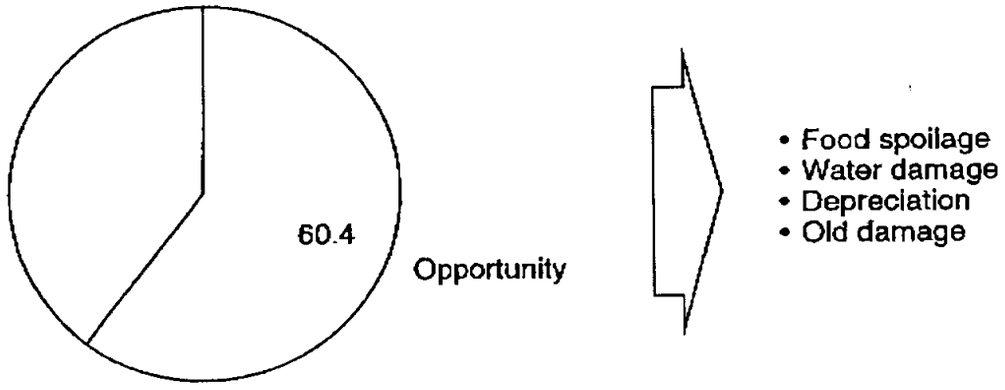
Although the sample size is small, coverage as it relates to contents represents a significant opportunity.

CATASTROPHE EARLY ANALYSIS – CONTENT

PERCENT

Reinspections*

100% = $6,181



* Based on 10 contract reinspections

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CATASTROPHE EARLY ANALYSIS

PRELIMINARY

- ¶ A combined 221 CAT CFRs and reinspections have been completed to date.
  - Based upon early findings, there is significant opportunity in catastrophe loss handling. Total opportunity is 33.2 percent.
- ¶ The major driver of opportunity is evaluation. The key issues are scoping, estimating techniques, and timing.
- ¶ Coverage also represents significant opportunity, and poor understanding or application of policy coverage being the key.
- ⇨ ¶ **Initial customer interviews indicate we can enhance customer satisfaction in a number of areas.**

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Based upon interview with 29 customers, there is opportunity to enhance customer satisfaction during catastrophe.

OPPORTUNITIES IN CUSTOMER SATISFACTION

Issues	Description
Clear explanation	• Some customers did not understand settlement • Adjuster not explaining scope
Informed	• Customers unsure of when to expect copy of estimate and check • Some adjusters stockpiling scopes – creating delays in settlement – customers unsure of why it takes so long to get copy of estimate
Hassle free service	• Multiple transfers of assignments create confusion for customer • Concern with the lack of prompt responses to inquiry calls • Customers had difficulty connecting with someone who could answer questions

Source: Customer service and catastrophe personnel

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MOVING FORWARD

- CAT subteam formed
- Two new team members added from NCMT
- Additional sites selected for further CAT review and analysis
- A plan is being developed to examine other areas of CAT claim handling. The focus will not be totally on reinspections

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Appendix

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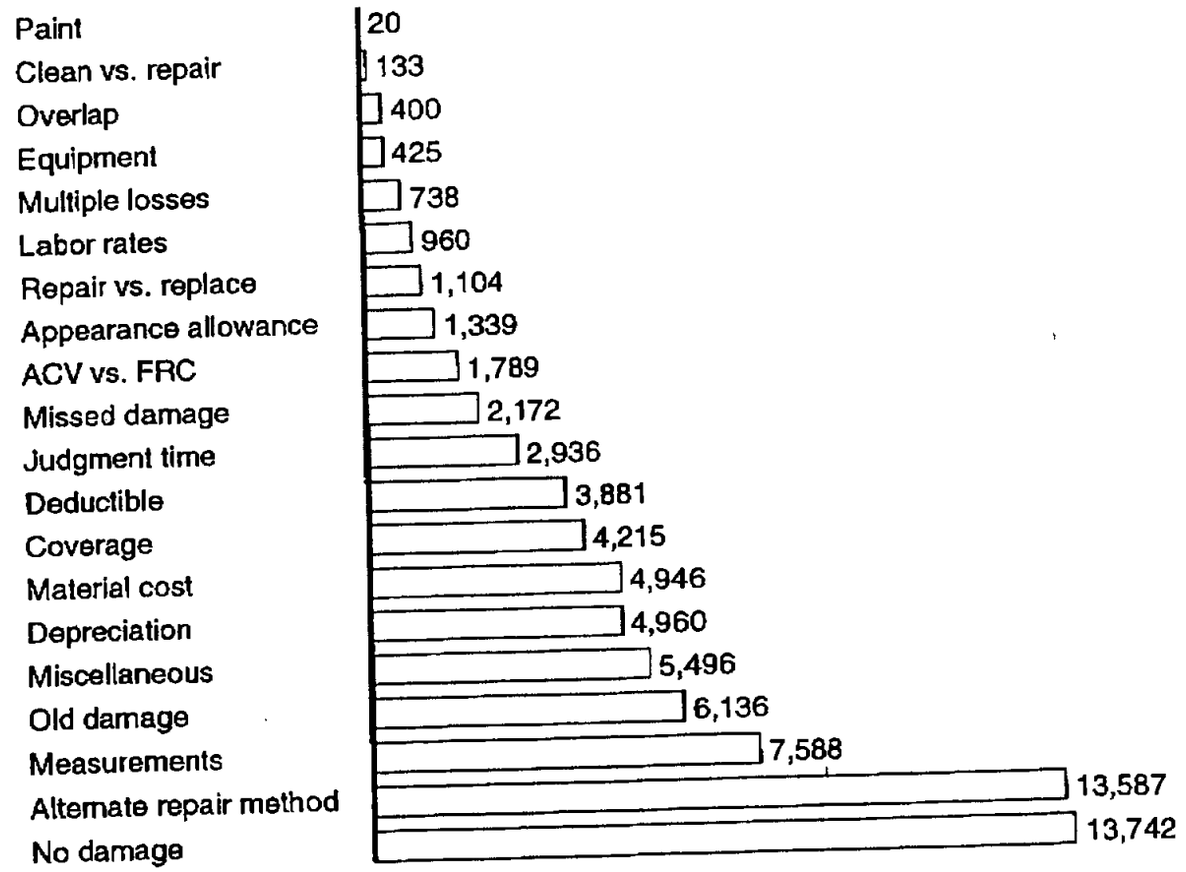
CATASTROPHE REINSPECTION OPPORTUNITY



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CONFIDENTIAL

Fire Process Assessment

ALLSTATE INSURANCE

Debrief

October 30, 1996

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- Introduction
- Summary of the opportunities
- Evaluation
- Subrogation

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The fire team visited eight CSAs in a 2-week period, conducting closed file reviews, reinspections, and employee interviews.

ACTIVITIES TO DATE

- Reviewed 190 closed files from 4 gap and 4 nongap sites
- Conducted 24 reinspections
- Interviewed over 32 field personnel
- Our analysis is based on ex-CAT dollars, OIS data for 1993-95, CAGR-based predictions for 1996, C74 audit (7 sample CSA), and Houston File Review

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KEY LEARNINGS

- The team identified large overall opportunity in the fire peril, representing $135 million on an annual basis
- The bulk of the opportunity in fire is in fires larger than $15,000 (major fires)
- By process steps, the opportunity is primarily driven by 2 areas, namely
  - Evaluation (structure and contents)
  - Subrogation

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- Introduction
- **Summary of the opportunities**
- Evaluation
- Subrogation

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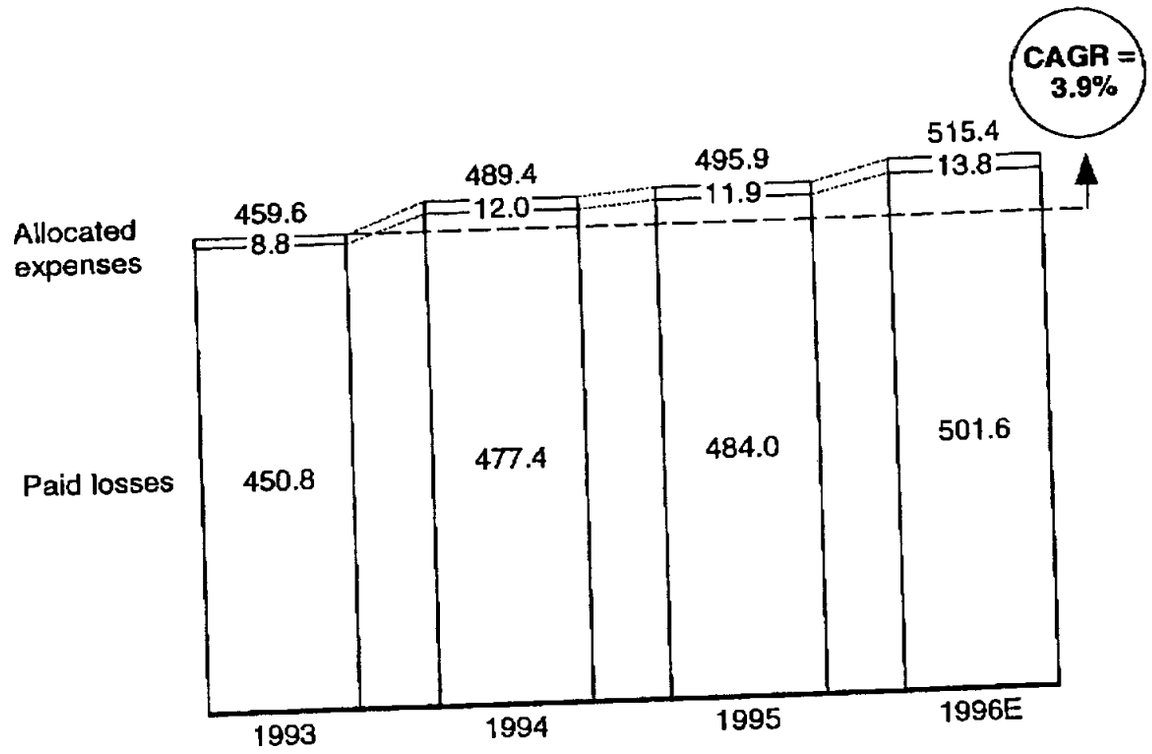
The total non-CAT projected fire expenditures for 1996 are $515.4 million.

TOTAL FIRE LOSSES 1993-96E*

$ Millions



* Includes owner, C/R lines (non-CAT)

** Estimate for 1996 based on 1993-95 (CAGR = 3.9%)

Source: OIS; team analysis

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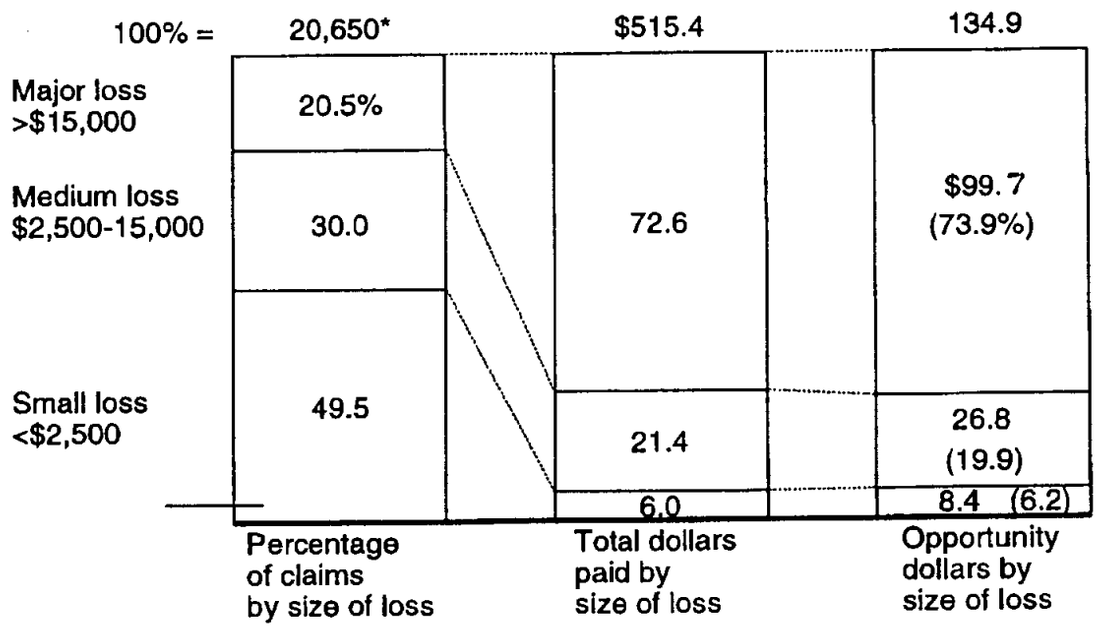
While only 20 percent of the fires are major losses over $15,000, major fires represent the majority of the opportunity, as well as dollars spent nationwide.

OPPORTUNITIES BY SIZE OF LOSS*

$ Millions; percent



* Based on 7 CSA audit

Source: OIS, C74 Audit of CSA File Distribution by Loss Size

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Over 75.3 percent of the total opportunity dollars, or $101.6 million, can be attributed to evaluation (structure and contents) and subrogation.

FIRE OPPORTUNITY BY PROCESS STEPS

	Mitigation	Coverage	Fraud	Evaluation of structure	Evaluation of structure cleaning	Evaluation of carpet	Evaluation of contents cleaning	Evaluation of contents	Evaluation of ALE	Negotiation	Litigation	Subrogation recovery	Salvage recovery	
Absolute opportunity	0.98	0.71	0	8.29	1.01	0.72	1.23	5.05	0.60	0.61	0	6.37	0.61	= 26.18
Percent														
Relative opportunity	3.70	2.70	0	31.70	3.90	2.80	4.70	19.30	2.30	2.30	0	24.30	2.30	=100.00
Percent														
Projected savings	5.05	3.66	0	42.73	5.21	3.71	6.34	26.03	3.09	3.14	0	32.83	3.14	=134.93
$ Millions														

* Total amount paid on CFR claims $2,722,730

Source: CFR; OIS

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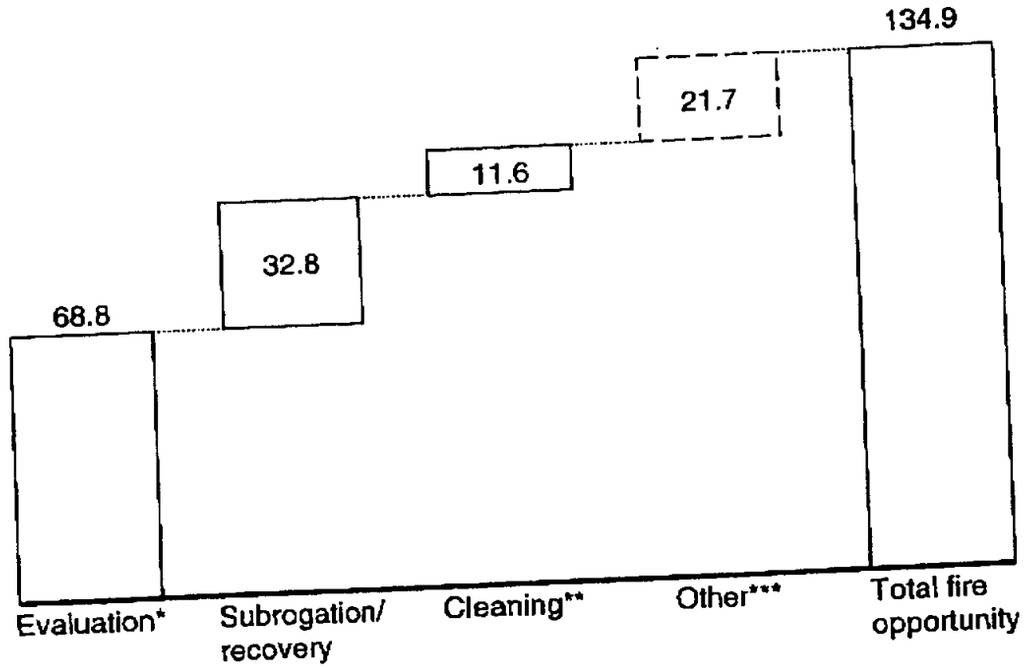
Evaluation alone corresponds to over $68 million of the total opportunity, while subrogation contributes over $32 million.

LARGEST OPPORTUNITIES BY PROCESS STEP – EVALUATION AND SUBRO

$ Millions



* Evaluation consists of evaluation of structure and contents only, and excludes cleaning, ALE, and carpet

** Cleaning includes contents and structure cleaning

*** Other includes mitigation, evaluation of carpet and ALE, coverage, and negotiation, which are all comparatively small opportunities (≤$5 million)

Source: OIS; team analysis

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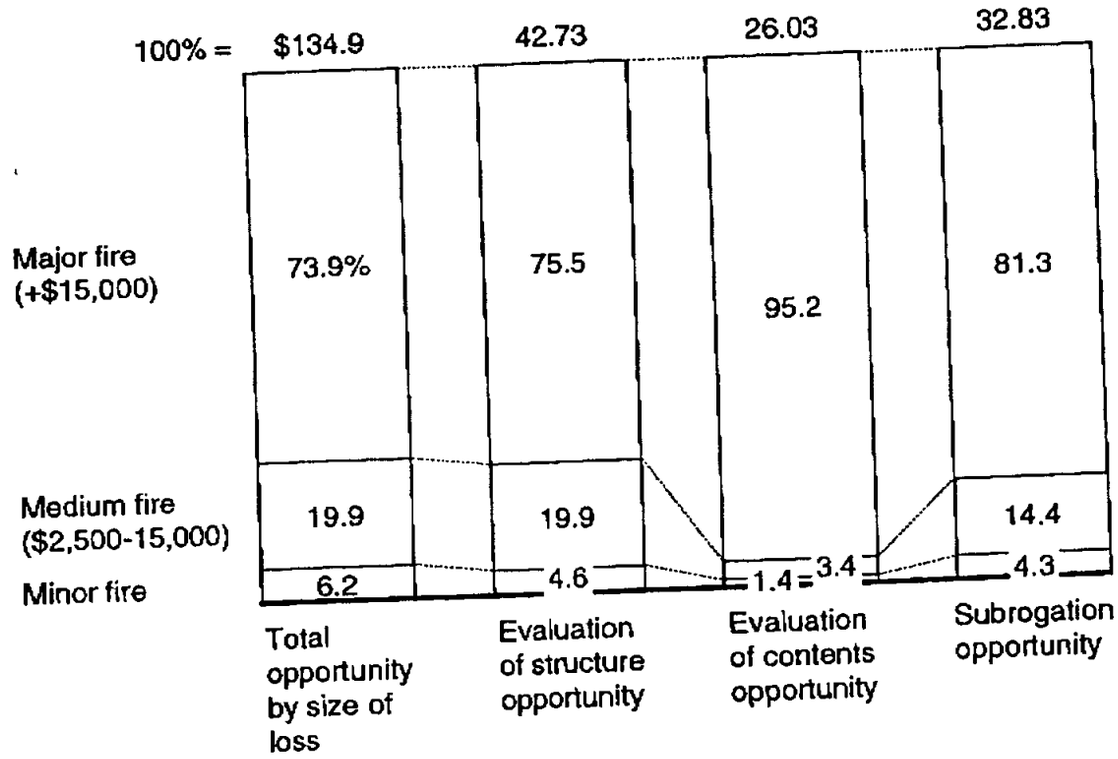
Major fires have the largest opportunity, especially in contents.

EVALUATION AND SUBROGATION OPPORTUNITIES BY SIZE OF LOSS

$ Millions; percent



Source: CFR

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- Introduction
- Summary of the opportunities
- **Evaluation**
- Subrogation

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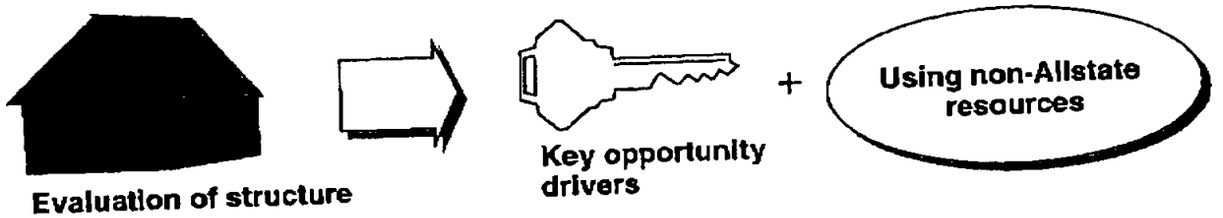
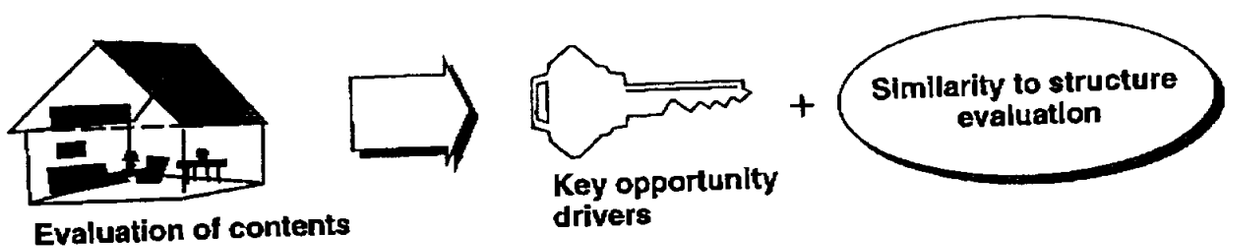
EVALUATION





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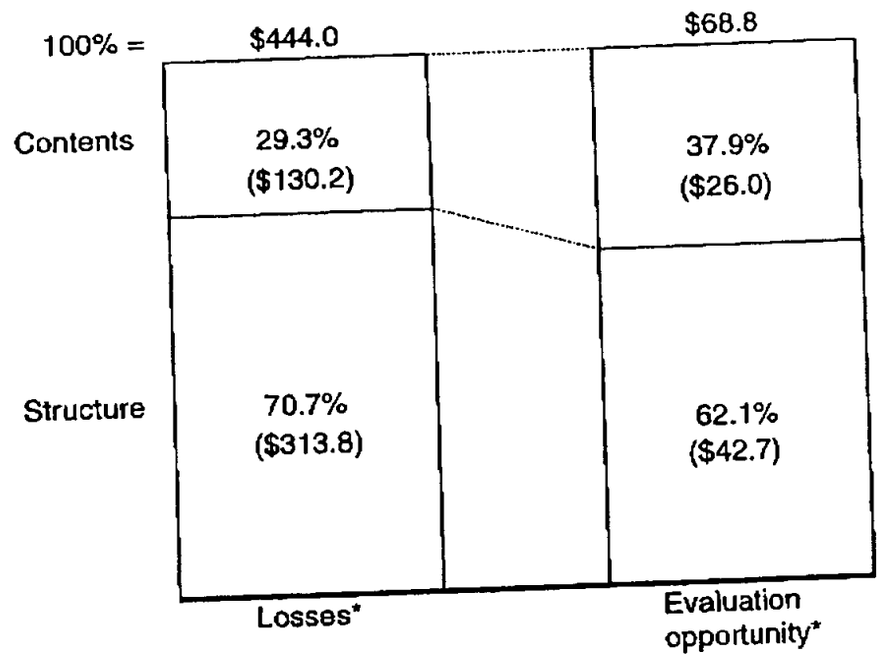
There is a significant opportunity in the evaluation of both structure and contents.

STRUCTURE VS. CONTENTS OPPORTUNITIES IN EVALUATION

$ Millions; percent



* The estimates exclude cleaning, ALE, and some other expenses, accounting for ~14% of total fire expenses

Source: CFR

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Opportunities in the evaluation of structure are driven by three key factors.

EVALUATION OF STRUCTURE – KEY DRIVERS

- The opportunity in the evaluation of structure is, primarily, driven by
  - Improper scoping of the fire loss
  - Lack of estimating fundamentals
  - Paying full replacement cost instead of ACV
- There are significant opportunities in the evaluation of structure for both Allstate and non-Allstate resources

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A fundamental issue in scoping is the desire to bring claims to a speedy closure without supplements.

SCOPING ISSUES IN STRUCTURE EVALUATION

Issue	Description
• Timing	• Timing is geared towards speedy closure in order to ensure pending control – Trying to limit presence on site to one visit • Scoping is often done upfront leading to – Writing unseen damages – Limited mitigation
• Clean vs. replace decisions	• Scope is prepared at initial inspection with focus on replacement – Writing scope geared towards claim conclusion without supplements – Limited attempts to clean • Scoping often done by non-Allstate people – Referred vendors often making decisions on clean vs./ replace and perform both cleaning and repair/replacement activities, which limits their incentive to make the right decision on clean vs. replace • Lack of direction for cleaning vendors – Vendors often not told what to do – Sometimes they clean and then we replace
• Lack of alternative repair methods	• 1 cabinet door, but we paid to replace all cabinets; on the reinspection, found that alternative repair method existed which would allow to repair just 1 door

Source: Team analysis of the reinspections; CFR

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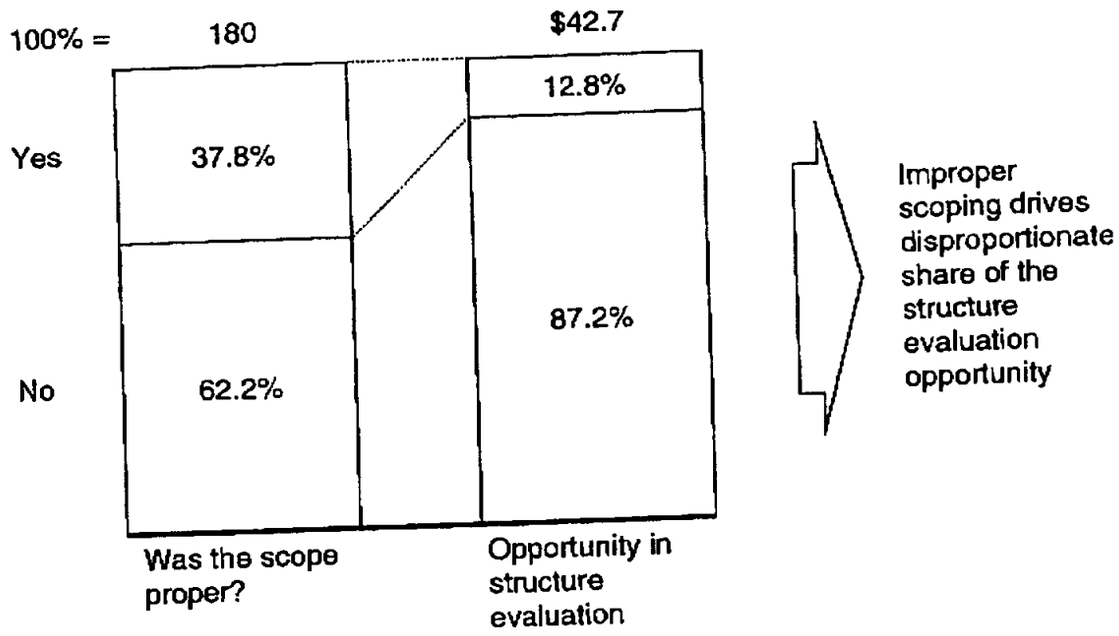
Although it is difficult to quantify the exact share of opportunity dollars based on the fire CFR, evidence points to improper scoping as a key driver of structure evaluation opportunity.

KEY DRIVERS – IMPROPER SCOPING

$ Millions; percent



Source: Team analysis of the fire CFR

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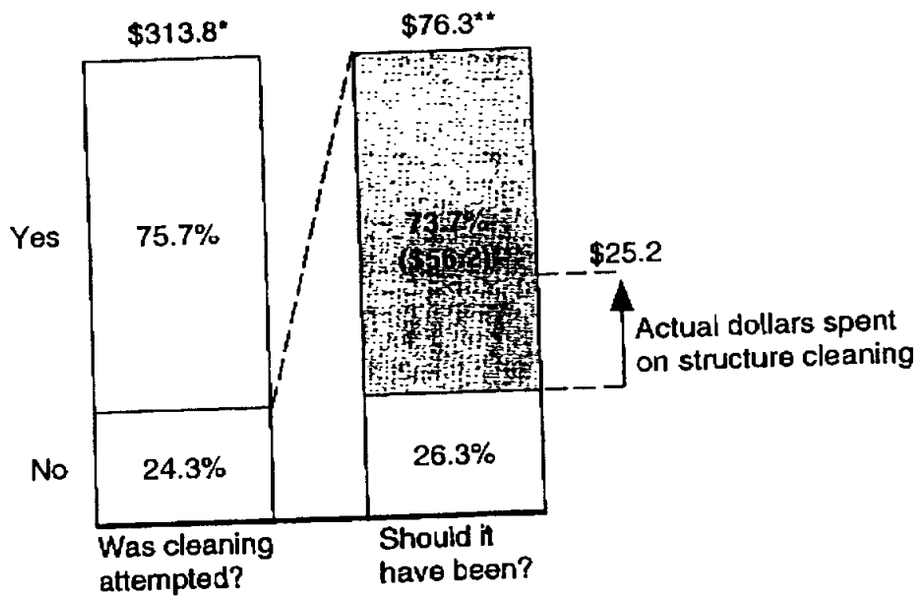
On almost 18 percent of the evaluation of structure dollars (or $56.2 million), cleaning was not attempted although it should have been.

SCOPING ISSUES – STRUCTURE CLEANING VS. REPLACEMENT

$ Millions; percent



* Total structure evaluation dollars

** Structure evaluation dollars on which cleaning was not attempted

*** Structure evaluation dollars on which clearing was not attempted, but should have been

Source: OIS team analysis of the CFR

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There are several issues related to fundamental estimating skills.

KEY DRIVERS – ESTIMATING FUNDAMENTALS

Issue	Description
• ACCUPRO	• There appears to be a learning curve on ACCUPRO, and as a result, its full potential has not been realized – Lack of technical-related skills – Lack of understanding/skills on estimation • Limited use of ACCUPRO on site
• Overlap	• Not deducting for openings, doors, etc., while paying to clean and paint them • Multiple minimum charges in the same estimate, e.g., 3 drywall minimum charges in different rooms in the same estimate
• Submitted bids	• Lump sum, single bids, or combo – Adding electrical or plumbing estimate as the last line of ACCUPRO ("replace plumbing: $3,000")
• LKQ	• Upgrading – At no extra cost to insured, replaced old metal cabinets with new high-quality wooden cabinets

Source: Reinspections; interviews; CFR

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There are significant issues related to the current usage of ACCUPRO.

ACCUPRO SETTLEMENT

How it should be done

Prepare ACCUPRO estimate (prefer on-site)	Agreed price with contractor or insured	Claim settlement

How it is being done

Prepare ACCUPRO estimate	Contractor submits bid (at direction of customer or us)	Compromise ACCUPRO estimate to meet contractor's estimate	Claim settlement

OR . . .

Prepare ACCUPRO estimate	No contractor bid submitted	From the beginning, estimate overscoped and overestimated	Claim settlement

Issues

- Lack of accuracy of scope/technical stand
- Limited on-site estimate
- Lack of ACCUPRO understanding (mechanics of system)
- Lack of confidence in adjustor's ability
- Lack of confidence in ACCUPRO
- Lack of negotiation/communication skill
- Desire to rapidly close
- Lump sum

Source: Reinspections; Interviews

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Reinspections show that overlap, lump sum bids, and LKQ are among the top opportunities in the evaluation of structure.

ESTIMATING ESSENTIALS

Estimating fundamental issues

Percent

Reinspections = 18% overall opportunity

Areas of opportunity	
Missed mitigation	20
Overlap	16
Clean vs. replace	15
Lump-sum bids	12
Obviously no damage	8
Unknown/indignality	8
Measurement	5
Alternate repair method	5
Coverage	4
No visible damage	3
Depreciation	2
Repair vs. replace	2
Labor rates	1

Source: Reinspections; team analysis; CFR

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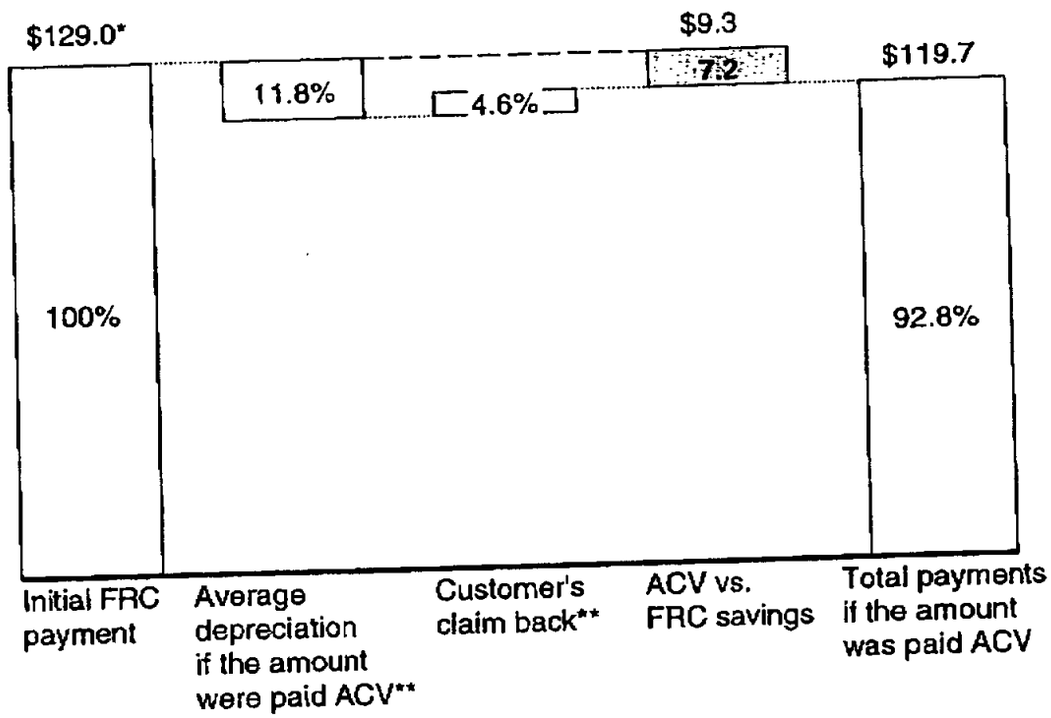
Over seven percent or more than nine million dollars could potentially be saved if ACV was initially paid instead of FRC.

FRC VS. ACV – STRUCTURE

$ Millions; percent



* The figure based on the fire CFR estimate that FRC payments comprise 41.1% of the total initial payments

** From the Houston File Review (1994-95)

Source: Houston File Review; OIS; team analysis of the fire CFR

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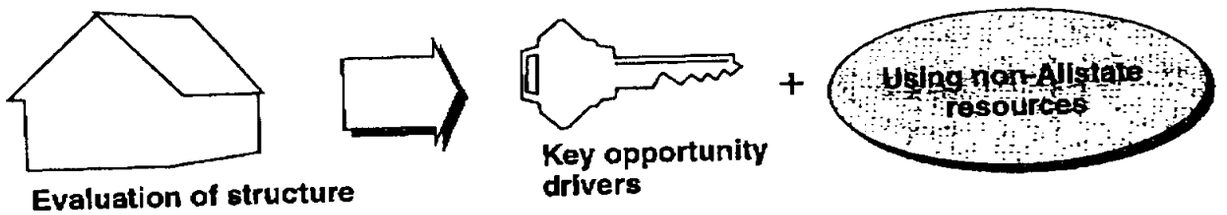

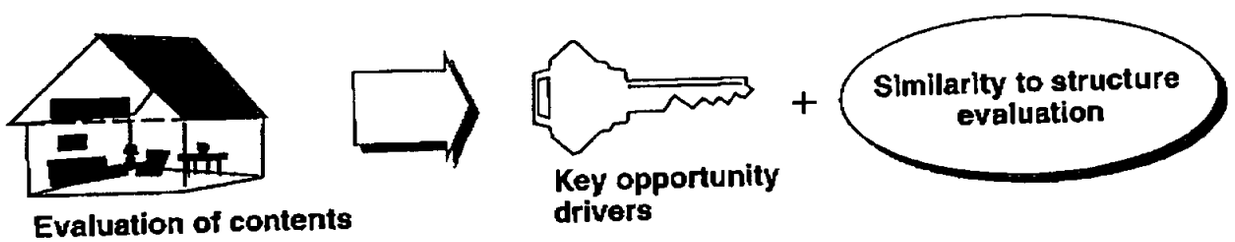

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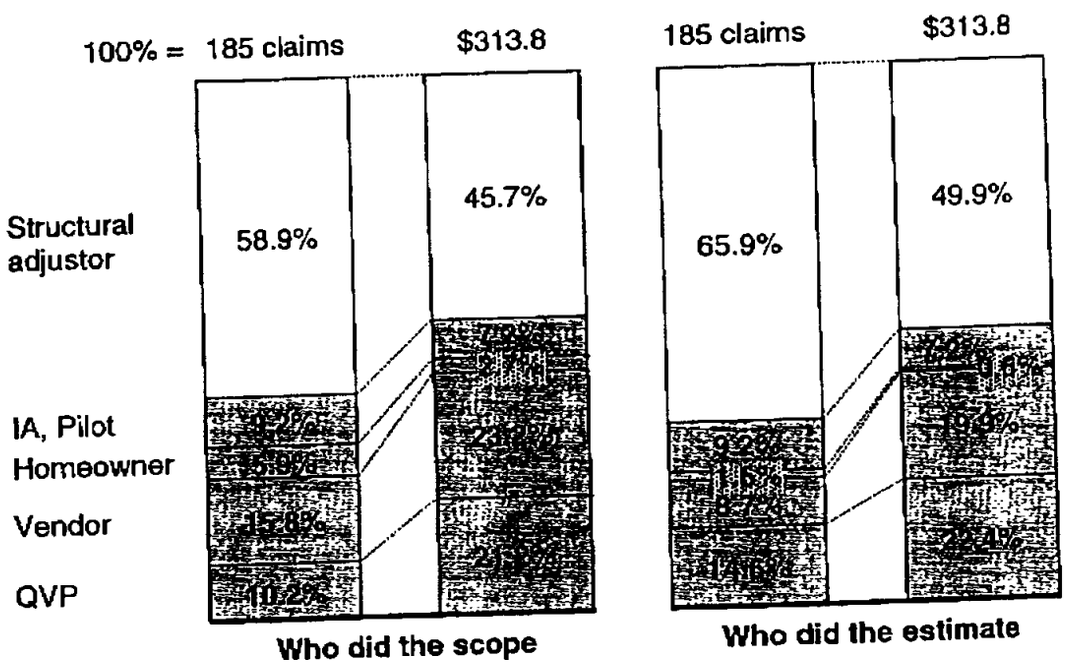
More than 50 percent of the structure dollars are being evaluated by non-Allstate sources. Major fires are more likely to be evaluated by QVP and vendors than smaller ones.

USING NON-ALLSTATE SOURCES

Number of claims; $ millions handled; percent



Source: OIS; team analysis of the CFR

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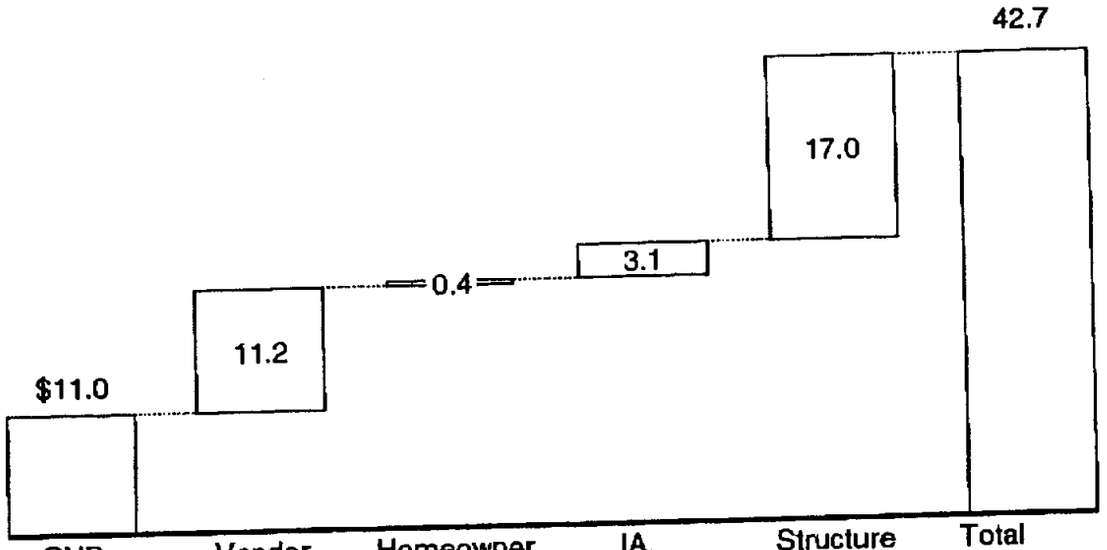
Almost half of the total opportunity in the evaluation of structure comes from QVP and vendors.

OPPORTUNITY IN EVALUATION OF STRUCTURE

$ Millions



Percent opportunity*	QVP	Vendor	Homeowner	IA, Pilot	Structure adjuster	Total structure evaluation opportunity
• Scope	16.7	15.6	7.0	13.6	11.5	13.6
• Estimate	15.4	17.7	5.7	13.6	11.1	

* Defined as dollar opportunity/structure evaluation payments

Source: Team analysis of the CFR

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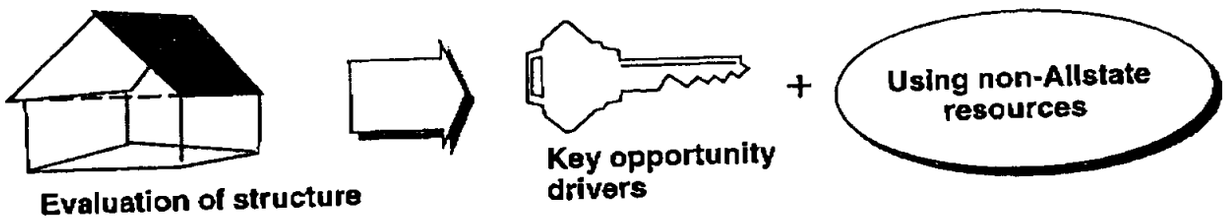
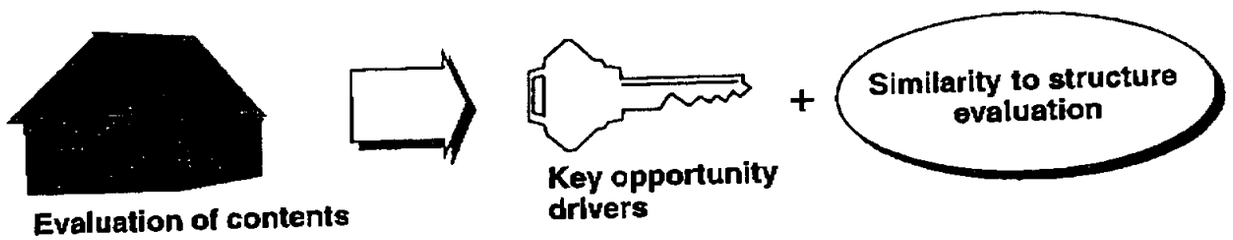
EVALUATION





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Opportunity in contents is large and primarily driven by the fact that in major fires, contents and prices are usually listed by homeowner, with little or no control asserted by Allstate.

EVALUATION OF CONTENTS

- Contents is a large, although often times neglected, opportunity, especially in major fires. In order to capture the opportunity more emphasis is needed on
  - Inventory of contents
  - Cleaning and repair vs. replacement
  - Research of replacement costs
- In developing new processes, one may benefit from the fact that there are similar issues in the evaluation of structure and contents such as
  - Scoping/inventory
  - Estimating fundamentals
  - FRC vs. ACV

Source: Team analysis of the CFR, reinspections, interviews

OCT. 29. 1996 3:36PM CH REPORT PRODUCTION NO. 1299 P. 26

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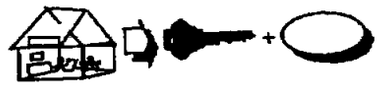
Contents evaluation currently lacks attention. In order to pursue the opportunity related to contents evaluation, contents specialists may be needed, especially on large fires.



EVALUATION OF CONTENTS – ISSUES

Issue	Description/examples
Contents evaluation lacks attention	• Contents specialists do not have job description or special training • Theft rep often handle fire contents, although skill requirements are different • Processors often used as contents specialists
Inventory of contents	• Requires different set of skills than structure scoping – Customer mindset/interaction – Lack of item description – Salvage not addressed
More emphasis needed on cleaning and repair vs. replacement	• Example – wood furniture replaced without considering cleaning or repair • Lack of direction given to vendor – vendor often cleans/repairs items before the claim rep inspects the loss
Research replacement cost	• Use of a submitted list of damaged items – No verification of price by adjustor – Limited use of national replacement sources/local sources

Source: Team analysis of Reinspections; interviews; CFR

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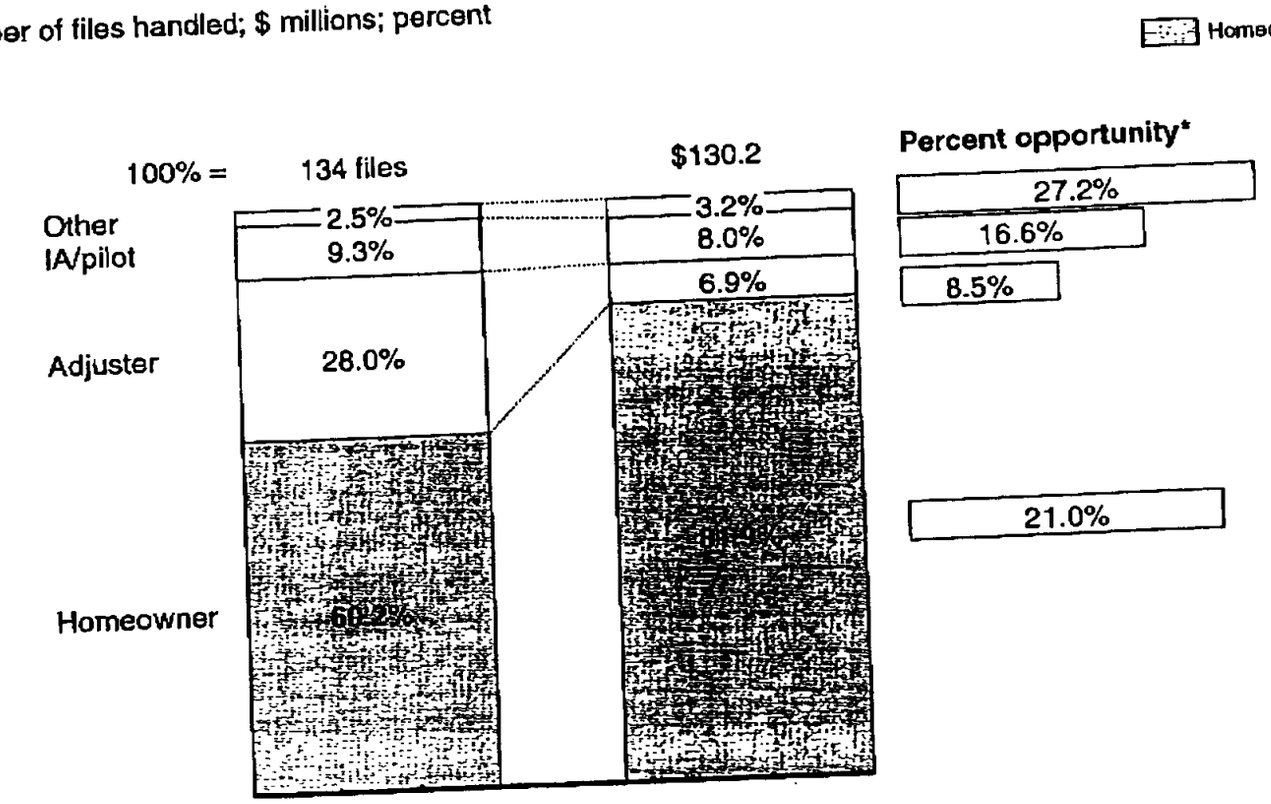
The vast majority of the content inventory is controlled by homeowners.

KEY DRIVERS – INVENTORY

Number of files handled; $ millions; percent



* Dollar opportunity in files handled/evaluation of contents total payment

Source: OIS; team analysis of the fire CFR

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More than 60 percent of the time, replacement cost is determined by non-Allstate resources.

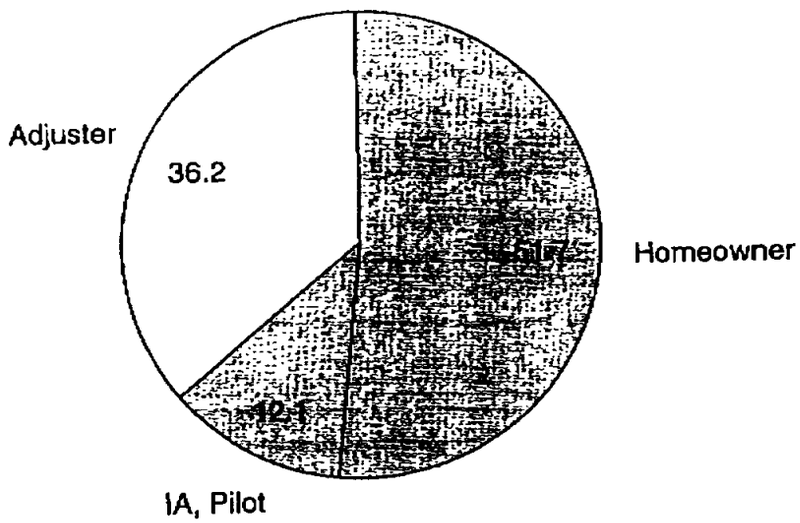
KEY DRIVERS – REPLACEMENT COSTS

Percent

Non-Allstate

Who determined contents replacement cost

100% = 134 claims



Source: Team analysis of the fire CFR

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There are important similarities between contents and structure evaluation issues.

SIMILARITIES BETWEEN CONTENTS AND STRUCTURE

Issues	Description/examples
• Scoping/inventory descriptions	
– Timing	• Try to evaluate with one-time visit • Decision to replace items up front leads to incomplete/nonexistent mitigation
– Clean vs. replace	• Decisions made by non-Allstate representative/vendors • Focusing on replacement
– Repair vs. replace	• Lack of direction to vendor – Wood furniture replaced without cleaning or repair consideration
• Estimating fundamentals	
– PEC	• Lumping items • Inconsistent depreciation applied
• FRC vs. ACV	• Paying FRC upfront

Source: Team analysis of reinspection; interviews; CFR

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OCT. 29. 1996 3:38PM CH REPORT PRODUCTION NO. 1299 P. 31

- Introduction
- Summary of the opportunities
- Evaluation
- **Subrogation**

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SUBROGATION/RECOVERY

- Subrogation is potentially a very large opportunity in the fire peril
- Key barriers to successful subrogation are
  - Limited or no investigation
  - Lack of identification
  - Poor handling by NAVP or law firm

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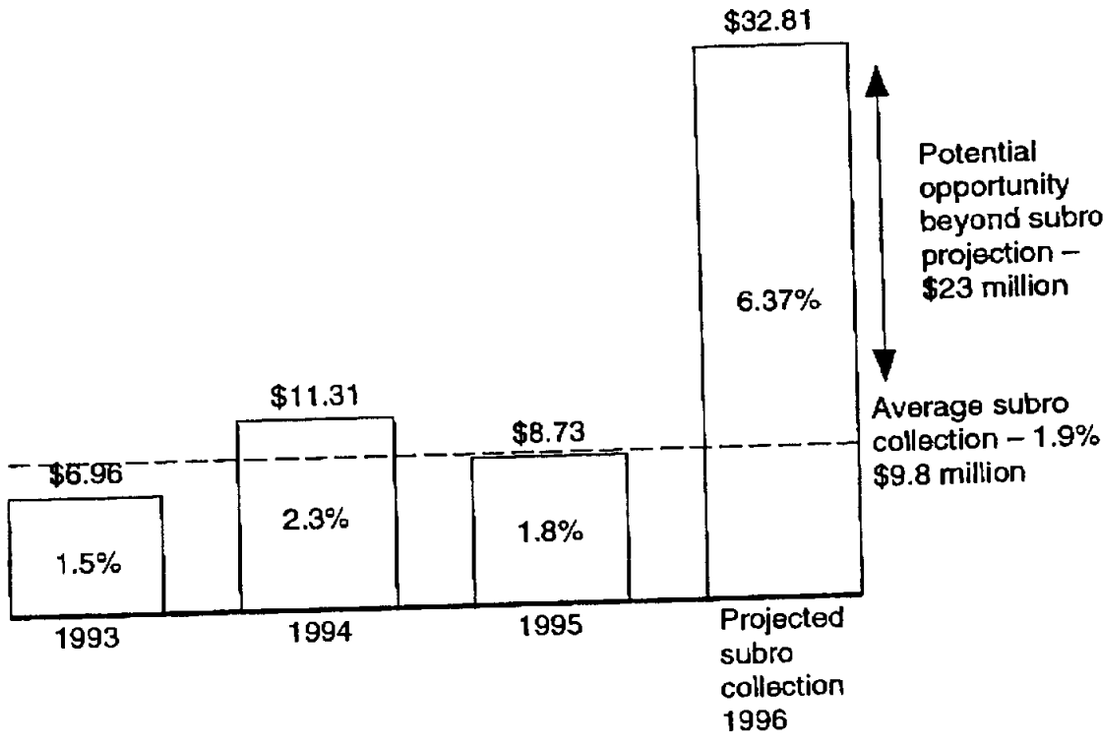
There is a significant opportunity in subrogation.

SUBRO COLLECTED FIRE (NON-CAT) 1993-1995 AND PROJECTED 1996

$ Millions, percent of total loss



* Includes owner, C/R lines

Source: OIS; team analysis of the CFR

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The primary reason for subrogation opportunity is the lack of attention due to the time-consuming nature of subrogation. Additionally, there is a lack of proper identification and investigation.

SUBROGATION – ISSUES

Issues	Description/examples
• Lack of attention in subro	• Time consuming
• Subro recovery hampered by lack of investigation	• Limited C&O investigation – Reliance on adjustors' best call – Lack of statement from insured/3rd party – Lack of photos which add value – Minimal use of C&O reports, fire/official reports – Problems with securing evidence (especially contents) • Poor handling of investigation by NAVP and law firm – Sofa caught on fire and C&O just stated that "sofa caught on fire," no cause listed; insured did not live in house and law firm wrote it off, although tenants should have been pursued – Writing off claims caused by appliances >7 years old – Group cases not addressed
• Lack of identification	• Example – dryer fire was written off because the dryer was old; however, 2 months prior, Sears had repaired it – never pursued possible link

Source: Team analysis of the CFR; Reinspections; Interviews

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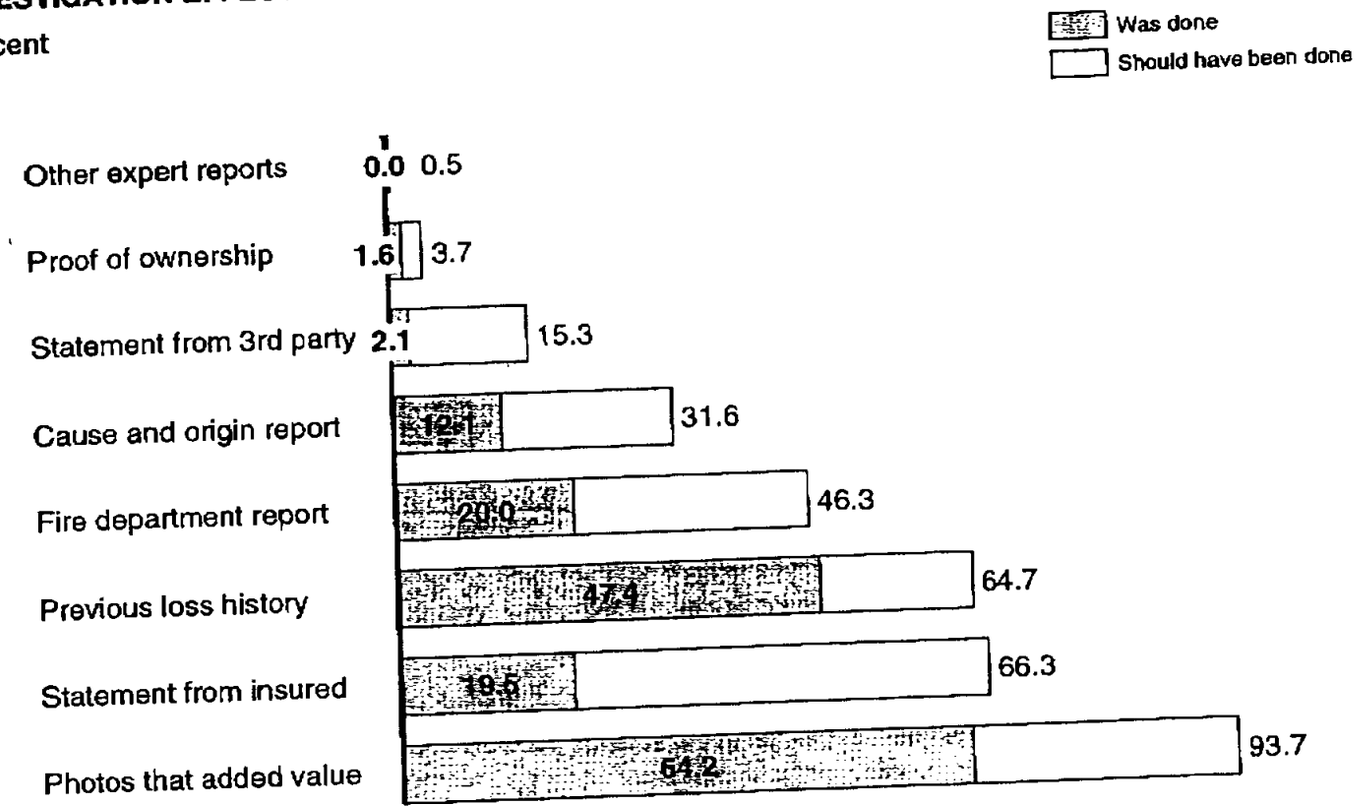
We could do a much better job in investigating claims.

INVESTIGATION EFFECTIVENESS

Percent



Source: Team analysis of the CFR

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Appendix

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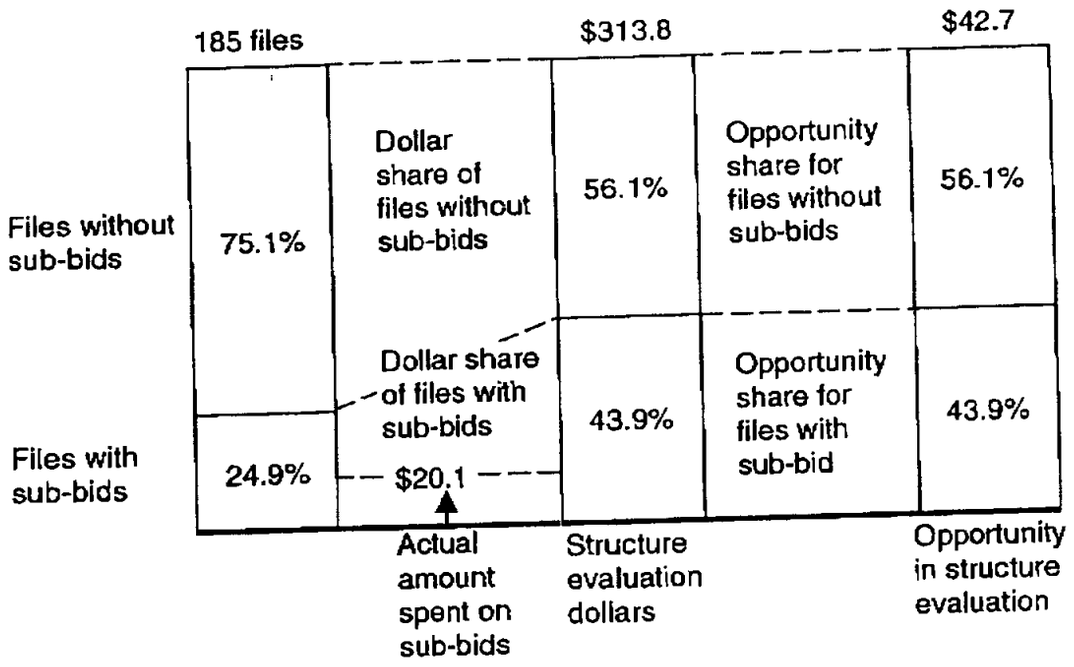
ESTIMATING FUNDAMENTALS – SUB-BIDS

Number of files; $ millions; percent



- Sub-bids primarily in larger fires
- Do not seem to be a dominant opportunity driver
- However, since almost 44% of both opportunity and dollars spent involves files with sub-bids, the issue may deserve further analysis

Source: OIS; team analysis of the fire CFR

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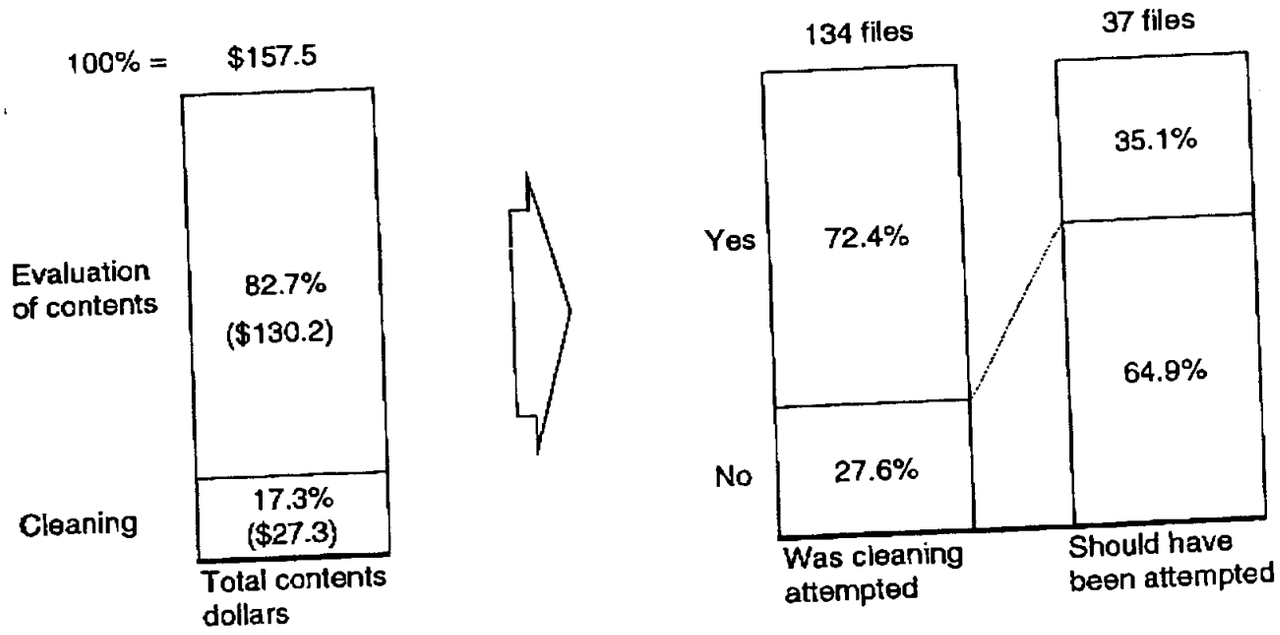
KEY ISSUES – CONTENTS CLEANING VS. REPLACEMENT

$ Millions; percent; number of files



Source: OIS; team analysis of the fire CFR

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LEADERSHIP TEAM AGENDA

- Review team fact gathering plan
  - What we are expecting to capture
  - Who, where
- Discuss data access/resource issues
- Review/agree on message for Mick

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GOING FORWARD – REFINING THE FACT GATHERING EFFORT

- The CFR scan is proving effective in identifying opportunity and the associated drivers
- However, there are several areas outside the current scan format, (e.g., management time/focus, complaint handling) which warrant closer attention. Furthermore, an initial scan of opportunity in CATs indicates that CATs may in fact represent a substantial proportion of the opportunity
- Therefore,
  - Full CFR needs to move forward with some minor adjustments to the current focus, to establish the necessary statistical fact based
  - Some additional fact gathering should be done in conjunction with the CFR (to take advantage of the field visits) to provide some important based lines for the design phase
  - Finally, a separate team needs to continue to develop a fact-base around CATs and CAT-specific issues

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The design team CUR effort can move forward with some minor adjustments.

DESIGN CFR EFFORT

Area	Changes/additions
CFR	• Adapt form to – Remove/adjust ineffective questions – Eliminate ambiguity – Highlight required fields • Review file sample mix
Interviews	• Design more focused interview guides to identify key issues, such as management time allocation, availability/use of training
Management ride/sit alongs	• Add several half or full days shadowing managers to get specific data on their activities

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DESIGN TEAM FACT DEVELOPMENT

Activity	Recommended volume by site	Time involved
CFR	Minimum 75 files 50	6-7 CFR per day, 3 people
Reinspections	Minimum 25 reinspections	5-7 per day per 1 person
	All non-CAT CFR and reinspections	
Interviews	2-3 targeted interviews of claim reps	3 per day
	2-3 targeted interviews of MCO managers	3 per day
Ride Alongs	Ride along (shadow 2 field claim reps)	1 day each
	Ride along (shadow MCO manager)	1 day each

2 – Teams
5 – People
3 – CFR
1 – Reinspections
1 – Interviews and ride alongs

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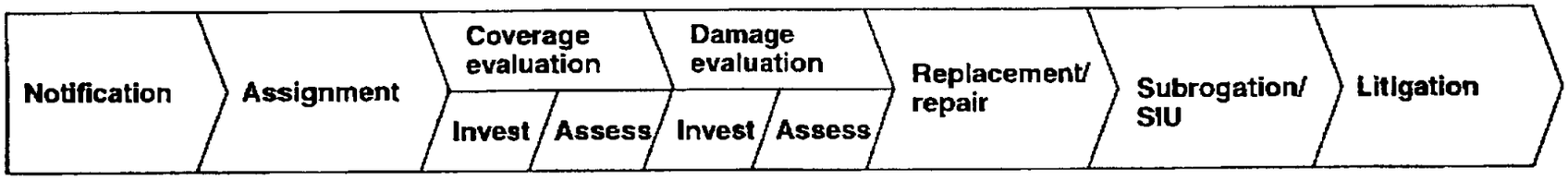
A number of additional issues exist in CAT handling, for which it would be useful to gather fact-based information.

CAT-SPECIFIC HANDLING PRACTICES AND ISSUES



1. Handling large volume of incoming calls

2. Prioriti-zation/ triage of claims

3. Unique damage assessment processes (e.g., earthquake)

4. Managing the supply chain/ preventing price gouging

5. Evidence gathering prior losses

6. Applying appropriate resources in light of large and uneven volume

7. Managing independents – quality, accuracy, and customer service

8. Agents' role

9. Clean-up/ close-down

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CAT FIELD ACTIVITY

	Area to study	Detail of information	Relevance to CCPR	How do we gather
1 & 2	Dispatcher/dispatch process	• Assignment distribution • Method of assigning • Selection of adjusters for territory • By size or by geography?	• Does the system get the right assignments into the right hands?	• Sit-alongs
3, 4, & 5	Policies and procedures	• What are they? • Who determines state-specific rules? • How are policies and procedures communicated?	• Are there cross-peril and cross-cat issues to consider? • How do we best control the communication process?	• Interviews • Review of documents at cat sites • Review of state statutes
6 & 7	Pilot manager	• Daily activities • Activities required by Allstate • Interaction with adjusters – training, quality control • Interaction with Allstate	• Economic impact of position • Missings	• Shadow activity
6 & 7	Team leader	• Daily activities • Interaction with pilot • Interaction with QCRs	• Development of positions to positively impact severity • Who checks up on the QCR? Who does re-res?	• Sit-alongs

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CAT FIELD ACTIVITY (CONTINUED)

	Area to study	Detail of information	Relevance to CCPR	How do we gather
7	Allstate examiner	• Required activities • Time to complete • What is done when pilot error(s) are discovered? • Training received • Productivity gauge • Required skills for position	• Measure economic impact of position • How much can be captured at this level?	• Sit-alongs • Interviews
7	Pilot adjuster	• Assignments received • Required training for position • Instruction received from Allstate at cat site • Level of supervision required • Level of interaction with Allstate at cat site • How is estimating feedback received • Scoping – how done, how many? • At what interval are estimates completed? • Customer interaction before, during, after inspection	• Training missings • Motivation to scope and complete estimates in a certain pattern • Perception of the Allstate/pilot relationship • Customer satisfaction	• Sit-alongs • Ride-alongs • Interviews

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CAT FIELD ACTIVITY (CONTINUED)

	Area to study	Detail of information	Relevance to CCPR	How do we gather
7	QCR (Allstate)	• Daily activities • What do we do with reinspections? • Job qualifications • Interaction with pilot • Empowerment to take action • Their perception of role • Selection criteria of reinspections • Procedure for completing	• Economic impact on process ability to effect improvement • Ways to improve ability to have a quick impact	• Ride-alongs • Sit-alongs
8	Agent role in catastrophe	• Interview – discuss perceptions, activities, interaction with claims employees, customers	• Economic impact • Required training	• Office visits
9	Supplements	• Supplement notification • Supplement handling process • Supplement checks and balances (reinspections, reviews, examiner procedures) • Role of FRC/ACV	• Do we process supplements exercising cost control? • Identification of opportunity?	• Paperwork review • Examiner sit-along and interviews • Reinspection of supplements

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CAT TEAM TIME/ACTIVITY ANALYSIS

Area to study	Activity	Recommended volume per site	Time involved – 1 person
Pilot manager	• Shadow activity	• 2 1/4-day sessions (4 hours total)	• 1/2 days
QCR activity	• Ride-along – accompanies reinspection • Sit along • Interview • Pilot interaction • Examine value added	• 50 reinspections (wind/hail sites) • 25-30 reinspections (rain/water sites) • 2 interviews	• 7 days – reinspections • 1 day – inside activity
Dispatch process	• Observe process • Review pending and staffing per site	• 2 1/4-day sessions	• 1/2 day
Team leader	• Observe activity – shadow	• 1-2 sessions totaling 4 hours	• 1/2 day
Examiner	• Sit-along – observe document activity **AND** • Observe economic activity functions • Interview to gain insight	• 2 8-hour sessions – different examiners **OR** • 1 4-hour session • 2 interviews • 50 files minimum	• 2 days

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CAT TEAM TIME/ACTIVITY ANALYSIS (CONTINUED)

Points to consider
- Surplus time spent with examiner, reinspections
- What level of permission do we need from pilot?

Area to study	Activity	Recommended volume per site	Time involved – 1 person
Pilot adjuster	• Ride-along • Interview • Document observations • Incorporate supplement detail in interviews. etc.	• 2 pilot adjusters	• 1-1/2 days
Policies and procedures	• Gather info on state-specific handling, coverage variation, regulations, local interpretations – through site leader, QCR	• 2-4 hours total – review all local detail	• 1/2 day
Supplements	• Reinspect supplements • Observe examiner's activity on supplements • Incorporate QCR interview on supplements	• Reinspect 5-7 • Inside activity	• 1 day • 1/2 day
Agents	• Visit agent locations • Conduct interviews • Discuss cat activities and agent perspective	• 4 agent locations – attempt to visit sites with team leader or PCPS	• 1 day

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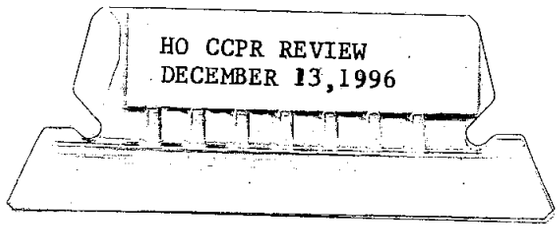

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HO CCPR REVIEW
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DEC. 13. 1996 10:05AM RP ANNEX #2 NO. 0704 P. 2

file

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Homeowners CCPR Project Review

ALLSTATE INSURANCE COMPANY

Review with senior management

December 13, 1996

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TODAY'S OBJECTIVES

- Summarize activities to date
- Review overall opportunity
- Discuss key finds
  - CAT
  - By peril
  - Cross-peril issues
- Review next steps

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The project is making good progress to date. The team has completed the initial field fact finding and has begun the design phase.

PRELIMINARY PROJECT APPROACH AND TIME LINE – DESIGN TEAM

PRELIMINARY

Progress to date

	Study prework	Review and assess current analysis	Prepare for analytical phase	Conduct additional analysis and debrief	Design, test, and refine	Develop implementation package	Design and execute roll out
Description	• Assemble team • Conduct high-level financial analysis • Plan initial project phases	• Review and assess existing analyses and refine hypotheses • Identify additional fact finding/ analysis required	• Design surveys, interview guides, etc. • Arrange for logistics for fact finding • Train review teams (as necessary)	• Conduct additional analyses • Conduct formal debrief, establish priorities, and conduct high-level design	• Redesign processes – Field-based – Focused on high-dollar areas – Define measures and measurement approach • Conduct tests – Field-based – Heavy measurement focus • Develop staffing model	• Codify results • Determine what implementation package looks like – Non-negotiable – Negotiable • Continue to develop measurement system	• Design approach • Develop support materials • Schedule • Train implementation teams (as necessary) • Execute rollout
Timing	Early August	Late August - early September	September	October - November	December - TBD	TBD	TBD

Prove solutions can move the numbers

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Phase 1 of the fact-finding verified that the fire peril needs to be included in the overall design phase, and that CAT handling is also an important area to consider

FIELD FACT-FINDING TEAM FOCUS

Phase 1 (9/21 to 10/7)

Fire team
- Understand impact of fire gap process
- Assess opportunity in gap vs. nongap sites

Design team
- Test fact-gathering tools
- Begin gathering CFR fact base for wind/hail and theft

CAT scan
- Take quick look at CAT process
- Assess potential for opportunity in CAT handling

Interim analysis and debrief (10/17 to 11/1)

- Fire still has substantial opportunity and should be included in overall design
- The opportunity potential in CAT deserves closer scrutiny

Phase 2 (11/4 to 12/6)

Design team
- Build complete CFR fact-base
- Attempt to build perspective around "qualitative" issues

CAT team
- Build broader fact-base on CAT claim opportunity
- Get clearer perspective on CAT process, activities, and Allstate/pilot interaction

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Each team used a number of methods to assess opportunity and the underlying drivers.

FIELD FACT-FINDING ACTIVITIES COMPLETED

CAT team	Fire team	Design team
	Visited	
• 6 MCOs • 6 special CAT handling locations	• 4 fire gap • 4 nongap sites	• 7 multiline MCOs • 9 specialty MCOs
	Conducted	
• 451 file reviews	• 190 file reviews	• 625 file reviews (325 wind/hail, 300 theft)
• 267 reinspections	• 24 reinspections	• 242 reinspections
• 88 interviews (management members, pilot members, and adjusters) • 31 customer interviews	• 32 interviews (management and claim reps)	• 74 interviews (management and claim reps)
• 23 shadows		• 29 shadows • 66 skill assessments

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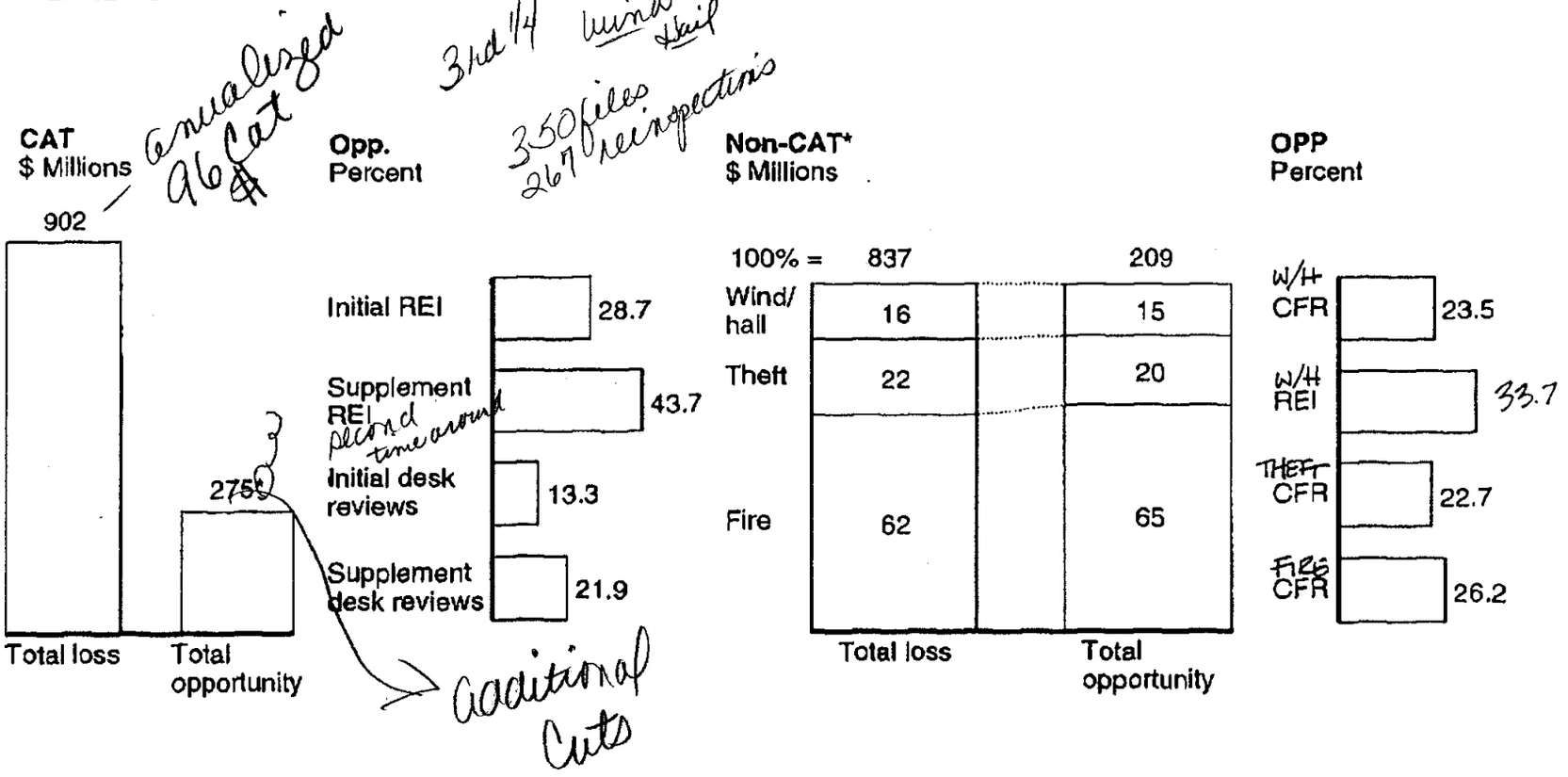
The teams found significant opportunity in CAT and non-CAT perils.

OVERALL OPPORTUNITY IDENTIFIED



* Excludes other non-CAT losses including water

Source: OIS; closed file reviews; reinspections

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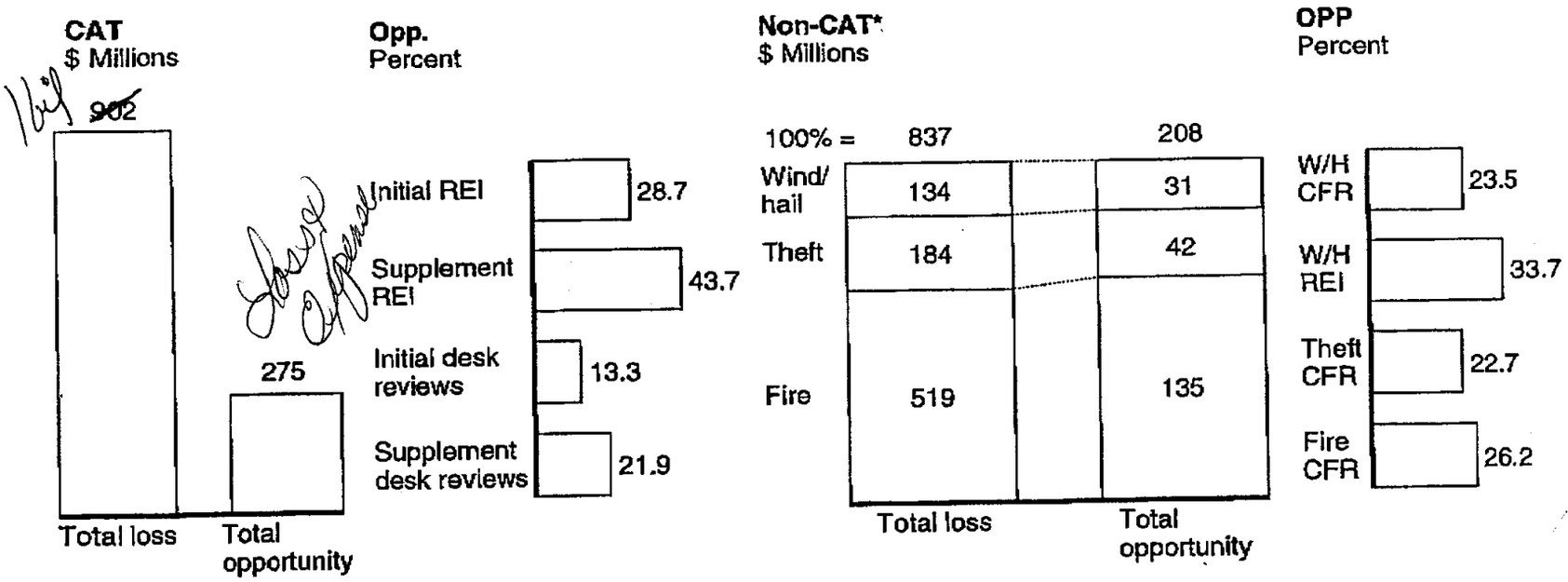
The teams found significant opportunity in CAT and non-CAT perils.

10 Cat sites wind or hail

OVERALL OPPORTUNITY IDENTIFIED



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Source: OIS; closed file reviews; reinspections

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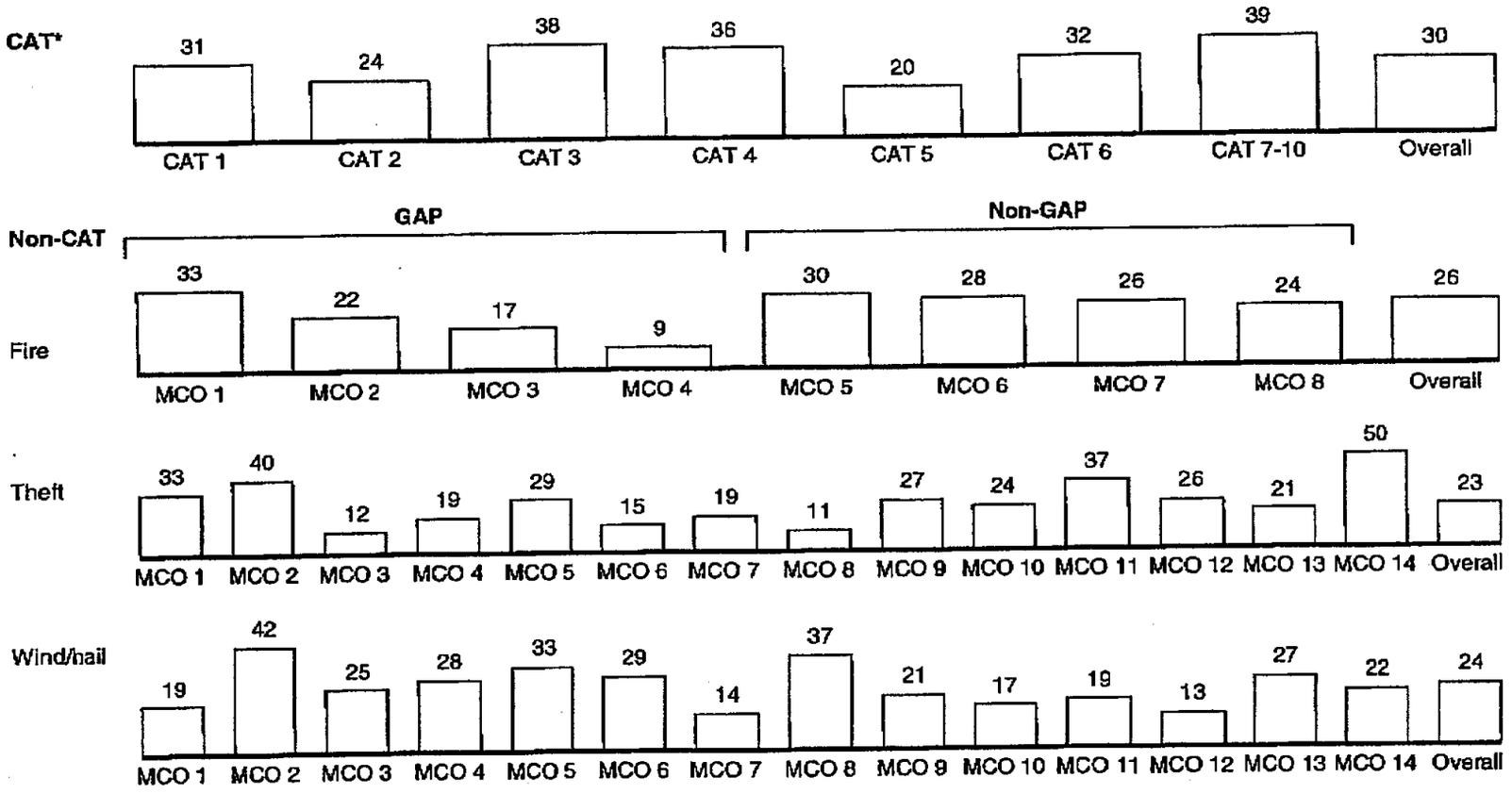
While there is variability, opportunity exists across all MCOs visited.

OPPORTUNITY ACROSS SITES

Percent



* Based on reinspections

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SUMMARY OF FINDINGS

Area	Key findings
CATs	• Reinspections revealed opportunity of $275 million • Primary issues include improper scoping and estimation, timing of estimates, and coverage determination
Perils • Fire	• Total opportunity is $135 million • 74% of opportunity is found in fire losses over $15,000 • Largest drivers of opportunity exist in structure and contents evaluation and subrogation
• Theft	• Total opportunity is $42 million • Claims over $2,500 represent 74% of opportunity • Largest opportunity areas include evaluation, coverage, and fraud
• Wind/hail	• CFR identified almost $32 million opportunity; however, reinspections suggest the opportunity could be as high as $46 million • Substantial opportunity exists for both Allstate and independent adjusters • Largest opportunity area is roofs
Across perils, CAT/Non-CAT	• Significant issue overlap exists across perils • Contents and independents appear to be the largest cross-peril issues • The primary underlying causes of opportunity include – Insufficient training – Little or no calibration – Inadequate technical/policy skills among management and claim reps – Limited homeowner staffing – Lack of management attention to claim handling – Unclear/ineffective performance measurements

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DEC. 13. 1996 10:06AM RP ANNEX #2 NO. 0704 P. 10

The largest opportunities across perils exist in evaluation of structure and contents, coverage, and subrogation.

OVERALL OPPORTUNITY BY PROCESS STEP

	Mitigation	Coverage	Fraud	Evaluation (structure and contents)	Evaluation (cleaning and ALE)	Negotiation	Subro-gration	Salvage	Total
Cat									
$ millions	0	34.3	0	240.8	0	0	0	0	275.1
Percent	0	3.8	0	26.7	0	0	0	0	30.5
Fire									
$ millions	5.1	3.7	0	72.6	14.4	3.1	32.8	3.1	134.8
Percent	1.0	0.7	0	14.1	2.8	0.6	6.4	0.6	26.2
Theft									
$ millions	0	9.4	10.4	16.1	0	0	6.1	0	42.0
Percent)	0	5.1	5.6	8.7	0	0	3.3	0	22.7
Wind/hail (noncat)									
$ millions	0	9.0	0.1	21.9	0	0	1.0	0	32.0
Percent	0	6.6	0.1	16.1	0	0	0.7	0	23.5
Overall									
$ millions	5.1	56.4	10.5	351.4	14.4	3.1	39.9	3.1	483.9
Percent	0.3	3.2	0.6	20.2	0.8	0.2	2.3	0.2	27.8

Source: CFR; reinspections; OIS; C074 audit; working team analysis

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Coverage not investigated is a common issue across theft, wind/hail, and CATs. It is also the largest driver of coverage opportunity. Other coverage issues are similar across wind/hail and CATs.

COVERAGE

Issue	Fire	Theft	Wind/hail	CATs
Coverage not investigated		✔	✔	✔
Other insurance		✔		
Improper policy interpretation			✔	✔
Multiple losses			✔	✔

NO. 0704 P. 11

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Incorrect depreciation/improper use of FRC versus ACV was a common issue across all perils. Improper estimate calculation was common in perils where structural losses occur frequently.

EVALUATION – STRUCTURE

Issue	Subissue	Fire	Theft	Wind/hail	CATs
Scoping	Clean vs. replace	✔			
	Alternative repair methods	✔		✔	✔
	Damages not related to loss			✔	✔
	Maintenance-related damages			✔	✔
Lack of estimating fundamentals	Improper estimate calculations (e.g., improper use of ACCUPRO)	✔		✔	✔
	Incorrect depreciation/FRC vs. ACV	✔	✔	✔	✔

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In contents evaluation, incorrect depreciation/improper use of FRC versus ACV was again a common issue. Most other issues were shared across fire and theft where contents losses are frequent. Contents evaluation is not an issue for wind/hail or CATs.

EVALUATION – CONTENTS

Issue	Subissue	Fire	Theft	Wind/hail	CATs
Inventory	Accept insured's inventory sheet without verification	✔	✔		
	Clean vs. repair	✔			
Lack of estimating fundamentals	Accept insured's prices without verification	✔	✔		
	Little or no use of national replacement centers	✔	✔		
	Incorrect depreciation/FRC vs. ACV	✔	✔		

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Most of the issues related to subrogation were common across all perils. Subrogation was more likely to be pursued in fire where losses are often quite large.

SUBROGATION

Issue	Fire	Theft	Wind/hail	CATs
Limited or no investigation	✔	✔	✔	✔
Lack of identification	✔	✔	✔	✔
Poor handling by NAVP	✔			
Not pursued when recognized		✔	✔	✔

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Our findings matched our original hypotheses about contents/replacement and independents. We found less use of QVPs than we expected.

CROSS-PERIL HYPOTHESES

Issue	Original hypotheses	What we found
Contents/ replacement programs	• Segmentation of structure and contents may be the most effective handling method • Replacement activity is below needed levels • Can impact severity positively if used properly	• The insured routinely priced and submitted the contents inventory • Some adjusters handle both the structural and contents portion of losses. It appears that this method of handling does not provide the best severity control • Replacement activity is relatively low • General lack of knowledge of available replacement resources • The carpet replacement evaluation process appears to take too long • Contents receiving secondary priority
Independents	• Heavily used in field due to inadequate staffing • Major driver of cross-peril opportunity • Frequently not managed	• Confirmed hypotheses in a number of locations • Replaced QVPs in the adjusting force • Represent significant economic opportunity • Receive little or no Allstate supervision • Heavily represented by Pilot adjusters
QVP	• QVP negatively impacts severity • Role of QVP may not be clearly defined in the field	• QVPs were not widely used in wind/hail and theft losses • Were a driver of opportunity in fire, mostly in the evaluation of large structural losses

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The team identified a handful of contributing potential causes of opportunity which consistently surfaced across perils as well as across CAT and non-CAT. The creation of the NCMT is an effective first step in beginning to address a number of these issues.

UNDERLYING CAUSES OF OPPORTUNITY

	Description	
Area	**Non-CAT**	**CAT**
Training	• Training given secondary priority • Little or no ongoing skill/policy training • Training curriculum not updated frequently	• Training needed on policy/coverage and customer interaction skills
Skill levels	• Management tenure low • Technical and policy skills insufficient for both managers and claim reps	• No certification process to ensure we are receiving skilled adjusters/staff
Management time/focus	• In some cases, scope of management focus is too broad to be effective • Focus on administrative tasks and customer interaction • Extremely limited time for coaching, reinspections, and ride alongs • Reinspections primarily completed to fulfill requirements	• Definition of management roles still in development • Varying duties at CATs sites prevent QCR's and file examiners from performing early and frequent reinspections • Emphasis taken away from QCR function during clean-up phase

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UNDERLYING CAUSES OF OPPORTUNITY (CONTINUED)

	Description	
Area	**Non-CAT**	**CAT**
Staffing	• Resources dedicated to Auto, casualty, and water – Homeowner's given last priority • Significant number of open J58s	• Insufficient staffing to adequately reinspect adjusters
Calibration/ consistent procedures	• Limited or no understanding of calibration process	• Examiners/QCRs perform same task differently from site to site • Scope and estimate components vary within and across sites • Level of CAT preparation varies by CSA
Measurements	• There is mixed focus on key performance measurements • There is a "disconnect" in communication to the front line • Frequently do not promote desired behavior	• Measurements of closures and pending shifts focus from quality closures to rapid closures

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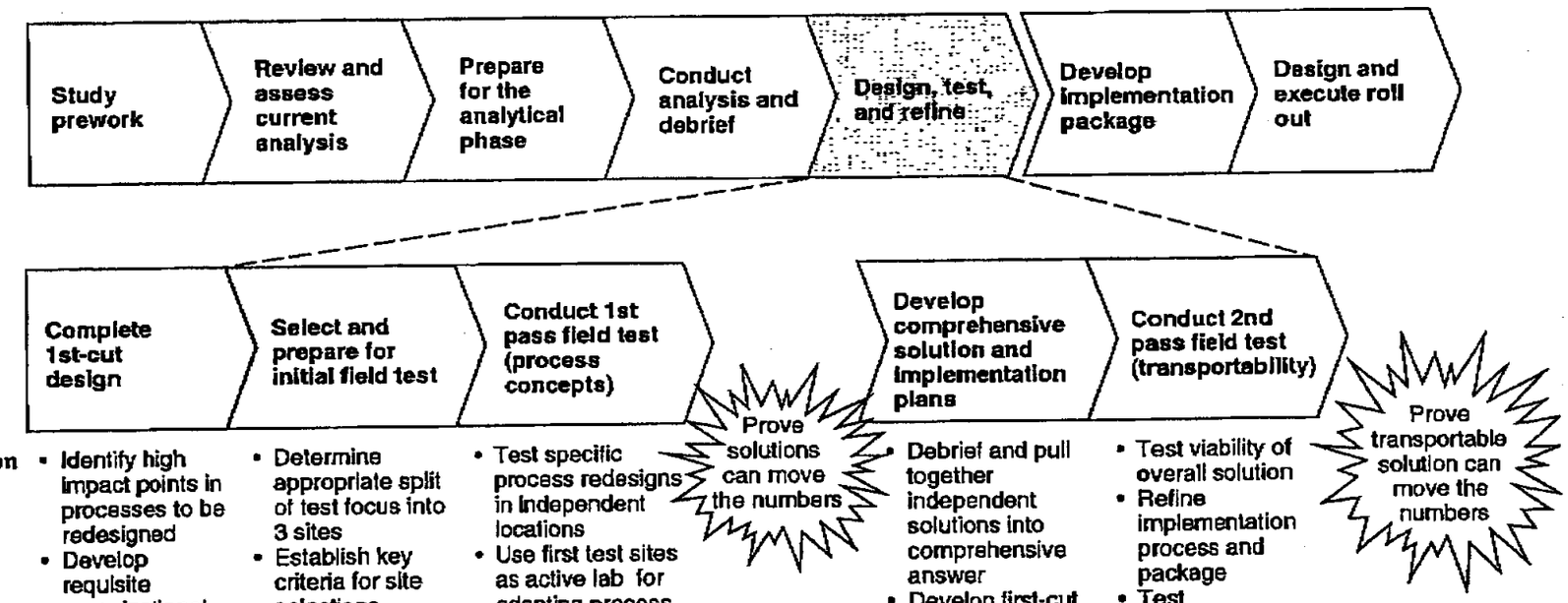
The team will spend the next 3 weeks preparing for the set of field tests.

NEXT STEPS



Description	• Identify high impact points in processes to be redesigned • Develop requisite organizational support model • Define measures	• Determine appropriate split of test focus into 3 sites • Establish key criteria for site selections • Generate short list and select • Define/train team members in roles/test process	• Test specific process redesigns in independent locations • Use first test sites as active lab for adapting process changes • Determine how capturable the opportunity is – what is systematically intractable	• Debrief and pull together independent solutions into comprehensive answer • Develop first-cut implementation transfer plan	• Test viability of overall solution • Refine implementation process and package • Test transportability of solution
Timing	12/18 to 1/18	12/16 to 1/18	3 months	TBD	TBD

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There are a few issues moving forward.

KEY ISSUES MOVING FORWARD

- Success of project depends on team stability/continuity
- Coordination of schedules with Auto PD second look/rollout and managing "field fatigue"
- Depletion of Homeowners skilled resources through redeployment into other units
- Timing of filling existing J58s in property

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HOMEOWNERS CCPR PROJECT REVIEW
MANAGEMENT SKILL ASSESSMENT

CSA	TECH	TRN	ORAL	WRIT'	ORG'	LDR	POLICY	COMP'R	TOTAL
# 1	1.5	1.5	1.7	1.8	2.0	1.4	1.8	1.5	9
# 2	2.2	2.3	2.5	2.3	2.3	2.5	----	-----	10
# 3	1.5	1.5	1.7	1.7	1.7	1.6	1.7	1.2	13
# 4	2.2	2.4	2.2	1.8	2.2	1.8	2.0	----	8
# 5	2.3	1.9	2.0	1.9	2.2	2.0	2.1	----	10
# 6	2.5	2.3	2.1	1.9	1.9	1.8	2.2	----	19
TOTAL	2.1	2.0	2.0	1.9	2.0	1.8	2.0	1.3	66

SKILL LEVEL ASSESSMENT: LEVELS 1 THRU 3
TECH-TECHNICAL SKILLS
TRN-TRAINING AND DEVELOPMENT/COACHING
ORAL-ORAL COMMUNICATION SKILLS
WRIT'-WRITTEN COMMUNICATION SKILLS
LDR-LEADERSHIP SKILLS
POLICY-POLICY INTERPRETATION SKILLS
COMP'R-COMPUTER (LAPTOP) UTILIZATION SKILLS

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Appendix A: CATs

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KEY DRIVERS OF CAT OPPORTUNITY

PRELIMINARY

Issues	Description
Scoping	• Alternative repair methods do not receive sufficient consideration • Roof replacement is too often standard vs. repair • Fences written to replace vs. repair • Excessive allowance for tree and debris removal
Estimating techniques	• Writing damage where none exists • Inappropriate use of unit costs • Multiple minimum charges on same estimate for same or similar trades • Lump sums • Little or no verification of paid bills
Timing	• Adjusters do not immediately complete estimate after initial scope and inspection (up to 2 weeks) • Errors due to time and memory lapses
Coverage	• Coverage analysis errors • Multiple losses/old damage treated as one loss • Tree/debris removal coverages and limitations misstated

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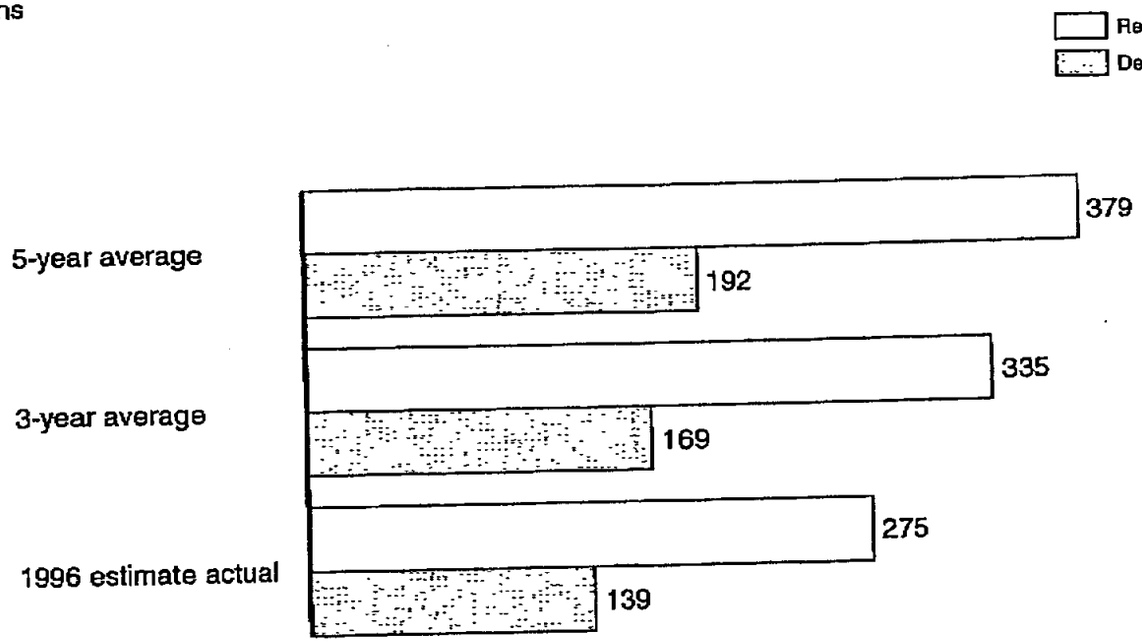
OVERALL OPPORTUNITY IN CAT HANDLING

$ Millions



Note: Assumes reinspection opportunity of 30.5% and desk review opportunity of 15.4
Source: OIS, CFR; reinspections; working team analysis

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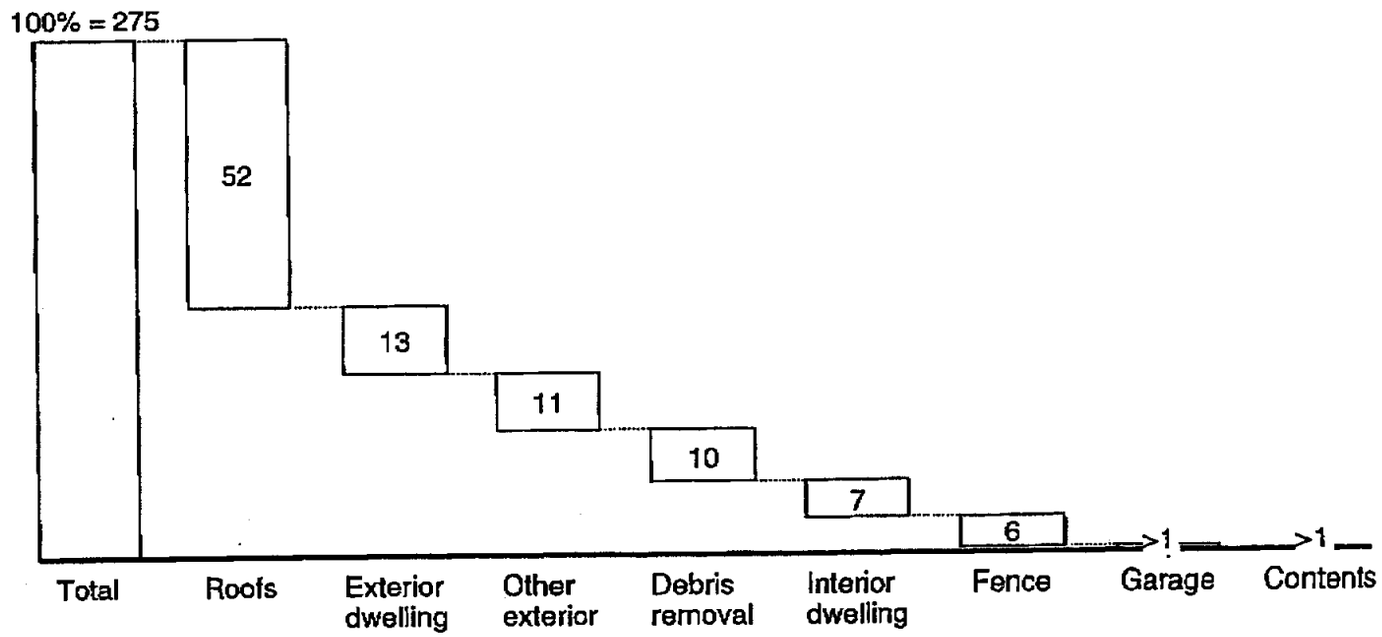
CAT OPPORTUNITY BY DAMAGE AREA

$ Millions; percent



Source: OIS; reinspections

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Appendix B: Fires

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KEY DRIVERS OF FIRE OPPORTUNITY

Issues	Description
Structure evaluation	• Writing unseen damages without follow up • Focus on replacement vs. cleaning/repair • Lack of understanding of skills for ACCUPRO estimation • Lump sum estimates • Paying full replacement costs instead of ACV
Contents evaluation	• Minimal or no Allstate involvement in inventory of contents • Focus on replacement vs. cleaning/repair • Replacement cost not verified
Subrogation	• Cause and origin not properly determined • Subro potential not identified • Poor handling by NAVP or law firm

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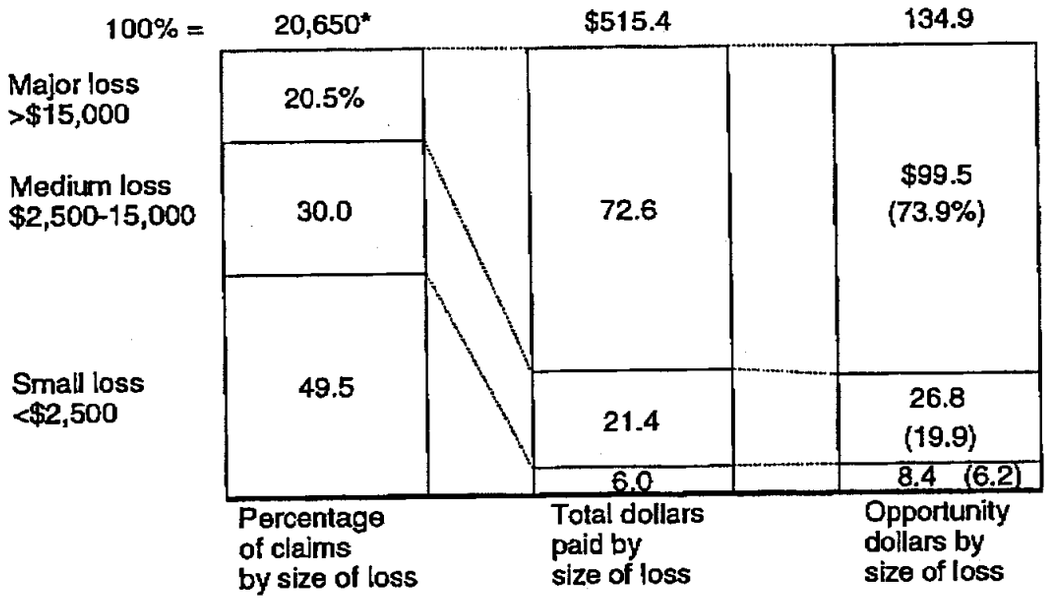
OPPORTUNITIES BY SIZE OF LOSS*

$ Millions; percent



* Based on 7 CSA audit

Source: OIS, C74 Audit of CSA File Distribution by Loss Size

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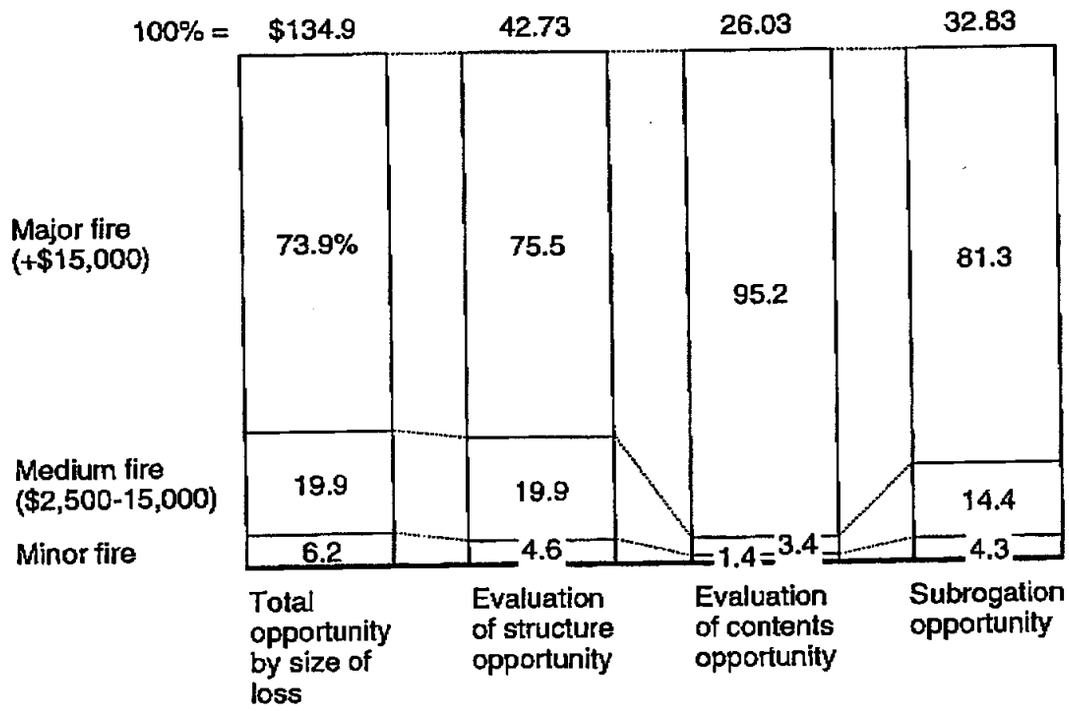
EVALUATION AND SUBROGATION OPPORTUNITIES BY SIZE OF LOSS

$ Millions; percent



Source: CFR OIS; working team analysis

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Appendix C: Theft

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DEC. 13. 1999 10:09AM RP ANNEX #2 NO. 0704 P. 29

KEY DRIVERS OF THEFT OPPORTUNITY

Issues	Description
Coverage	• Coverage analysis not addressed • Lack of investigation for additional coverage/insurance
Evaluation of contents	• Incorrect or no application of depreciation • FRC paid prior to replacement • Incorrect pricing • Insured's inventory sheets accepted without verification
Fraud	• Lack of fraud investigation when fraud indicators are present (little evidence adjusters recognize fraud)
Subrogation	• Little or no recognition of subro potential • Opportunity not pursued when recognized

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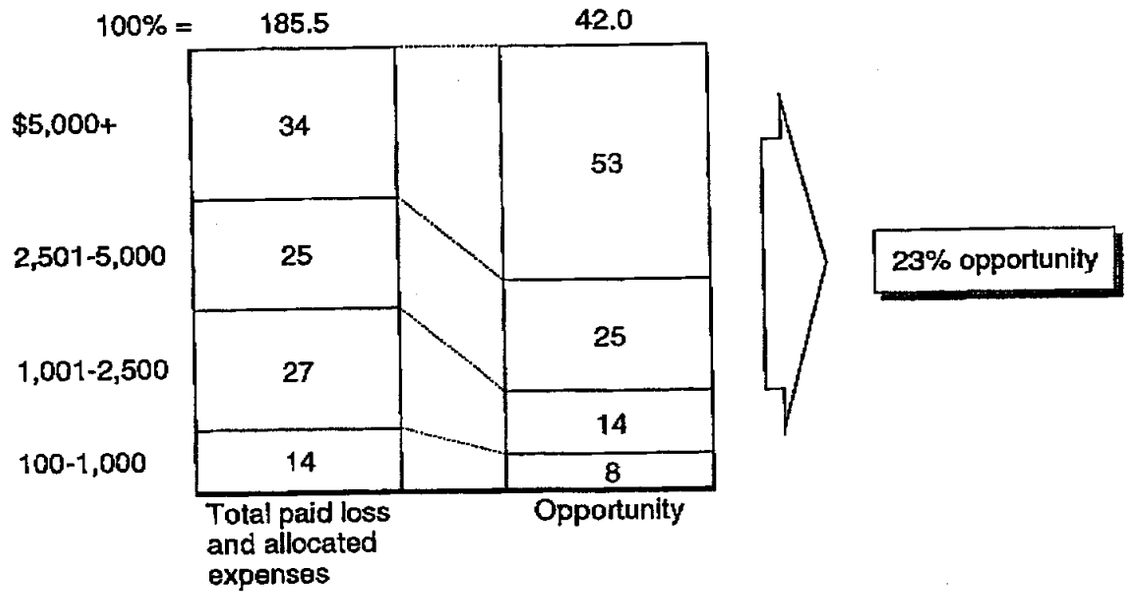
OVERALL THEFT OPPORTUNITY

$ Millions; percent



* Based on C074 audit of 5 CSAs

Source: CFR scan; OIS; C074 audit; working team analysis

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Appendix D: Wind/hail

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KEY DRIVERS OF WIND/HAIL OPPORTUNITY

Issues	Description
Coverage	• Policy interpreted improperly • Multiple losses covered as single loss • Coverage analysis not addressed
Scoping	• Damages included in scope which were not related to loss • Maintenance-related damages not distinguished from sudden and accidental losses
Estimating techniques	• Incorrect or no application of depreciation • Improper estimate calculation (including improper use of ACCUPRO)

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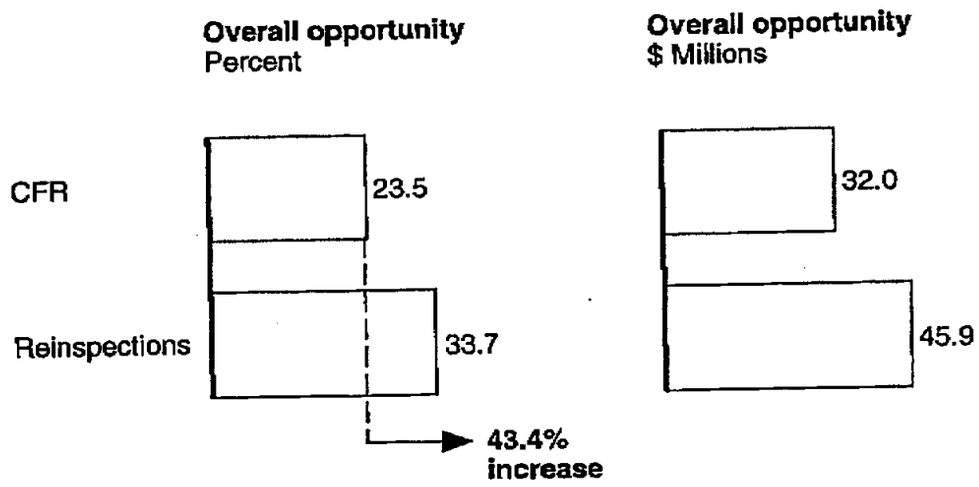
OVERALL NON-CAT WIND/HAIL OPPORTUNITY FROM CFR VS. FROM REINSPECTIONS



Source: CFR; Field Reinspections; working team analysis

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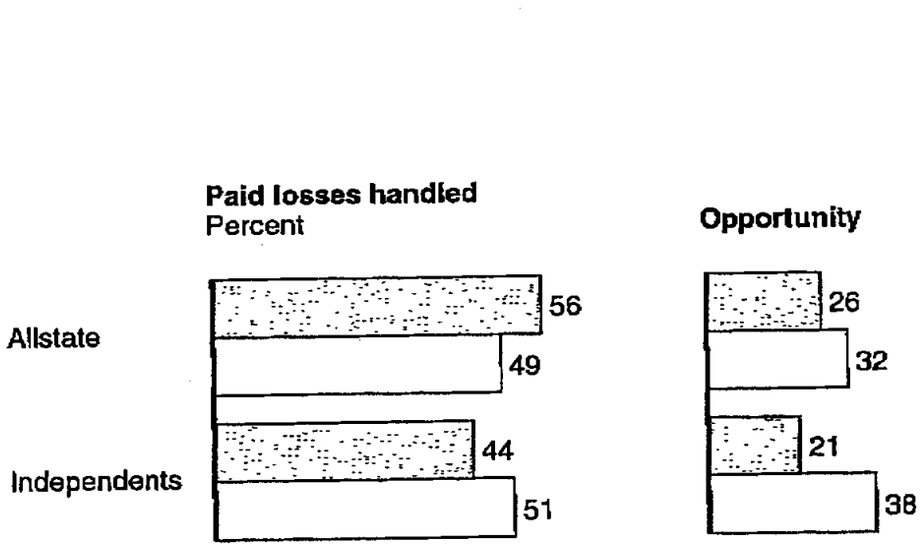
WIND/HAIL OPPORTUNITY FROM CFR AND REINSPECTIONS BY PRIMARY CLAIM HANDLER*

Percent



* Primary claim handler is defined as the person who handles the evaluation step of the claim

Source: CFR scan; Field Reinspections; working team analysis

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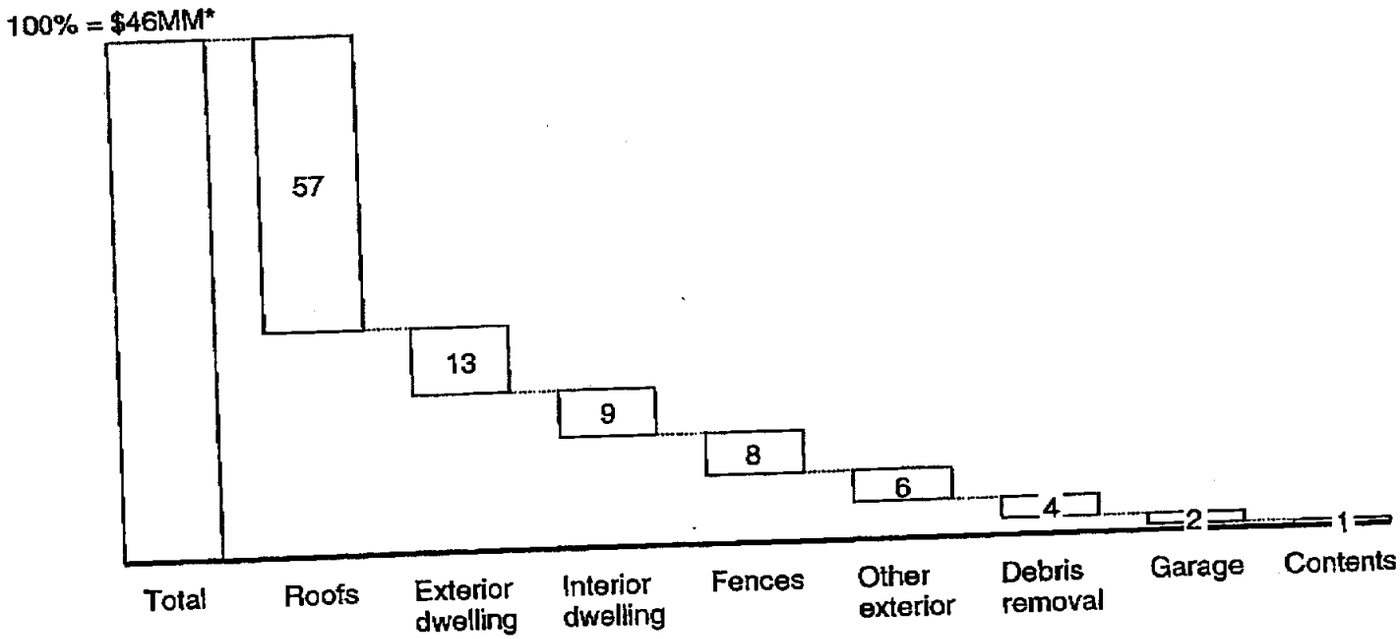
WIND/HAIL OPPORTUNITY BY DAMAGE AREA

$ millions; percent



* Based on reinspection results only

Source: OIS; reinspections; working team analysis

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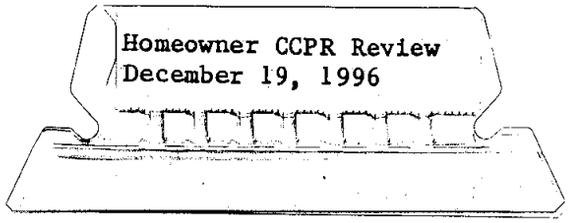

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HOMEOWNER CCPR REVIEW
DECEMBER 19, 1996

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CONFIDENTIAL

Homeowners CCPR Review

ALLSTATE INSURANCE COMPANY

Team debrief

December 19, 1996

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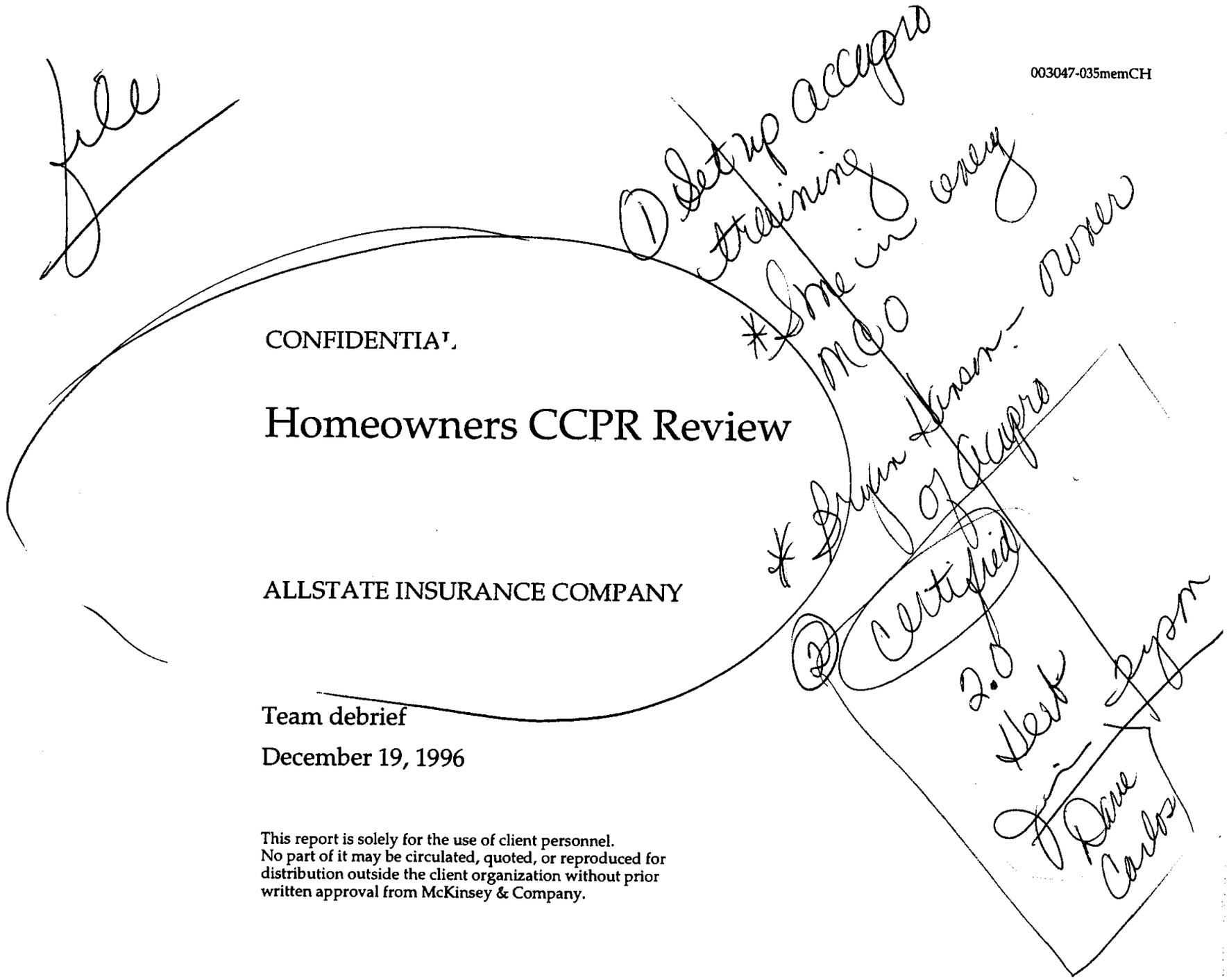

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TODAY'S OBJECTIVES

- Summarize activities to date
- Discuss key findings
  - Cat
  - By peril
  - Qualitative observations
- Discuss potential solution components and next steps

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TODAY'S OBJECTIVES

- **Summarize activities to date**
- Discuss key findings
  - Cat
  - By peril
  - Qualitative observations
- Discuss potential solution components and next steps

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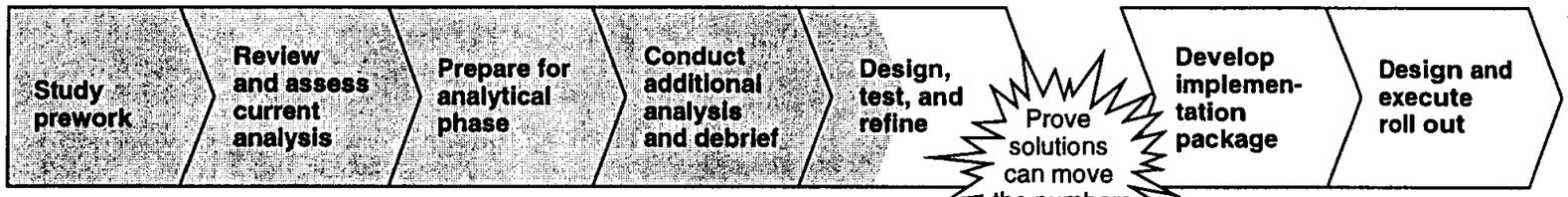
The project is making good progress to date. The team has completed the initial field fact finding and has begun the design phase.

PRELIMINARY PROJECT APPROACH AND TIME LINE – DESIGN TEAM

PRELIMINARY



Description	• Assemble team • Conduct high-level financial analysis • Plan initial project phases	• Review and assess existing analyses and refine hypotheses • Identify additional fact finding/ analysis required	• Design surveys, interview guides, etc. • Arrange for logistics for fact finding • Train review teams (as necessary)	• Conduct additional analyses • Conduct formal debrief, establish priorities, and conduct high-level design	• Redesign processes – Field-based – Focused on high-dollar areas – Define measures and measurement approach • Conduct tests – Field-based – Heavy measurement focus • Develop staffing model	• Codify results • Determine what implementation package looks like – Non-negotiable – Negotiable • Continue to develop measurement system	• Design approach • Develop support materials • Schedule • Train implementation teams (as necessary) • Execute rollout
Timing	Early August	Late August - early September	September	October - November	December - TBD	TBD	TBD

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Phase 1 of the fact-finding verified that the fire peril needs to be included in the overall design phase, and that Cat handling is also an important area to consider.

FIELD FACT-FINDING TEAM FOCUS

Phase 1 (9/21 to 10/7)

Fire team
- Understand impact of fire gap process
- Assess opportunity in gap vs. nongap sites (5% diff 27 vs 22)

Design team
- Test fact-gathering tools
- Begin gathering CFR fact base for wind/hail and theft

Cat scan
- Take quick look at Cat process
- Assess potential for opportunity in Cat handling

Interim analysis and debrief (10/17 to 11/1)

- Fire still has substantial opportunity and should be included in overall design
- The opportunity potential in Cat deserves closer scrutiny

Phase 2 (11/4 to 12/6)

Design team
- Build complete CFR fact-base
- Attempt to build perspective around "qualitative" issues

Cat team
- Build broader fact-base on Cat claim opportunity
- Get clearer perspective on Cat process, activities, and Allstate/pilot interaction

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Each team used a number of methods to assess opportunity and the underlying drivers.

FIELD FACT-FINDING ACTIVITIES COMPLETED

Cat team	Fire team	Design team
	Visited	
• 6 MCOs • 6 special Cat handling locations	• 4 fire gap • 4 nongap sites	• 7 multiline MCOs • 9 specialty MCOs
	Conducted	
• 451 file reviews	• 190 file reviews	• 625 file reviews (325 wind/hail, 300 theft)
• 267 reinspections	• 24 reinspections	• 242 reinspections
• 88 interviews (management members, pilot members, and adjusters) • 31 customer interviews	• 32 interviews (management and claim reps)	• 74 interviews (management and claim reps)
• 23 shadows		• 29 shadows • 66 skill assessments

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Source page 369 of 490
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TODAY'S OBJECTIVES

- Summarize activities to date
- **Discuss key findings**
  - **Cat**
  - By peril
  - Qualitative observations
- Discuss potential solution components and next steps

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SUMMARY OF CAT QUANTITATIVE FINDINGS

Key findings from initial scan	Updated findings from desk reviews, reinspections and supplements
• Opportunity was 33.2% from reinspections with a $302 million opportunity	• Consistent results with a 30.5% overall opportunity representing $275 million
• Early hypothesis was that there was significant opportunity in roofs	• Major opportunity was quantified in roofs and building exteriors, with lesser opportunities in debris and fences
• 78% of the opportunity dollars was in the process step of evaluation	• Additional reinspections showed an increase in evaluation opportunity to 87% with estimation practices being the major driver
• Coverage represents 22% of the opportunity dollars	• Opportunity in coverage decreased to 13% • Wind and hail is the largest peril driver of Cat claims paid, accounting for 42% over the last 4 years

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Source page 371 of 490
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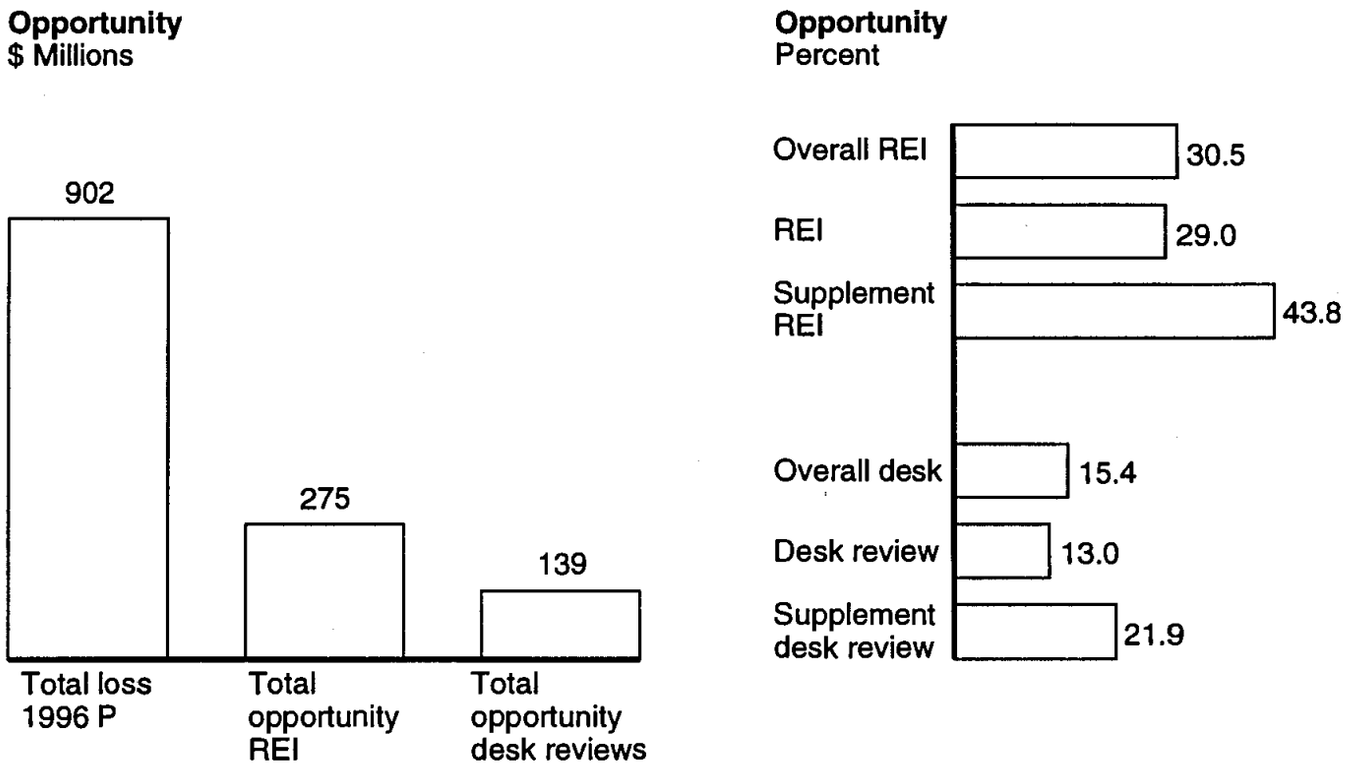
Further reinspections confirm an overall opportunity of 30.5%. When applied to the total base of Cat dollars paid in 1996, this is a potential $275 million opportunity.

OVERALL CAT OPPORTUNITY IDENTIFICATION



Source: Field reinspections; desk reviews

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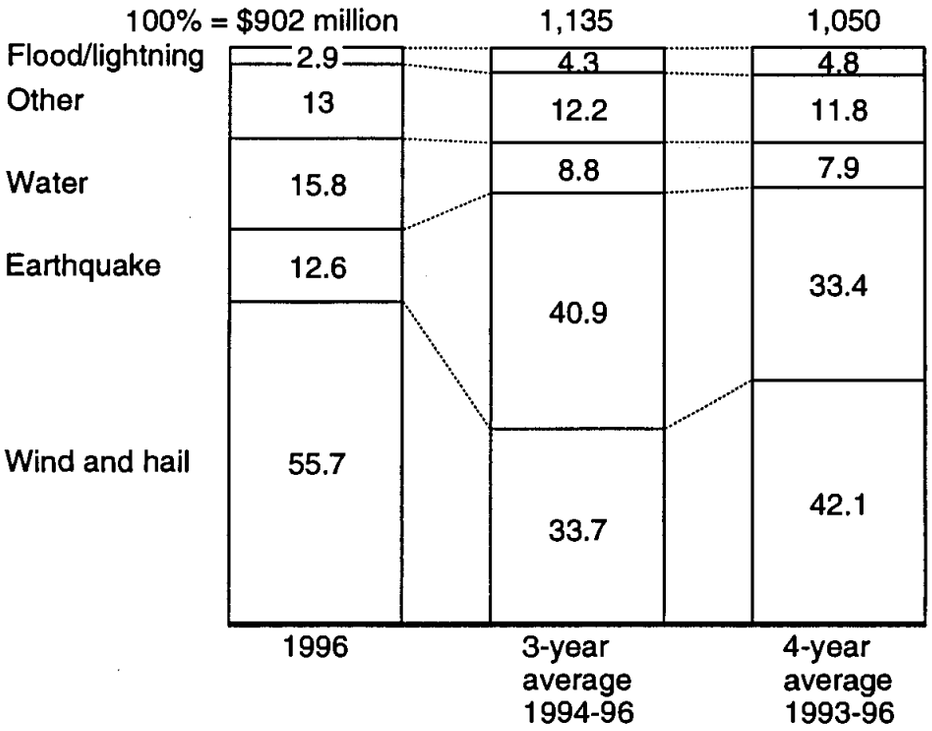
Wind and hail account for 42 percent of Cat dollars paid over the last four years. This number increases to 63 percent if earthquakes are removed.

CATASTROPHE PAID LOSS*

$ Millions; percent



Other perils** (percent)	
Weight of ice and snow	25
Freezing	25
Other water causes	30
Misc. - missed coding	20

* Total property

** Team estimate

Source: OIS

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Source page 373 of 490
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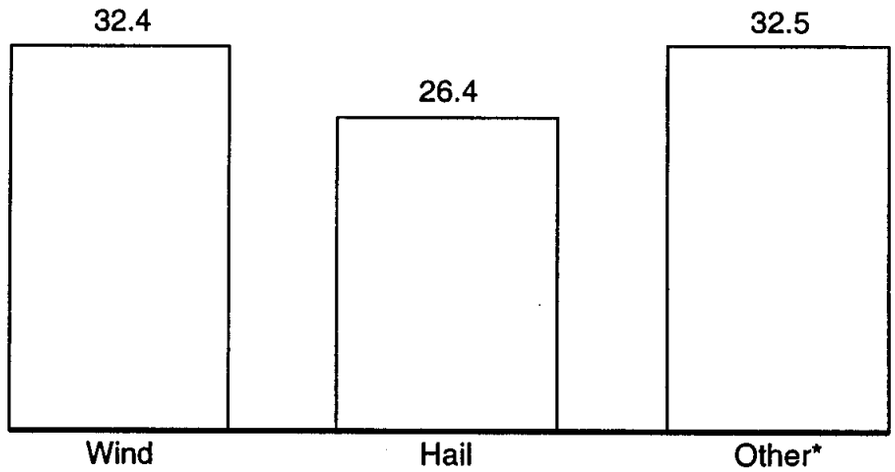
The economic opportunity in Cat is applicable to both wind and hail (>25 percent), although wind appears slightly higher.

ECONOMIC OPPORTUNITY – WIND VS. HAIL

REIs
Percent

100% = 267 reinspections

Opportunity



	Wind	Hail	Other*
Number of reinspections	185	70	12

* Other -- all perils: wind, hail, water

Source: Field reinspections

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Source page 374 of 490
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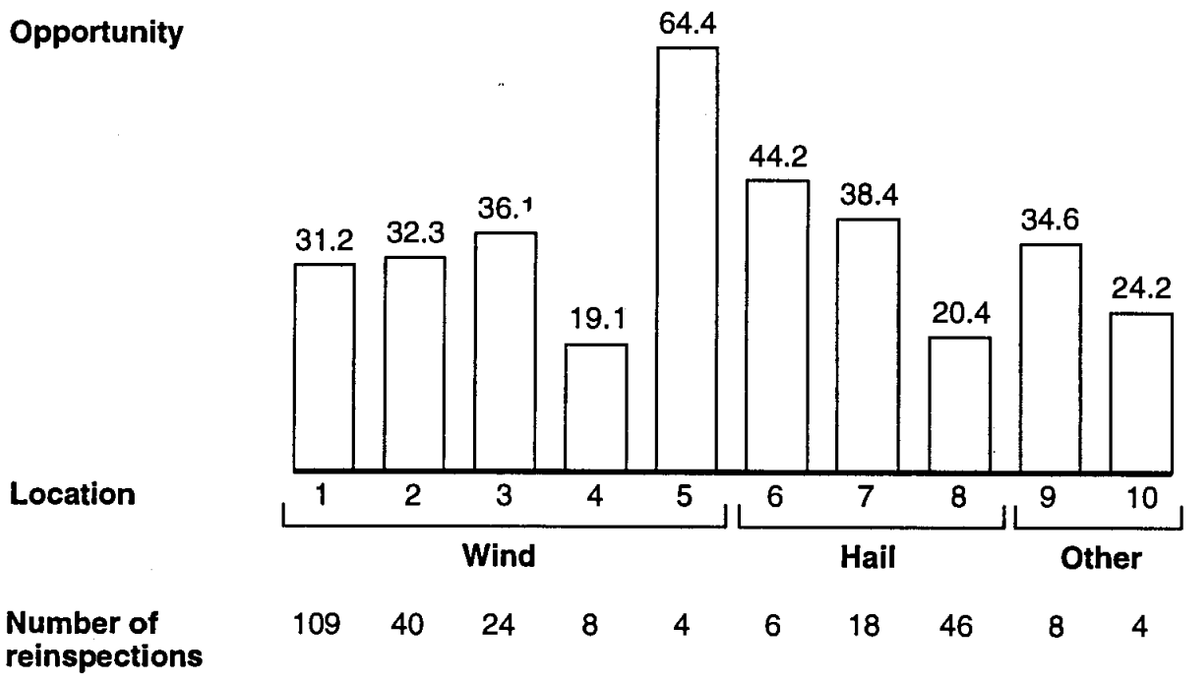
The economic opportunity is fairly consistent across different wind and hail sties (the two large outliers may have been affected by a small sample size of reinspections).

ECONOMIC OPPORTUNITY BY CAT SITE

Percent



* Other – all perils: wind, hail, water

Source: Field reinspections

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Source page 375 of 490
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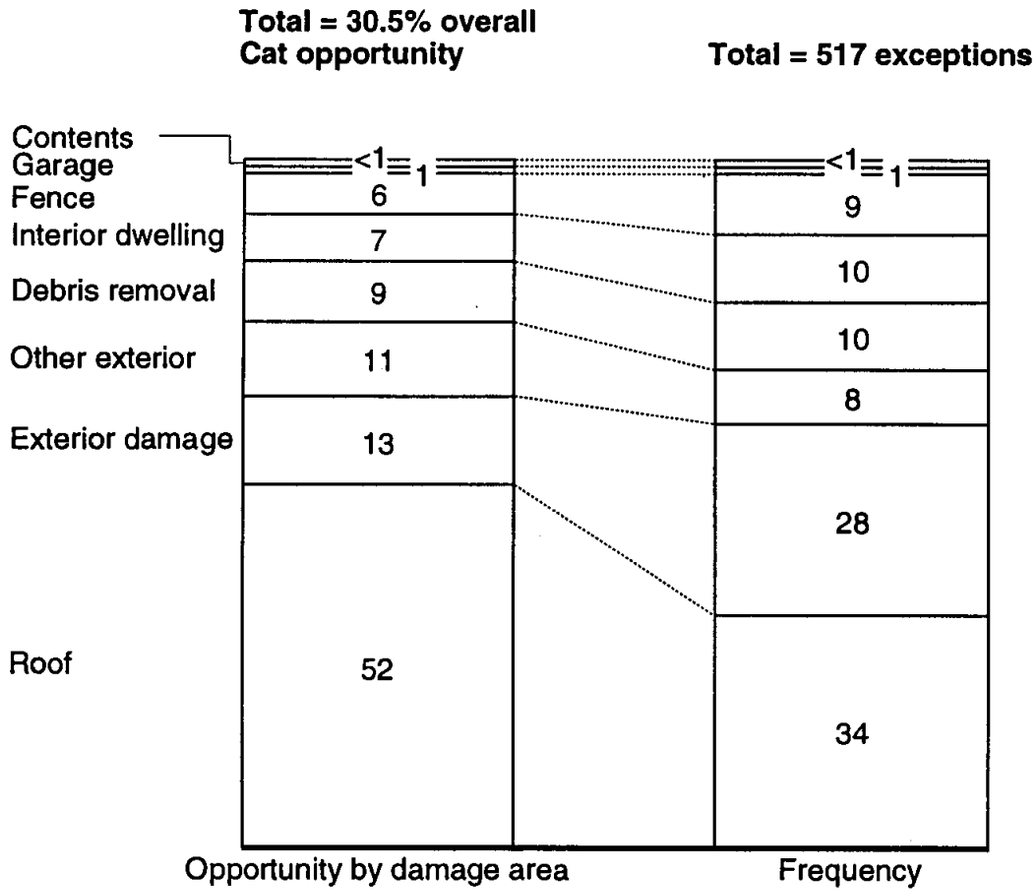
Roofs and exteriors account for 76 percent of opportunity dollars and 68 percent of exceptions.

CAT OPPORTUNITY BY DAMAGE AREA AND FREQUENCY OF EXCEPTION

Percent



Source: Combined field reinspection

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Source page 376 of 490
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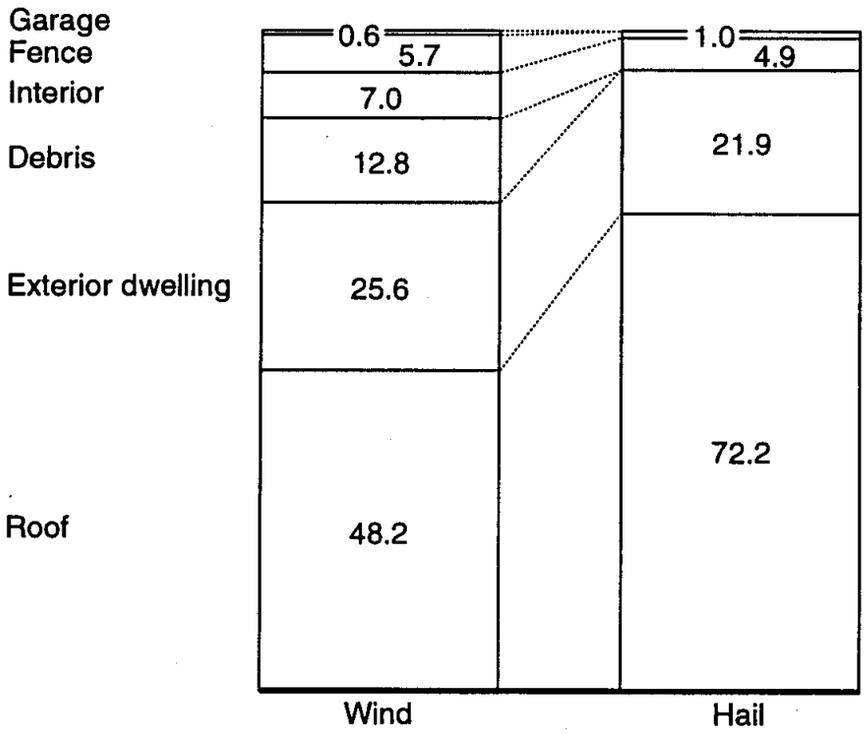
Capturing the Wind Cat opportunity may involve more damage areas than hail, which is driven almost entirely by roofs and exteriors.

OPPORTUNITY DOLLARS BY TYPE OF PROPERTY DAMAGE

Percent



- Roof damage accounts for almost 3/4 of hail damage opportunity
- Debris removal is not an issue in Hail
- Wind Cats involve more damage areas such as fence, debris, and interiors

Source: Field reinspections of 2 wind and 2 hail sites

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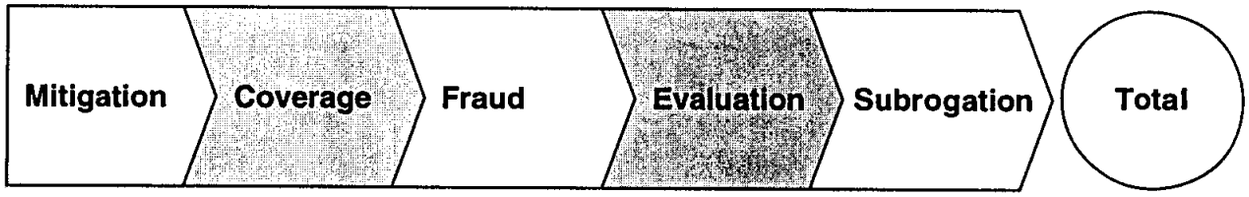
The opportunity in Cat is predominantly in the evaluation process step with some opportunity also in coverage.

CAT OPPORTUNITY BY PROCESS STEPS

Percent; $ millions



Reinspections

Opportunity ($ millions)	0	34	~~0~~ n/a	241	~~0~~ n/a	275
Opportunity (%)	0	3.8	~~0~~ n/a	26.7	~~0~~ n/a	30.5

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Source page 378 of 490
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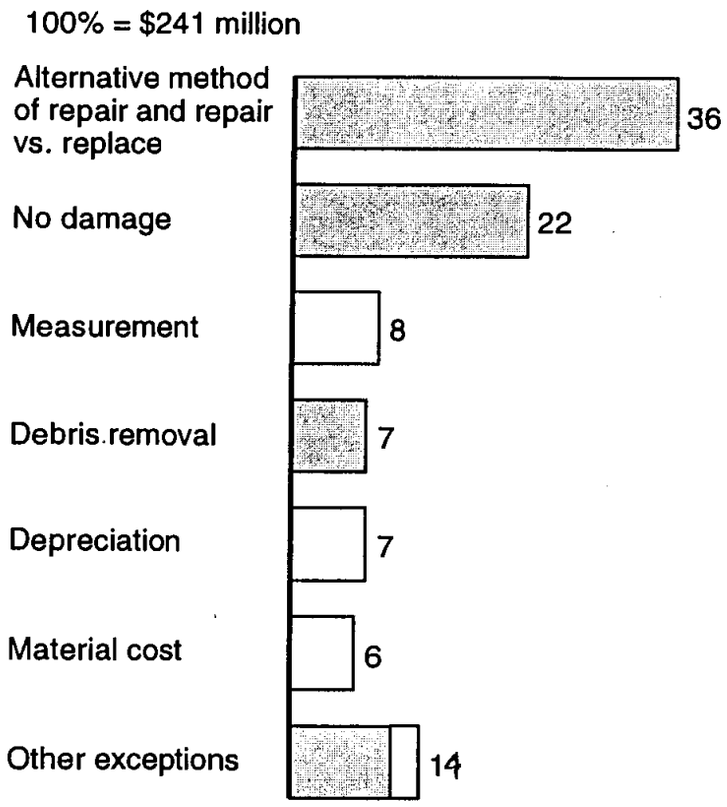
The drivers of opportunity in evaluation revolve mostly around technical estimating skills.

DRIVERS OF OPPORTUNITY IN EVALUATION

Percent



Technical estimating skills

Examples

- Replaced spot-damaged roof
- Two roof slopes replaced instead of one
- Fence could have been repaired instead of replaced
- Paid for nonexistent damage – nail marks and weathering
- Replaced undamaged gutters
- Incorrect measurements for siding replacement
- Paid for total debris removal of tree bill instead of only to remove from damaged property
- Depreciation not taken for roof replacement
- Paid for upgrade on roofing material
- Wrong pricing on siding and gutters
- Paid OH+P when not due

Source: Field reinspections

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Source page 379 of 490
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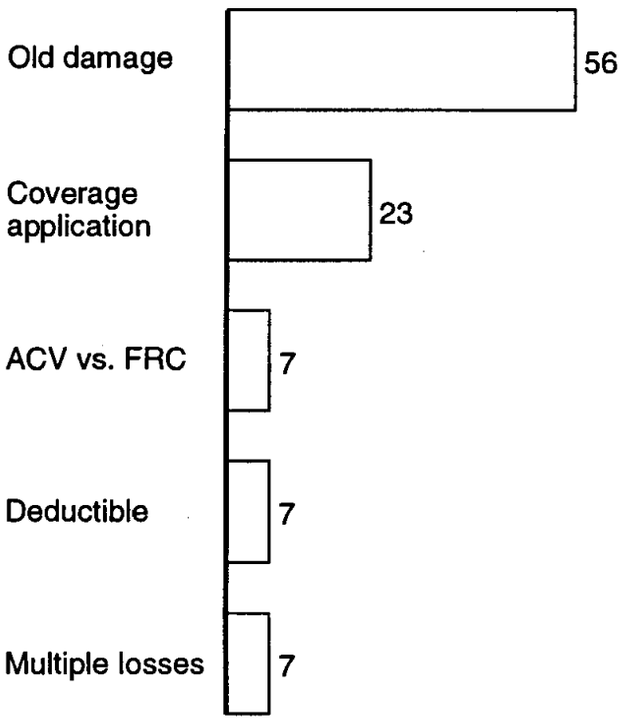
The primary issue in coverage is when old damage is covered.

DRIVERS OF OPPORTUNITY IN COVERAGE

Percent



Examples

- Paid for roof with old hail damage
- Paid for fences that were rotted and deteriorated
- Paid for prior water damages to carpet
- Paid for fogged thermopane windows

- Paid for tree debris removal when covered property was not damaged
- Paid for nonowned property (fence belonging to school)

- FRC was paid on a jungle gym

- Lump sum temporary repairs paid to cover deductible

- Paid for minor roof repair to home, but also paid for $10,000 bathroom and interior remodel on same claim

Source: Combined reinspections

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Source page 380 of 490
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TODAY'S OBJECTIVES

- Summarize activities to date
- Discuss key findings
  - Cat
  - **By peril**
  - Qualitative observations
- Discuss potential solution components and next steps

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Source page 381 of 490
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SUMMARY OF NON-CAT QUANTITATIVE FINDINGS

Area	Key findings presented in last review	Additional findings based on larger CFR base
Theft	• Total opportunity $42 million	• Total opportunity unchanged
	• Claims over $2,500 represent 75% of opportunity	• Finding essentially unchanged – number has moved slightly to 78%
	• Largest opportunity areas are evaluation, fraud, and coverage	• Finding unchanged • No significant difference in opportunity for specialty and multiline MCOs
Wind/hail	• Total opportunity $39 million	• Opportunity now estimated at $32 million with most of the revisions in coverage and evaluation
	• Reinspection indicated potential $65 million opportunity	• Reinspection indicated opportunity of $46 million
	• Substantial opportunity for both Allstate (23%) and independent adjusters (24%)	• Finding unchanged, though opportunity numbers have moved slightly to 26% for Allstate and 21% for independents
	• Largest opportunity areas are coverage and evaluation	• Finding unchanged • 57% of the reinspection opportunity is in roofs • Significant opportunity in both specialty and multiline organizations
Fire	• Overall opportunity $135 million • 3/4 of overall opportunity is in fires larger than $15,000 (major fires) • By process steps, evaluation (structure and contents) and subrogation drive 75% of the overall opportunity	• Additional CFRs and reinspections not conducted

Source: CFRs and reinspections; team analysis

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Source page 382 of 490
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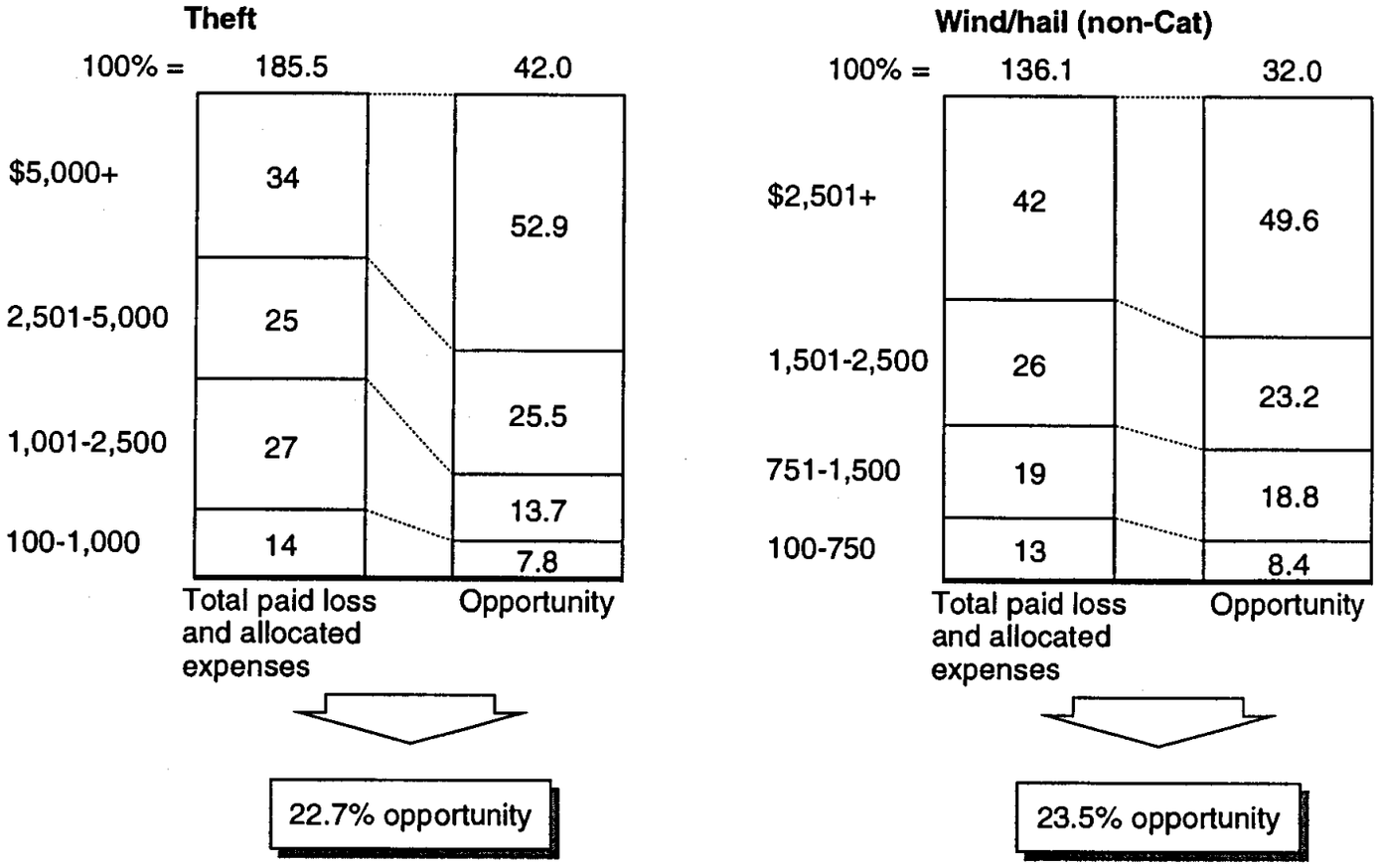
Closed file reviews indicate an opportunity of $42 million and $32 million in theft and wind/hail respectively, with 78 percent of the theft opportunity being in claims over $2500.

OVERALL NON-CAT WIND/HAIL AND THEFT OPPORTUNITY

$ Millions; percent



Source: CFRs; Team analysis

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Source page 383 of 490
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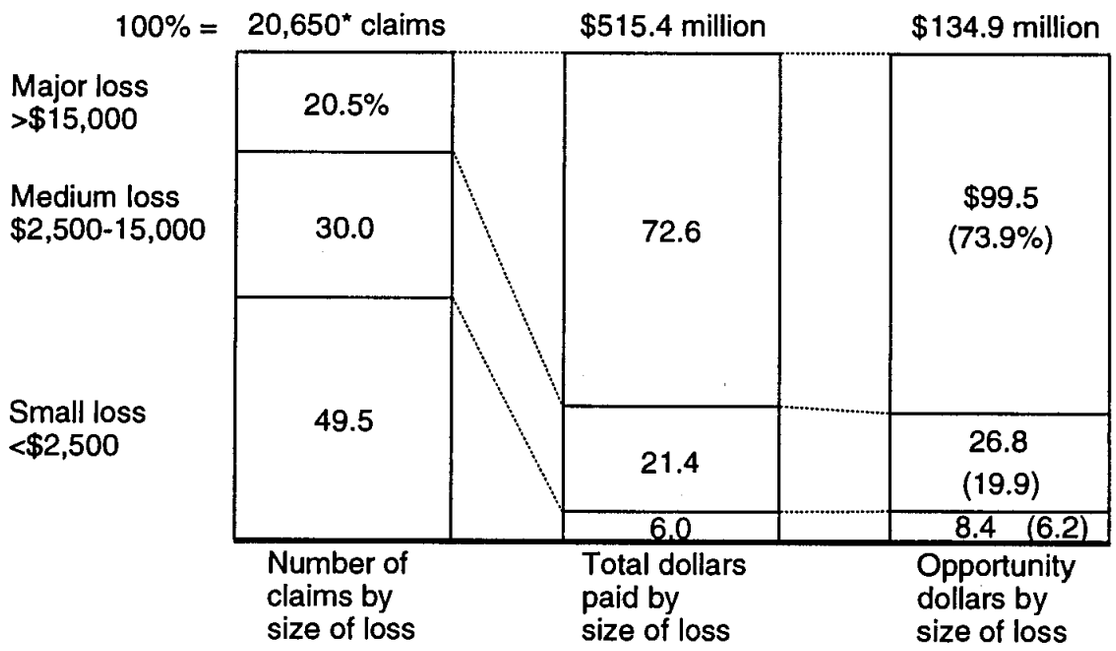
CFRs indicate an opportunity of $135 million in fire claims, with the bulk of the opportunity in large fires.

FIRE OPPORTUNITY BY SIZE OF LOSS*

Percent



* Based on 7 CSA audit

Source: OIS, C74 Audit of CSA File Distribution by Loss Size

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Source page 384 of 490
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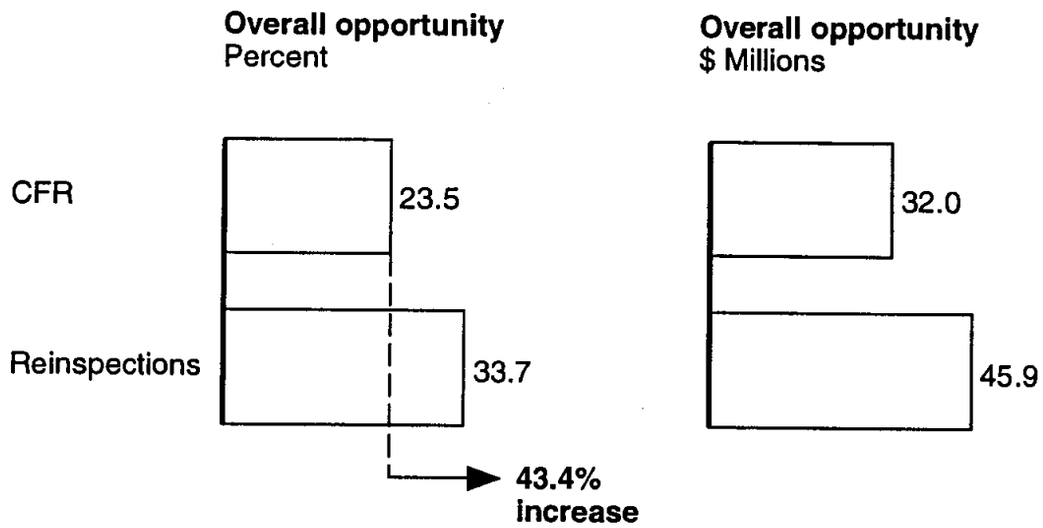
Wind/hail reinspections indicate that the opportunity could be 44 percent higher than indicated by closed file reviews.

OVERALL NON-CAT WIND/HAIL OPPORTUNITY FROM CFR VS. FROM REINSPECTIONS



Note: Previous increase was 71%
Source: CFR; Field Reinspections; working team analysis

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Source page 385 of 490
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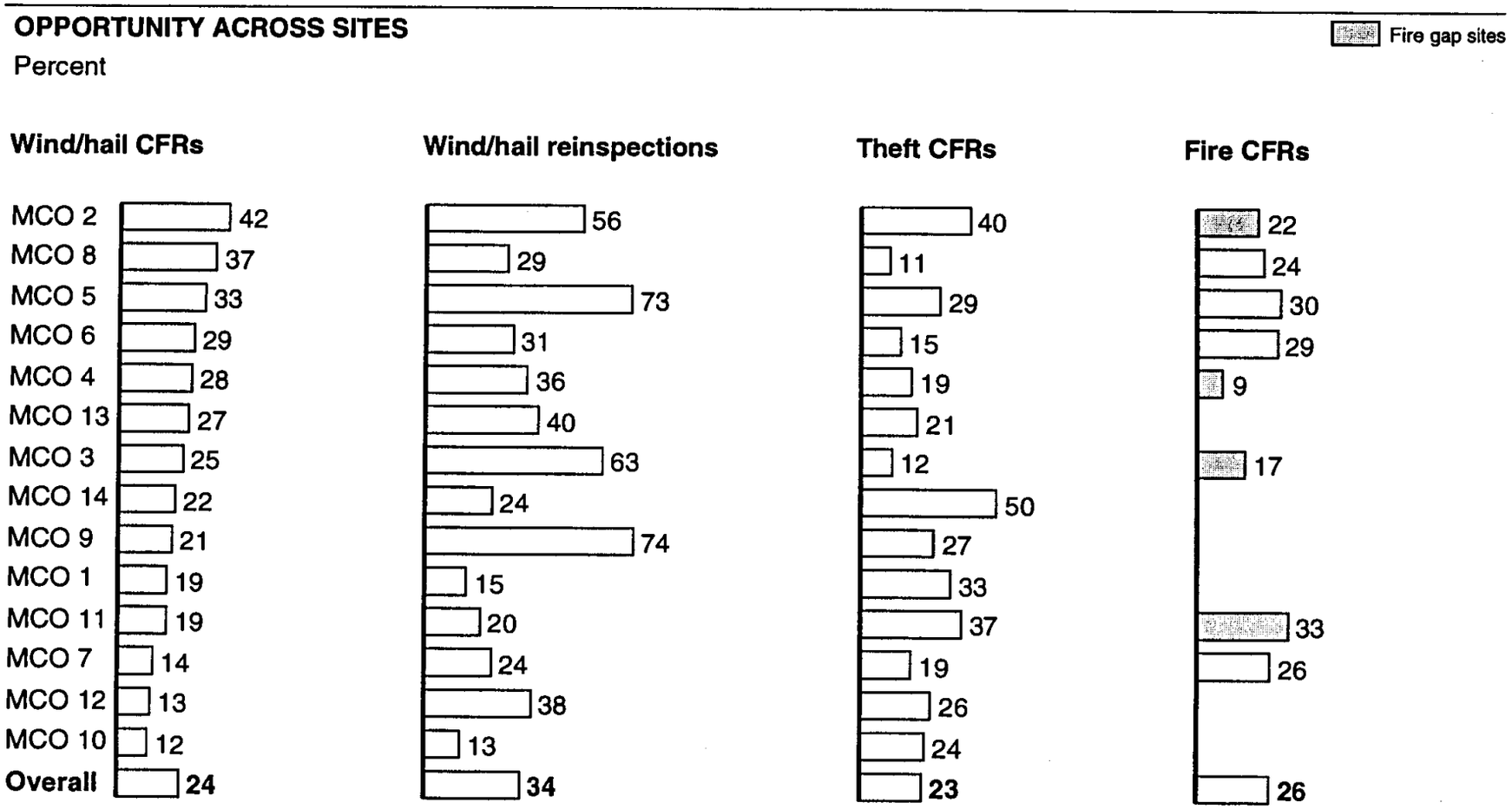
Although there is variability, significant opportunity exists across all MCOs.

OPPORTUNITY ACROSS SITES

Percent



Source: CFRs and field reinspections; working team analysis

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Source page 386 of 490
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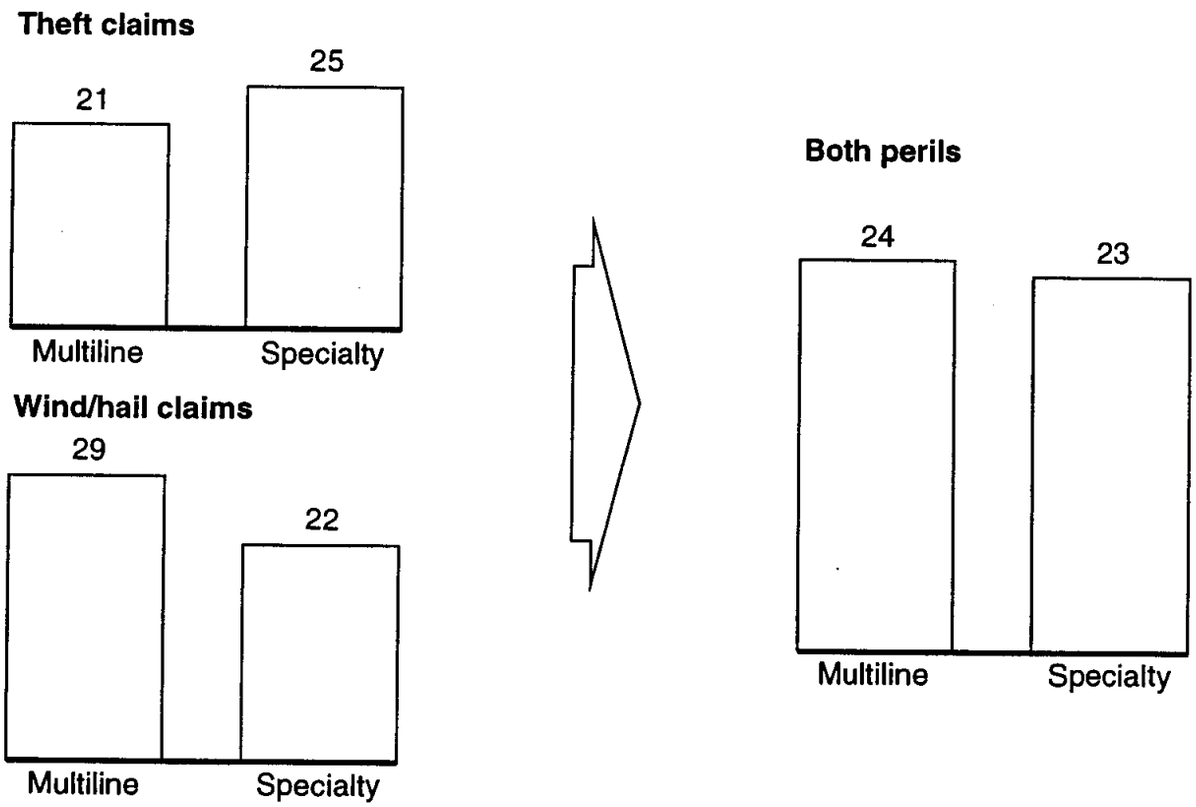
Both multiline and specialty MCOs present significant opportunity.

OPPORTUNITY IN MULTILINE AND SPECIALTY MCOs

Percent



Source: CFRs; team analysis

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Source page 387 of 490
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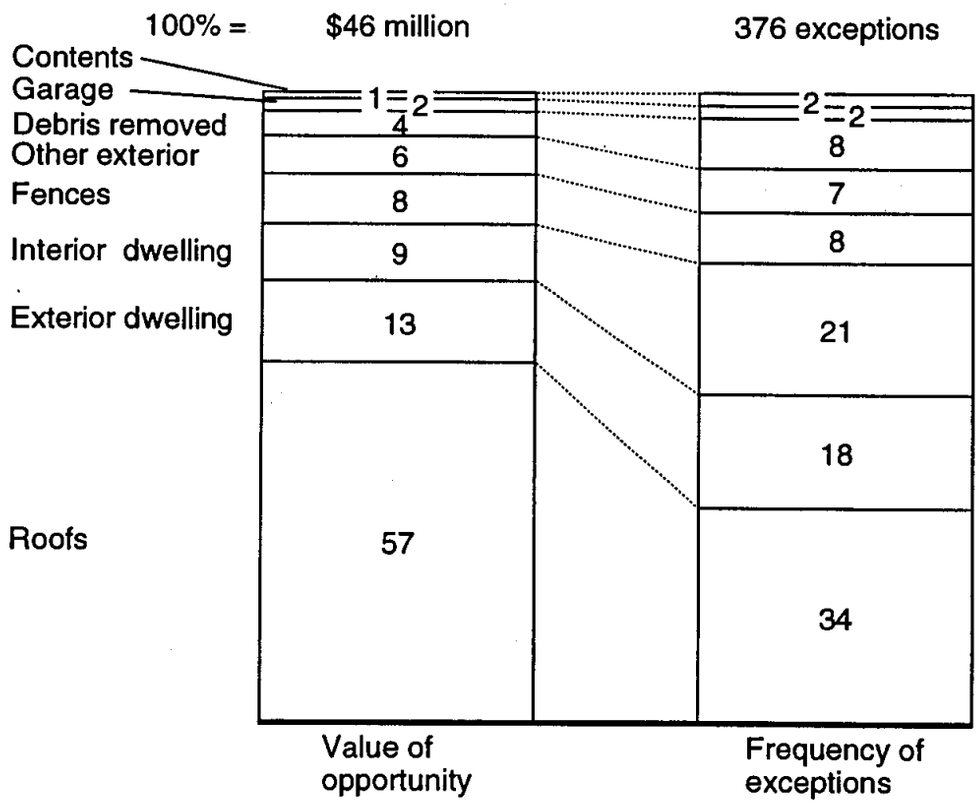
Roofs only account for a third of the exceptions found, but nearly 60 percent of the opportunity.

WIND/HAIL OPPORTUNITY BY DAMAGE AREA*

$ Millions; percent



* Based on reinspection results only

Source: Reinspections; working team analysis

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Source page 388 of 490
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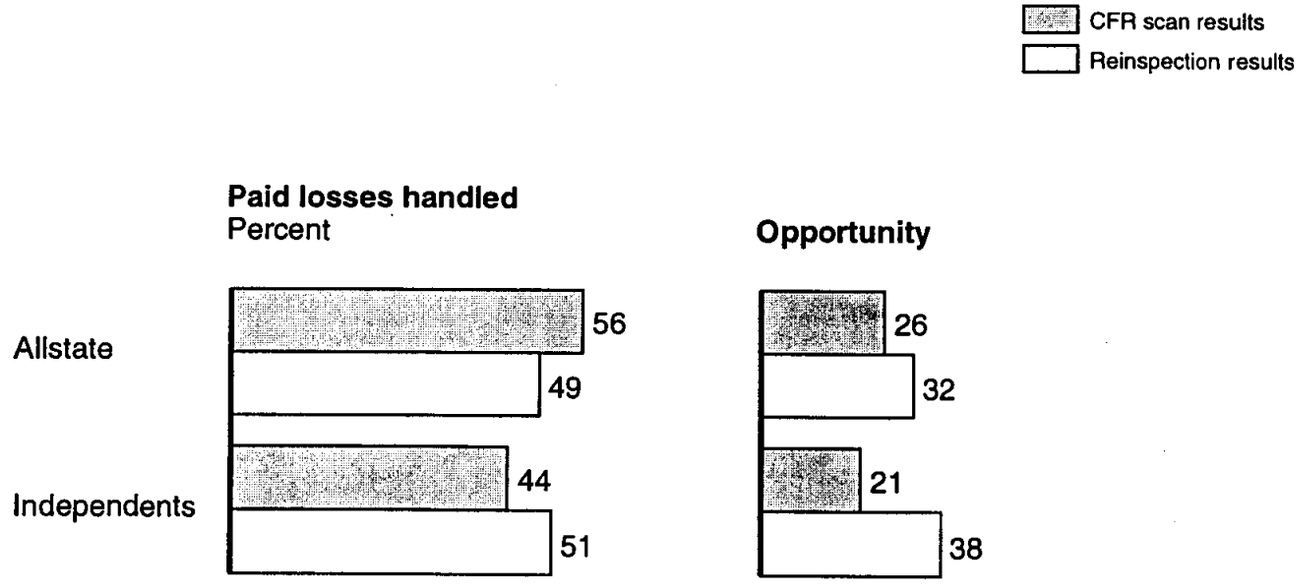
CFRs and reinspections both indicate similar opportunities in wind/hail for Allstate and independent adjusters.

WIND/HAIL OPPORTUNITY FROM CFR AND REINSPECTIONS BY PRIMARY CLAIM HANDLER*

Percent



* Primary claim handler is defined as the person who handles the evaluation step of the claim

Source: CFR scan; Field Reinspections; working team analysis

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Source page 389 of 490
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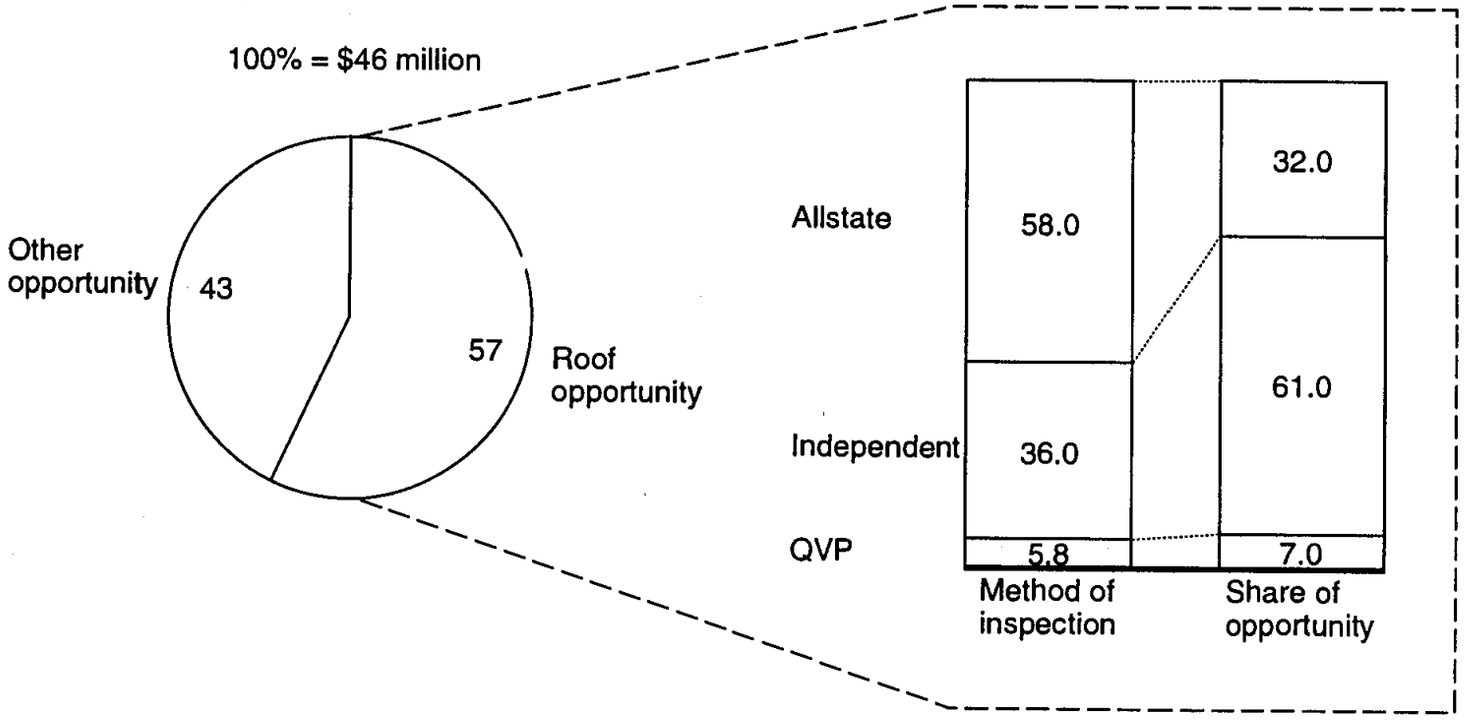
Specifically in roofs, reinspections showed that independent adjusters accounted for over 60 percent of the opportunity although handling just a third of the claims.

ROOF OPPORTUNITY BY METHOD OF INSPECTION

Percent

Total opportunity in wind/hail



Source: Field reinspections

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Source page 390 of 490
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The evaluation process step accounts for the largest component of opportunity across all three perils.

OPPORTUNITY BY PROCESS STEP

	All other steps*	Coverage	Fraud	Evaluation	Subrogation	Total
Theft						
• $ Millions		9.4	10.4	16.1	6.1	42.0
• Percent		5.1	5.6	8.7	3.3	22.7
Wind/hail Non-Cat						
• $ Millions		9.0	0.1	21.2	1.0	32.0
• Percent		6.6	0.1	16.1	0.7	23.5
Fire						
• $ Millions	11.3	3.7	0	87:1**	32.8	134.9
• Percent	2.2	0.7	0	16.9	6.4	26.2

* Mitigation, negotiation and salvage recovery

** Evaluation of structure, structure cleaning, carpet, contents cleaning, contents, and ALE

Source: CFR scan; OIS; working team analysis

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Source page 391 of 490
representation.claims/mckinsey-insurance-documents

The primary driver of both theft and wind/hail coverage opportunity is failure to analyze coverage.

COVERAGE OPPORTUNITY

Peril	Key drivers/issues	Description/example
Theft	• Coverage analysis not addressed	• Coverage issues ignored (e.g., single female living alone reports 3-4 men's suits were stolen from her house, no attempt to verify ownership) • Paid for dwelling loss with no indication of damage
	• Other insurance	• Lack of investigation for additional coverage
Wind/hail	• Coverage analysis not addressed	• All damages covered • No consideration of coverage issues
	• Improper policy interpretation	• Policy settlement options not properly applied (e.g., $2,500 FRC option) • Misapplication of sudden and accidental (e.g., roof leaked various times, damaging drywall; interior loss covered, despite not being sudden and accidental) • Loss not reported promptly, but covered • Exclusions and conditions (e.g., insured's obligation to protect property) often not applied
	• Multiple losses	• Roof damaged by various hailstorms; all losses covered under same claim

Source: CFRs and reinspections; team analysis

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Source page 392 of 490
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Fraud opportunity is driven by failure to investigate when fraud indicators exist in a file.

FRAUD OPPORTUNITY

Peril	Key drivers/issues	Description/example
Theft	• Lack of fraud investigation when fraud indicators are present	• Little evidence that adjusters recognized fraud indicators • Theft specialists often not supported by management when referring file to SIU (e.g., on one occasion when fraud indicators were present, the UCM told the claims adjuster that the SIU was too busy for new transfers) • SIU guidelines discourage transfer of files • SIU guidelines inconsistent across CSAs

Source: CFRs and reinspections; team analysis

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Source page 393 of 490
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Incorrect or no application of depreciation and poor repair vs. replace decisions drive opportunity in thefts, wind/hail, and fire (structure). In fire (contents) opportunity is driven by poor Allstate involvement in inventory of contents, and focus on replacement instead of cleaning or repair.

EVALUATION OPPORTUNITY

Peril	Key drivers/issues	Description/example
Theft – contents	• Incorrect or no application of depreciation	• No depreciation applied to 5-year-old microwave
	• Incorrect pricing	• Insured's inventory sheet price accepted without verification
	• No investigation	• Claim rep made payment of $9,000 1 week after initial contact. There was no evidence of investigation in the file diary
Wind/hail – structure	• Incorrect or no application of depreciation	• 15-year-old roof depreciated only 10%
	• Damages not related to loss	• Tree fell on 1 side of house; damage on other side of house included in estimate and payment
	• Maintenance-related damages/repair	• Roof replaced because it is worn out
	• Improper estimate calculation (including improper use of ACCUPRO)	• Incorrect/improper application of labor rate, overhead and profit, etc. • Addition errors • Most adjusters inadequately trained to use ACCUPRO correctly • Adjuster retyped contractor estimate directly into ACCUPRO, causing double counting of labor, overhead, and profit
	• Multiple losses not identified	• Inconsistent pricing/application of minimum charges
Fire	• Structure evaluation	• Writing unseen damages without follow-up • Focus on replacement vs. cleaning or repair • Lack of understanding of ACCUPRO for estimation • Lump sum estimate • Paying FRC vs. ACV
	• Contents evaluation	• Minimal or no Allstate involvement in inventory of contents • Focus on replacement vs. cleaning or repairs • Replacement cost not verified

Source: CFRs and reinspections; team analysis

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Source page 394 of 490
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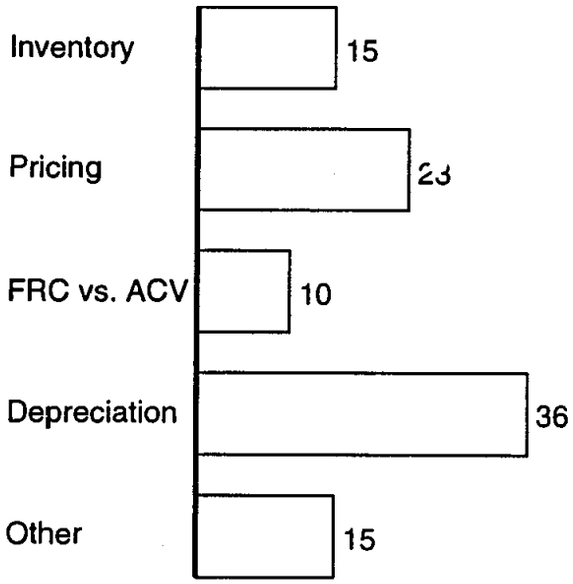
CFRs show that depreciation and inventory/pricing drive theft opportunity while scoping/estimation and FRC vs. ACV drive wind/hail opportunity.

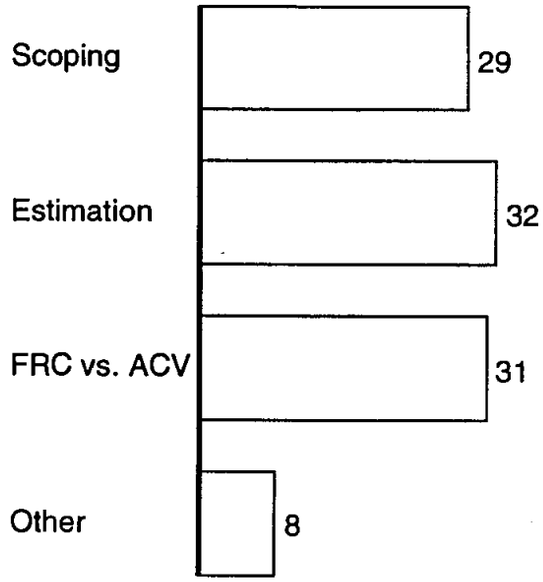
DISTRIBUTION OF EVALUATION OPPORTUNITY

Percent

Theft contents
Percent



Wind/hail structure
Percent



Source: CFRs; team analysis

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Source page 395 of 490
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In theft, subrogation opportunity is driven by the failure to recognize and pursue potential. In fire, inadequate investigation prevents subrogation from taking place.

SUBROGATION OPPORTUNITY

$ Millions

Peril	Key drivers/issues	Description/example
Theft	• Lack of recognition	• Diary occasionally stated that there was not subro opportunity even though claim rep had not spoken to insured • Subro template checked off without actually examining subro potential
	• Opportunities not pursued	• In interviews, claim reps admitted they ignore subro opportunity because they do not have time to pursue it • No follow-up/investigation of potential perpetrators, e.g., – Moving company "stole" items, no one followed up with moving company – Diary stated that suspects were caught and convicted, but adjuster made no attempt to follow up with police or courts • Difficulties in recovery – Perpetrator in jail or has no money – Slow restitution ($16/month on a $2,000 claim)
Fire	• Lack of investigation	• Limited C&O investigation ~Cause + Origin – Reliance on adjuster's best call – Lack of photos and statements which add value – Minimal use and understanding of C&O reports and fire/official reports • Poor handling of investigation by NAVP and law firm, e.g., – Sofa caught fire and C&O just stated "Sofa caught fire" – no cause listed; also insured did not live in house and law firm wrote off

Source: CFRs and reinspections; team analysis

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Source page 396 of 490
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TODAY'S OBJECTIVES

- Summarize activities to date
- Discuss key findings
  - Cat
  - By peril
  - **Qualitative observations**
- Discuss potential solution components and next steps

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Source page 397 of 490
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SUMMARY OF QUALITATIVE FINDINGS

- As a result of Allstate measurements and incentives, adjusters believe they have 2 main objectives: close claims rapidly and minimize customer service complaints. These objectives do not promote desired behavior
- Beyond measurements and incentives, we observed a number of themes that consistently prevented staff and management from obtaining optimum quality control and customer service for both Cat and non-Cat
- In addition, we observed organizational best practices in some non-Cat MCOs

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PRIMARY ADJUSTER OBJECTIVES

We asked Cat and non-Cat personnel how they defined a successful operation

Cat	Non-Cat
• I don't know what we're measured on, but I think what's important is closures and avoiding customer complaints – Allstate	• We are measured on everything. But I focus on reaching my customer satisfaction goals because that's what managers focus on and it affects how big my raise is
• Allstate is putting an emphasis on quantity of closures and not necessarily the quality – Pilot	• It seems like all we ever hear is close claims quickly
• What Allstate wants from me is closures and no complaints. Neither Allstate not Pilot will put up with customer complaints – Pilot	

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Source page 399 of 490
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The focus on closing claims quickly and minimizing customer complaints frequently drives suboptimal behavior.

BEHAVIOR DRIVEN BY OBJECTIVES

	Cat		Non-Cat	
Objectives	**Rationale**	**Outcome**	**Rationale**	**Outcome**
Close claim quickly	• Paid per claim • Economic benefit for return visit is limited • Performance – Pending – Closures	• Do not negotiate alternative methods of repair/ vendor prices • Stockpile scopes • Do not call insured to explain estimates • Do not settle on site • Pay for unseen damage • Use contractor estimates in place of their own	• Measured on production goals • Pending tracked weekly • Failure to meet production goals could affect compensation	• Do not investigate (e.g., price, loss facts, coverage) • Failure to negotiate alternative repair methods • Do not pursue subro • Use contractor prices instead of their own • Do not settle on site • Closure drives
Minimize customer service complaints	• Fired after 2-3 customer complaints • Encouraged to pay questionable claims if customer disputes • Complaints slow down production	• Find ways to pay claims to avoid confrontation • Pay for items that caused past complaints	• ICSS results/formal complaints affect compensation • Management overrides claim rep decisions • Adjusters unprepared to deal with confrontation (e.g., explaining CWPs)	• Find ways to pay claims to avoid confrontation • Pay for items that caused past complaints

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Source page 400 of 490
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In addition, we observed a number of other consistent themes which impair adjusters' ability to consistently handle claims properly.

KEY THEMES OBSERVED IN THE FIELD

	Cat	Non-Cat
Management time/focus	• Roles different at each cat site • Varying duties at cat sites prevent QCRs and file examiners from performing early and frequent reinspections • Emphasis taken away from QCR function during clean-up phase • QCR reviews not always shared with file examiners • Reinspections primarily completed to fulfill requirements	• Some managers responsible for multiple perils and disciplines • Focus on administrative tasks and customer interaction • Extremely limited time for coaching, reinspections, and ride-alongs • Reinspections primarily completed to fulfill requirements
Training/ calibration	• Untrained in policy/coverage and customer interaction skills • Examiners and QCRs perform same task differently from site to site • Scope and estimate components vary within Cat sites • Level of Cat preparation varies by CSA	• Limited understanding of calibration process • Training given secondary priority • Little ongoing skill/policy training • Training curriculum not updated frequently • Limited reinspection feedback
Skill levels	• Certification process in development (for Pilot and NCMT)	• Management tenure low • Technical and policy skills insufficient; leadership skills lacking in management staff

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Source page 401 of 490
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KEY THEMES OBSERVED IN THE FIELD (CONTINUED)

	Cat	Non-Cat
Staffing	• Insufficient staffing to adequately reinspect adjusters	• Resources dedicated to auto, casualty, and water – Homeowners given last priority • Significant number of open J58s
Communication	• Agents unable to communicate new procedures to customers to set expectations • Agents receive break command via Alstar that interrupts normal business	• Importance of performance measurements not clearly communicated to the front line • Quarterly reviews often not happening
Site preparation	• Sites have inconsistent or outdated plans • Critical information unavailable or outdated (e.g., policies, price guides, state regulations)	• Clerical resources shared with other disciplines • Equipment difficult to obtain/get approved (e.g. lap top computers, cell phones)

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Source page 402 of 490
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We also identified organizational best practices which addressed some of the barriers to proper claim handling.

NON-CAT ORGANIZATIONAL FINDINGS

Summary

- 2 types of MCO structures
  - Multiline
  - Specialty
- Variations of multiline MCOs include
  - Specialization units for homeowners
  - Allstate claim reps limited to handling fire and water
  - Independents handle all wind/hail
- Variations of specialty MCOs include
  - Inside/outside units/adjusters
  - Resident adjusters
  - Centralization
  - Specialization by peril

Best practices

- Outside managers dedicated to field activities with limited inside responsibilities
- Inside managers with specialized inside units
- Inside and outside adjuster assigned to each claim
- Dedicate property clerical resources

Outcomes

- Outside UCMs focus on coaching and reinspections
- Wind/hail economic opportunity 50% lower than average
- Theft opportunity 62% lower than average
- Outside adjusters able to inspect greater number of losses
- Inside adjuster able to answer customer inquiries, pursue subro
- Clerical activities shifted to processors; adjusters free to focus on claims

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Source page 403 of 490
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TODAY'S OBJECTIVES

- Summarize activities to date
- Discuss key findings
  - Cat
  - By peril
  - Qualitative observations
- **Discuss potential solution components and next steps**

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Source page 404 of 490
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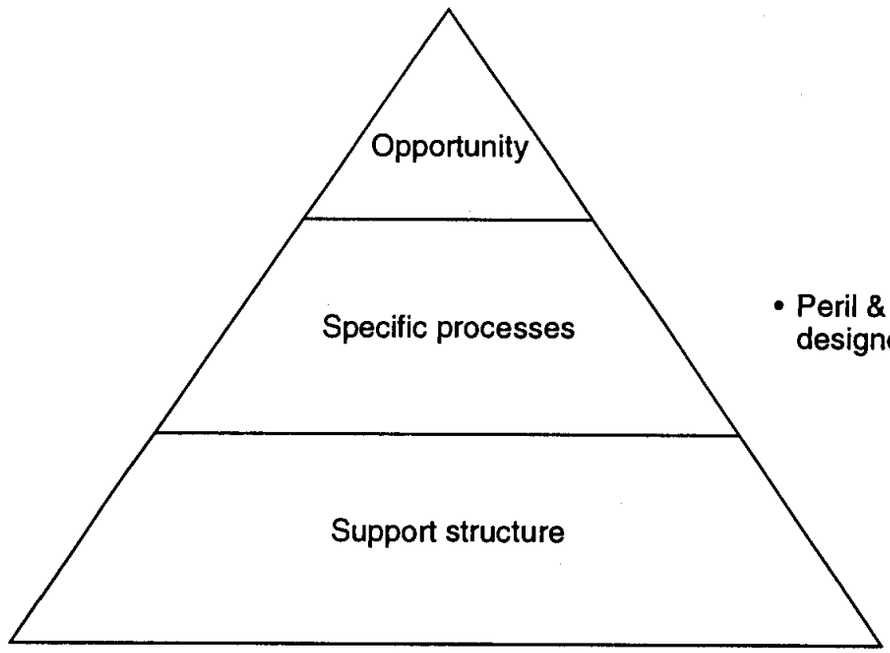
In order to capture the opportunity, the solution needs to be comprised of two important elements – the specific new processes which directly alter front-line activities, and some underlying support elements which drive the behavioral change.

POTENTIAL SOLUTION COMPONENTS



- Peril & cross-peril specific processes designed to capture opportunity
- Environmental/cultural changes required to ensure specific processes remain in place and are effective

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Source page 405 of 490
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Three broad process solutions (roofs/exterior dwelling, contents, and vendor management) and two narrower solution (cause and origin, scoping) address a large proportion of the potential opportunity. The major support issues cut across perils and Cat.

SUMMARY OF POTENTIAL SOLUTIONS

	Non-Cat			
	Fire	**Theft**	**Wind/hail**	**Cat**
Specific process	• Contents • Vendor/ independent management • Cause and origin • Scoping	• Contents	• Roofs/exterior dwelling • Vendor/ independent management	• Roofs/exterior dwelling • Vendor/ independent management
Percent of opportunity	77.5%	88	70	77
Dollar opportunity	$104 million	37	32*	119**
Support structures	• Skill levels • Measurements • Management time/focus • Staffing • Training • Incentives	→	→	→

* Based on reinspection opportunity

** Since wind/hail opportunity constitutes 56% of total Cat opportunity

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Source page 406 of 490
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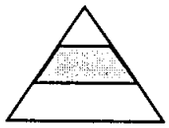
The process areas identified have a small number of discrete issues which need to be addressed to capture the opportunity.



KEY PROCESS IMPROVEMENT AREAS

Process areas	Issues to address
Roofs, exterior dwelling	• Recognition of sudden and accidental damages vs. no, prior, old, or maintenance related damages • Lack of knowledge of alternative repair methods • Willingness to present insured with ACV • Subrogation not addressed
Contents	• Minimum or no Allstate involvement in inventory of contents • Lack of replacement cost verification • Paying FRC upfront or inadequate depreciation taken
Predominantly fire	• Replace vs. clean/repair
Predominantly theft	• Lack of proper investigation • Failure to recognize internal policy limits

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Source page 407 of 490
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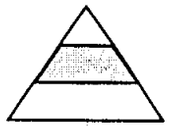

KEY PROCESS IMPROVEMENT AREAS (CONTINUED)

Process areas	Issues to address
Vendor management	• No calibration on the requirements to be a vendor • No calibration for the expectation of performance standards by the vendors — Limited • ~~✓~~ measurements in place to track vendor performance • Lack of on-going management involvement to address performance gaps
Predominantly pilot/ independents	• Inappropriate incentive/compensation structure (quantity vs. quality)
Predominantly QVP	• Proper timing of cleaning/mitigation vendors • Lump sum bids
Cause & origin (fire only)	• Lack of proper skill set to determine and /or analyze C&O • Timely photos and statements which add value • Ability to synthesize C&O and take next steps • Timely POL and subro receipt
Scoping/estimation by structural adjusters (Fire only)	• Clean vs. replace – Timing – Lack of alt. repair methods • No follow up inspections – Supplemental inspections – Release FRC • Understanding of ACCUPRO – Overlap – LKQ • Lump sum bids – No competitive bids

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Source page 408 of 490
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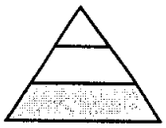
While different to some degree, the underlying issues and what needs to be done to address them are quite similar across non-Cat and Cat.



ADDRESSING THE UNDERLYING ISSUES

Area	Non-Cat	Cat
Skill levels	• What basic skill levels do we need? – Technical? – Policy? – Management vs. nonmanagement? – Negotiation/vendor relations? – Customer interaction/ interpersonal? • How can roles be redefined to better leverage the limited skill base?	• What should adjuster skill assessment look like? (e.g., peril, major/minor, coverage) • How should ongoing NCMT skill assessment be designed?
Staffing/organization	• What should the homeowners staffing model look like? • How do we appropriately prioritize homeowners vs. auto casualty? • How do we attract quality applicants to fill open positions?	• What might a Cat staffing model look like? – Cat type – Claim volume – All positions (adjuster, QCR, support) • What NCMT staffing level is appropriate?
Training	• Does the current training curriculum meet our needs? Focus on critical issues? • How do we ensure training is given the right priority? • How do we ensure ongoing skill training?	

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Source page 409 of 490
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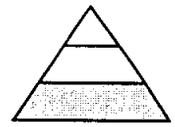

ADDRESSING THE UNDERLYING ISSUES

Area	Non-Cat	Cat
Management role/focus	• What should be the specific roles of various management positions? • How can we change management focus to become more effective? – Coaching? – Reinspections? – Ride-alongs?	• How should Cat roles be defined? • What should the role of the NCMT be in management of pilot adjusters? • How do we drive consistent execution of management and oversight activities?
Measurement	• What behaviors do we want measurements to drive? • What are the 2-3 key measures that will drive desired behaviors? • What processes are needed to capture and sustain performance? (e.g., communication)	• What defines a successful Cat?
Calibration/consistent procedures	• How do we make calibration a well-understood and effective tool in driving performance?	• How do we drive consistent execution of processes across all Cat sites?
Incentives	• How do we compensate to encourage appropriate behavior?	

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Source page 410 of 490
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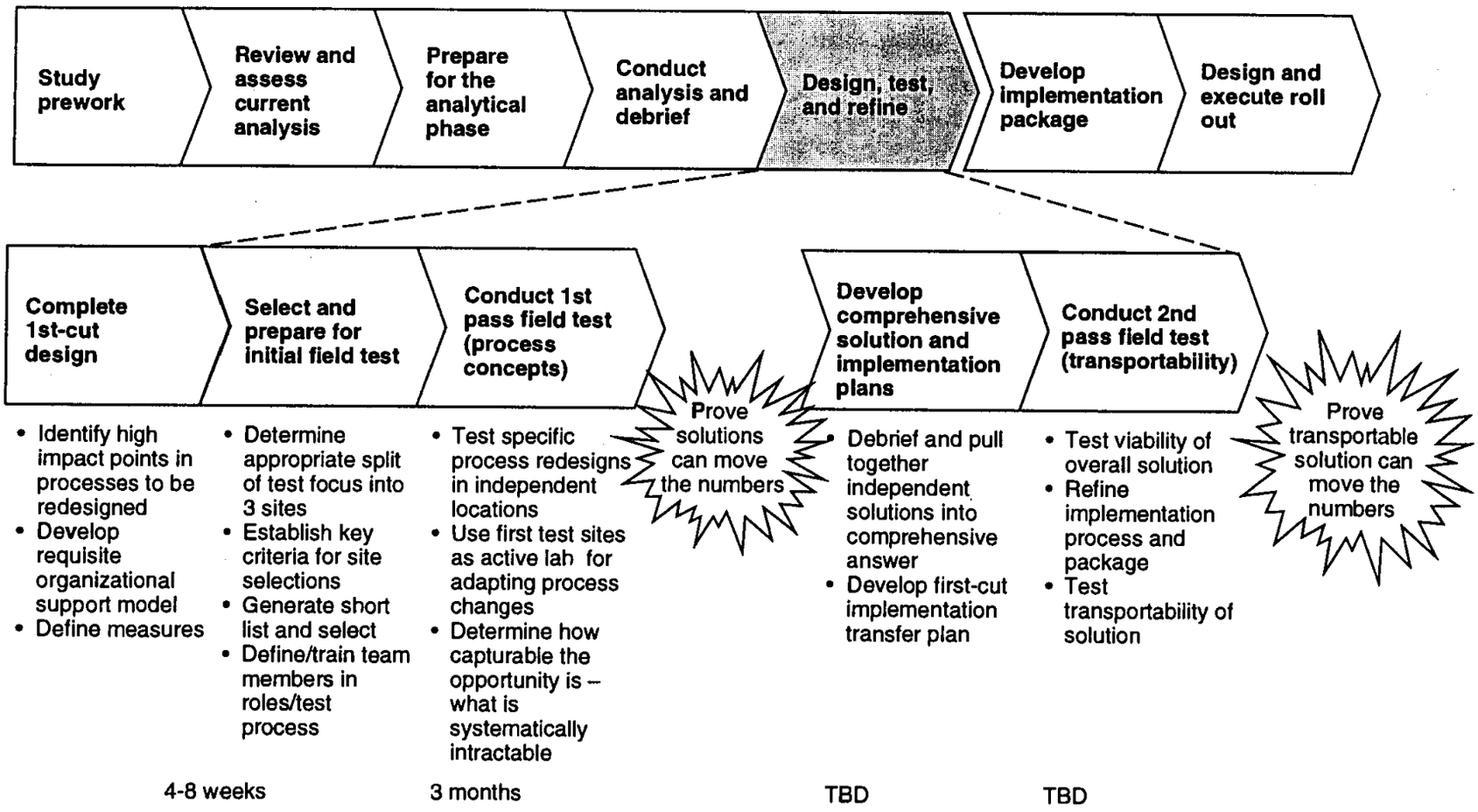
The team will spend the next 10 weeks preparing for the set of field tests.

NEXT STEPS



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Source page 411 of 490
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Appendix

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Source page 412 of 490
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OVERALL OPPORTUNITY BY PROCESS STEP

	Mitigation	Coverage	Fraud	Evaluation (structure and contents)	Evaluation (cleaning and ALE)	Negotiation	Subro-gration	Salvage	Total
Cat									
$ millions	0	34.3	0	240.8	0	0	0	0	275.1
Percent	0	3.8	0	26.7	0	0	0	0	30.5
Fire									
$ millions	5.1	3.7	0	72.6	14.4	3.1	32.8	3.1	134.8
Percent	1.0	0.7	0	14.1	2.8	0.6	6.4	0.6	26.2
Theft									
$ millions	0	9.4	10.4	16.1	0	0	6.1	0	42.0
Percent)	0	5.1	5.6	8.7	0	0	3.3	0	22.7
Wind/hail (noncat)									
$ millions	0	9.0	0.1	21.9	0	0	1.0	0	32.0
Percent	0	6.6	0.1	16.1	0	0	0.7	0	23.5
Overall									
$ millions	5.1	56.4	10.5	351.4	14.4	3.1	39.9	3.1	483.9
Percent	0.3	3.2	0.6	20.2	0.8	0.2	2.3	0.2	27.8

Source: CFR; reinspections; OIS; C074 audit; working team analysis

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Source page 413 of 490
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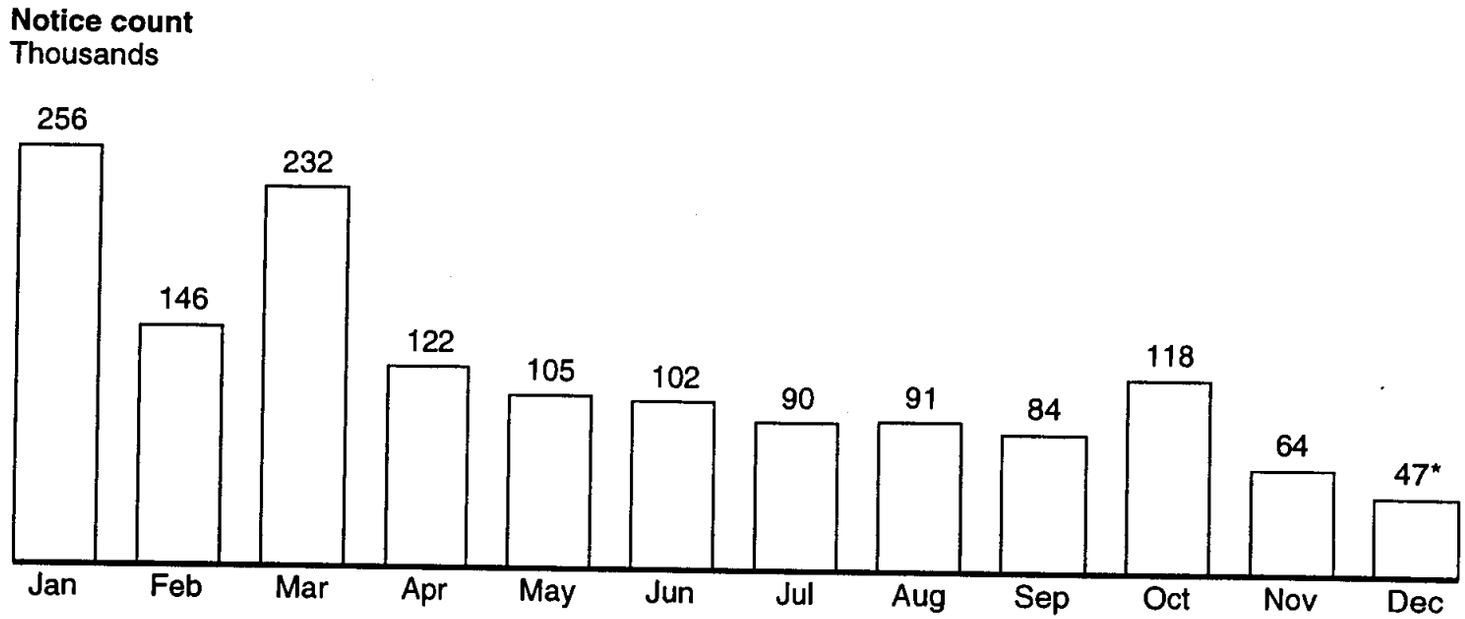
TOTAL CAT NOTICE COUNT AND GROSS DOLLARS PAID 1993-96



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Gross dollars paid $ Millions	384	356	438	373	198	322	295	296	248	285	255	157

* December 1996 not included

Source: OIS

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Source page 414 of 490
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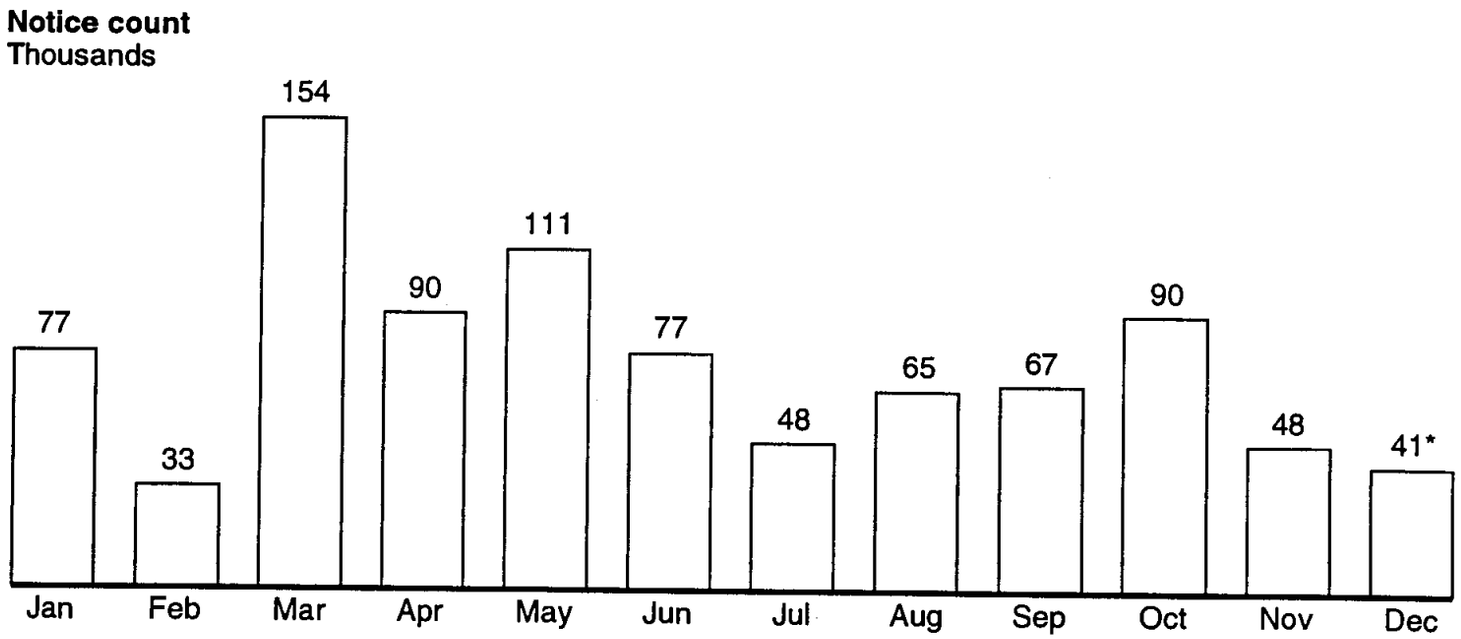
CAT WIND AND HAIL NOTICE COUNTS AND GROSS DOLLARS PAID 1993-96



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Gross dollars paid $ Millions	178	141	144	197	195	195	120	122	106	136	101	47*

* December 1996 not included

Source: OIS

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Source page 415 of 490
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RESULTS OF ACTIVITY TRACKING – NON-CAT SITES

Designation	Activity	Average time spent Percent
Claim Representative (inside)	Customer calls	15
	Lunch and breaks	15
	Diary input	13
	File reviews	12
	File, letter typing, and PEC input	10
	Work conversations	7
	Inquiry calls	3
	Other	20
Claim Representative (field)	Drive time	41
	Scoping and evaluation	18
	Phone calls to customers and voice mail	13
	Lunch and breaks	8
	Customer contact at loss site	6
	ACCUPRO input	4
	Other	10

Source: Activity tracking reports

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Source page 416 of 490
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RESULTS OF ACTIVITY TRACKING (CONTINUED)

Designation	Activity	Average time spent Percent
Managers (mainly UCMs)	Communication with claim reps	12
	Lunch and breaks	11
	Other	11
	Staff meetings with other managers	9*
	Mail	9
	File reviews	6
	List review	6
	Complaint handling	5
	Home office meetings	4
	Agent calls	3
	E-mail	3
	Inquiry calls	3
	Administrative	3
	Moving office equipment	2
	Personal calls/social conversations	2
	Subro investigation	2
	Other	11

* This number is an underestimate since the team often observed managers on meetings (both in office and external) that were not tracked explicitly

Source: Activity tracking reports

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Source page 417 of 490
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SKILL ASSESSMENT LEVEL DEFINITION

Methodology

Team leaders sat with CPS and/or MCM to jointly assess skill levels for homeowner managers within the CSA

Level 1	A basic understanding of the skill category – includes being able to explain the skill to others
Level 2	A functional knowledge of the skill category – includes having the ability to teach others
Level 3	An expert knowledge of the skill category; would be considered an organizational resource in the application of the theories and techniques in the skill category

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Source page 418 of 490
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HOMEOWNERS PROJECT REVIEW – MANAGEMENT SKILL ASSESSMENT*

✔ Deficient skill level
— Not evaluated

	Technical	Training	Oral	Written	Organization	Leadership	Policy	Computer
CSA 1	✔	✔	✔	✔		✔	✔	✔
CSA 2							—	—
CSA 3	✔	✔	✔	✔	✔	✔	✔	✔
CSA 4				✔		✔		—
CSA 5		✔		✔				—
CSA 6				✔	✔	✔		—

* Includes UCM and PCM level

Source: Skill assessment forms

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Source page 419 of 490
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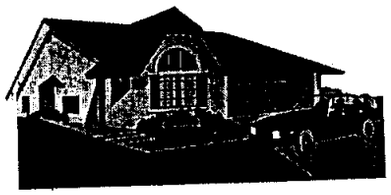

Allstate Brand - P-CCSO

BRAND MEETING
April 18, 1997

CCPR UPDATE
AUTO AND HOMEOWNER

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Source page 420 of 490
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Allstate Brand - P-CCSO

BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Discussion Topics

- Elements of New Approach
- California Outcomes
  - Learnings and solutions
  - Transition to Front Line
  - Results
- Florida Strategy
  - Approach
- Preliminary Implementation Strategy
  - Country wide support
  - Segment-specific implementation
- Decision Tool

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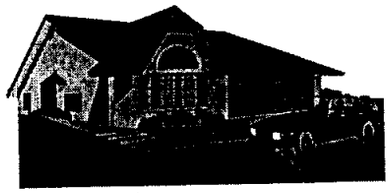

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

ELEMENTS OF NEW APPROACH

CCPR Process

Damages
- Estimating Accuracy Requirement
- Total Loss
- Service Calls

Segmentation
- Comparative negligence
- Matrices
- Contacts

Supporting solution

MOS/MOI

Performance management

New UCM Role

Rigor and Discipline

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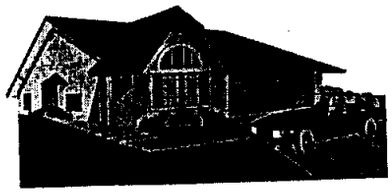

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Southern California learnings November 1996 - February 1997

Processes as designed are effective, supporting solutions to include infrastructure are necessary

Learnings	Solutions
Original implementation was too focused upon "what to do" (not how to do it)	• Ensure that Front Line understand exactly how the new processes work • Develop job aids - MCO monthly meetings - Weekly calibration; role plays - Weekly Auto Tech team sessions
UCMs operated in a reactive manner engaging in minimal coaching or training	• Redesign UCM role to be proactive - new job - One-on-one coaching - Teaching/training at desk/car - Process focused - Model new behavior - Understanding of reports - Institute regular figure review meetings
Performance management system did not reflect new processes	• Redesign performance management system to support CCPR processes - Develop MRs/PSs by position - Set effective goals by CSA, MCO and position
Physical Damage assignment process needed refinement	• Create dispatch workshop • Develop directed MOS/MOI strategy
Original Auto CCPR implementation had little impact on liability assessment and application	• Institute comp. neg. training module • Test "second look" process • Redesign AFR • Ensure weekly round table discussion and role plays

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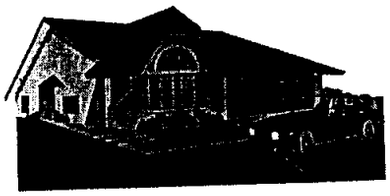

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

TRANSITION TO FRONT LINE

Goal: To gain and sustain significant competitive advantage by achieving 10 point improvement in customer satisfaction and 7 point severity improvement while enhancing employee relationships

Critical levers driving success of Auto CCPR	Ongoing priorities	
Estimating accuracy requirements	• DE reinspections • UCM ride-alongs/coaching • ACPS validation of accuracy	Calibration
Liability accuracy requirements	• UCM file reviews • UCM sit-alongs/coaching • ACPS validation of accuracy	Calibration
Total loss accuracy	• DE reinspections • UCM reinspections and sit-alongs/coaching •ACPS validation of accuracy	Calibration
Customer service requirements	• UCM ride-alongs/sit-alongs/coaching • Monitoring of customer service drivers (via C199) • ACPS validation of process compliance	

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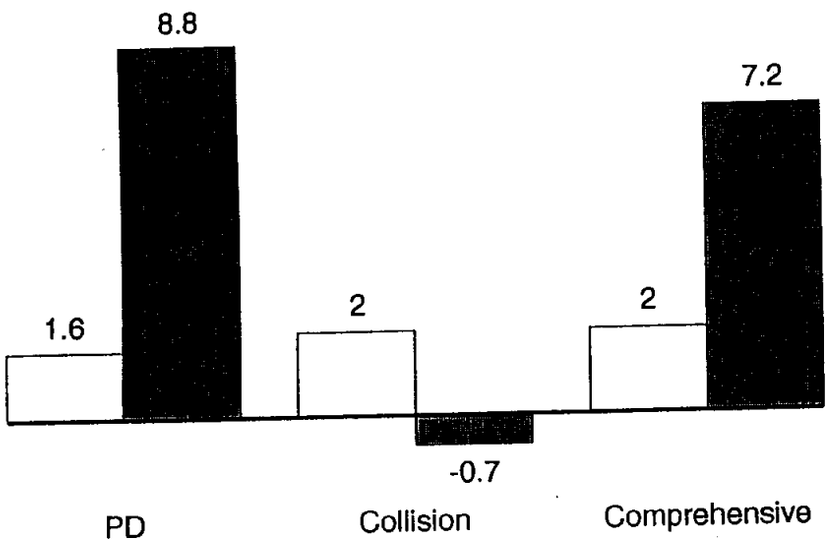
COMPARISON OF AUTO PD PERFORMANCE

Percent

1 month (March) 1997 vs. 1996



Source: OIS

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Allstate Brand – P-CCSO

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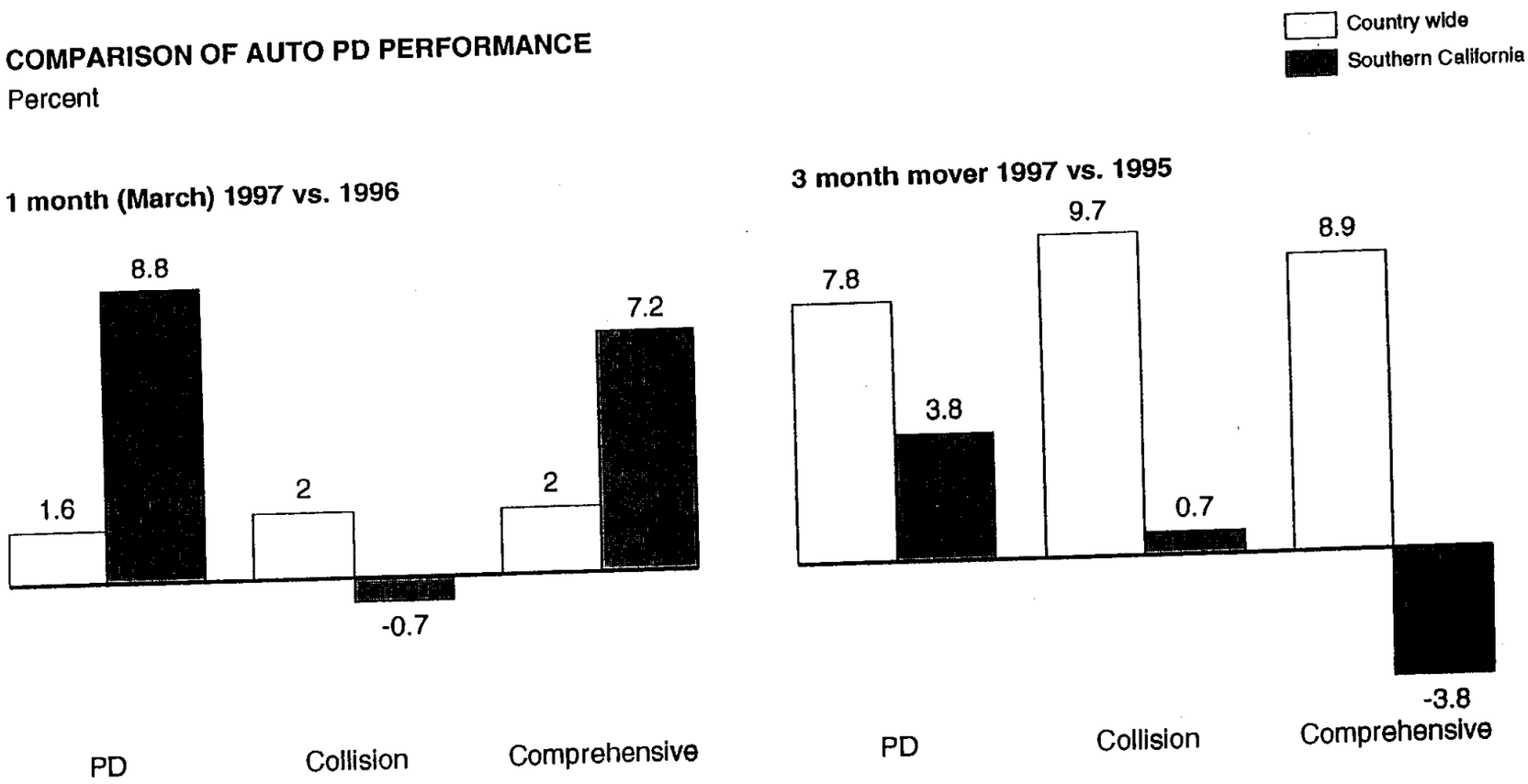

Source: OIS

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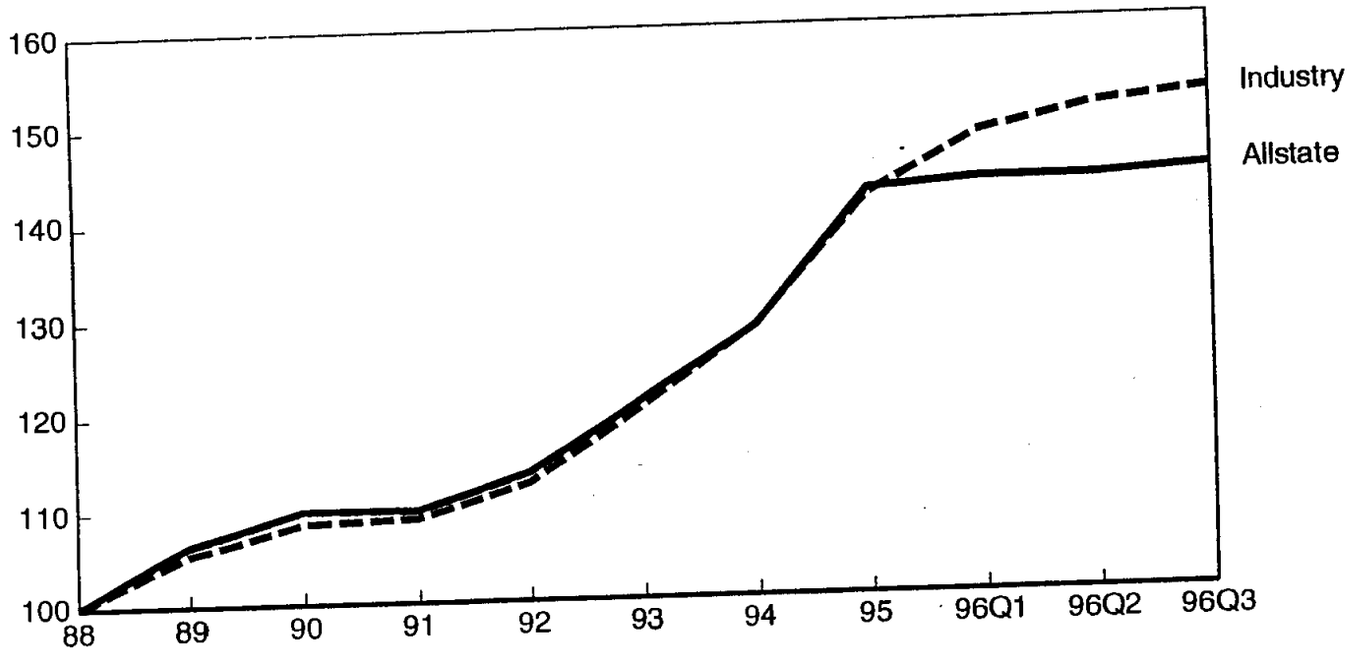
COLLISION SEVERITY TRENDS

Percent severity growth indexed to 1988



Source: Fast track

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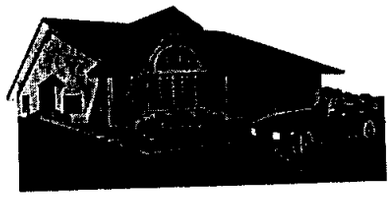

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

FLORIDA STRATEGY MARCH-JULY '97

Mission: To utilize our learnings from Southern California to design an effective implementation strategy for the rest of the country

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- Enhanced PRO integrated into CCPR solution

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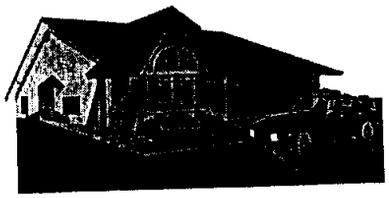

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Preliminary Countrywide Implementation Strategy

- Release Auto CCPR support processes prior to New Approach implementation

  - Performance Management

  - MOS/ MOI

  - New UCM Role

  - Miscellaneous job aids

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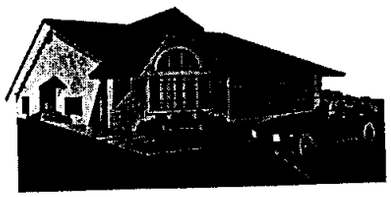

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Preliminary Countrywide Implementation Strategy

- Develop Segment Specific Implementation
- Triage CSAs
  - Implementation Vs. nonimplemented
  - Percent economic opportunity
  - Staffing status (hiring completed, experience levels, culture, skill)
  - Geography
- Design CSA specific implementation approach
- Build timeline and estimate potential economic impact

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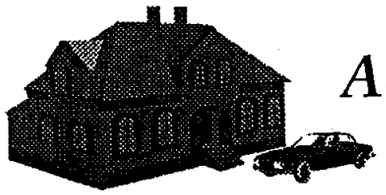

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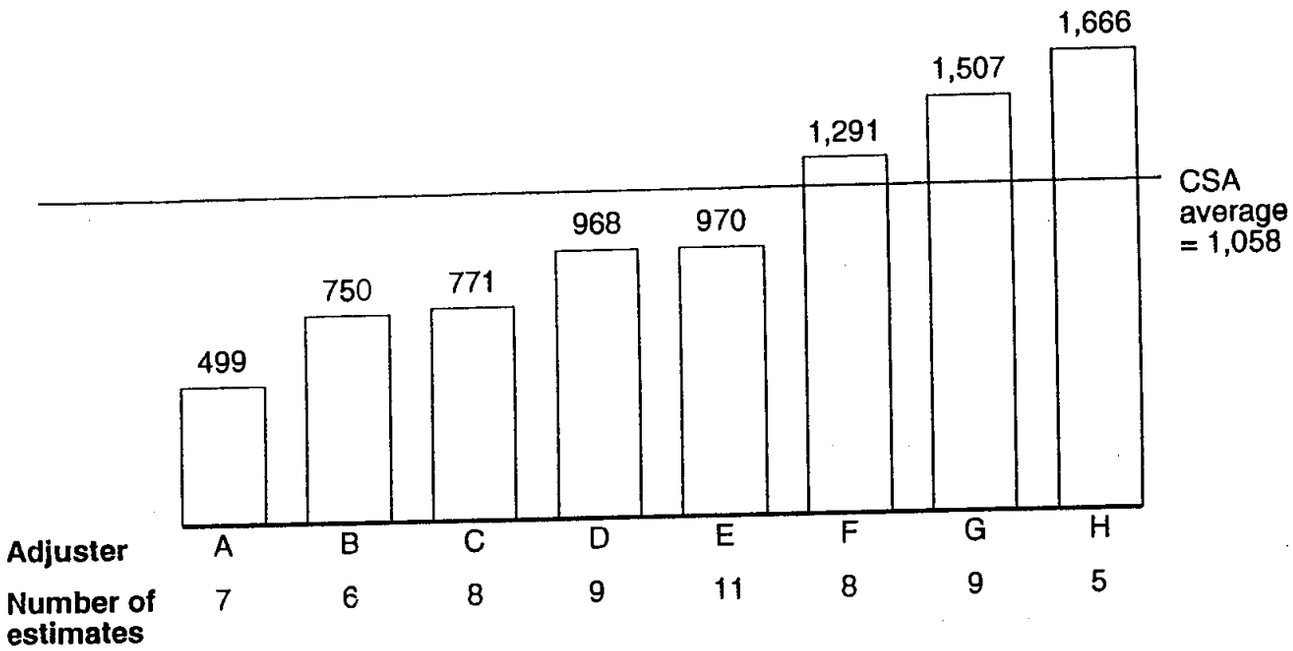
HONDA CIVIC 1992-95 – ADJUSTER COMPARISON FOR DRIVE-IN

Average estimate amount in dollars



Current status

- Organizing team to conduct test
- Developing manual decision tool for test
- Selecting test sites in Florida
- Begin testing in May

* Adjusters with less than 5 estimates on Honda Civic were not shown, 134 total Honda Civic drive-in estimates

Source: ADP damage data for Oct-Nov 1996 in Southern California CSA

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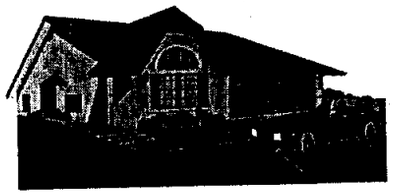

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BRAND MEETING
April 18, 1997

Homeowner CCPR

FACT BASE

- 36 MCOs
- 1225 file reviews
- 533 re-inspections

KEY FINDINGS BY PERIL

FIRE

- 26.2% ($135 million) opportunity
- Opportunity concentrated in structure/contents evaluation and subro ($120 million)

WIND/HAIL

- 23.5% ($32 million)) opportunity non-Cat
- 30.5% ($154 million) opportunity Cat
- Largest area of opportunity is in evaluation of roof damage ($18 million non-Cat and $80 million Cat)

THEFT/CONTENTS

- 22.7% ($42 million) opportunity
- Opportunity driven by coverage identification, loss investigation/evaluation

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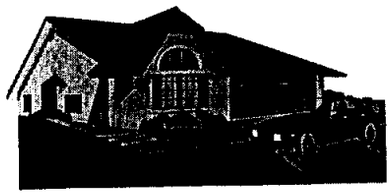

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BRAND MEETING
April 18, 1997

Homeowner CCPR

DESIGN WORK

AREA OF FOCUS	PROCESSES BEING TESTED
Fire Structure	• clean vs replace • cause and origin investigation • subro ID/pursuit
Fire contents	• on-site inventory • pricing • evaluation
Wind/Hail roofs	• coverage/damage identification • repair vs replace • estimating skill

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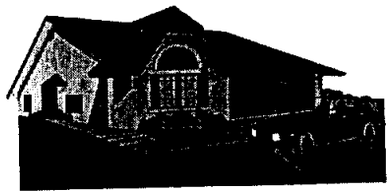

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BRAND MEETING
April 18, 1997

Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Locations
  - Roseville (fire structure and contents)
  - Albuquerque (roof adjusting - non-Cat)
- Challenges
  - Skill assessments
  - Technical training
  - Calibration
  - Customer satisfaction
- Strategy

  First Round Testing
  - Limit testing to two processes
  - Use first test sites to identify solutions/develop process
  - Perfect processes
  - Prove processes will capture opportunity

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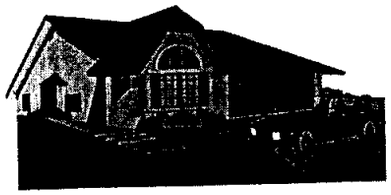

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BRAND MEETING
April 18, 1997

Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Strategy

Subsequent Testing
- Expand scope (refinement and transportability)
- Test Roof Process in Cat environment
- Begin theft/contents testing

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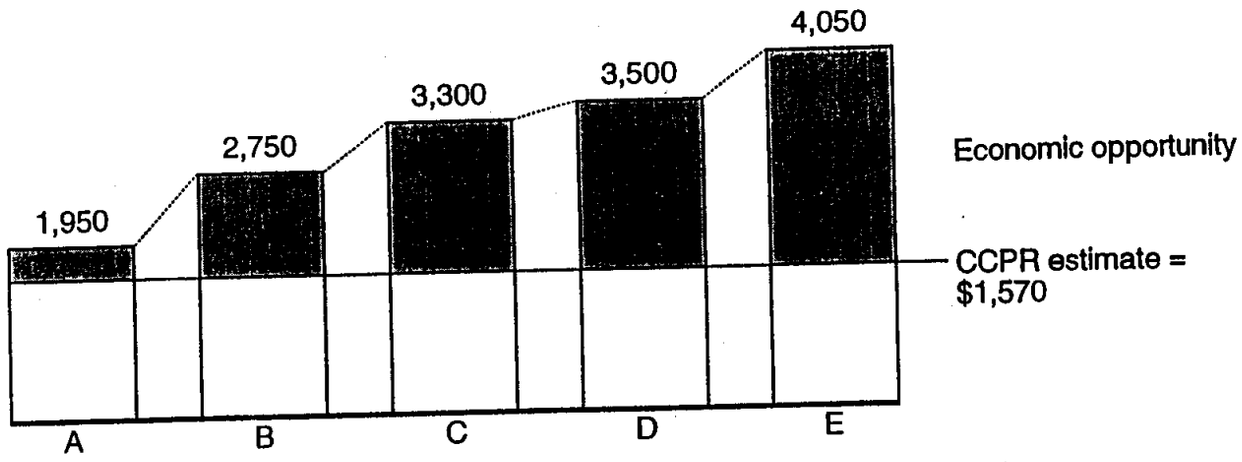
BRAND MEETING
April 18, 1997

RESULTS FROM MCO CALIBRATION EXERCISE

Dollars

Estimate written on identical hail damaged roof



- 5 adjusters asked to adjust the same roof during field calibration exercise
- Unit cost for shingles varied between $59 per square to $85 per square
- Area measurement varied between 25 and 43 squares
- 2 contractors visited the site and confirmed the CCPR scope and estimate

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4/18/97

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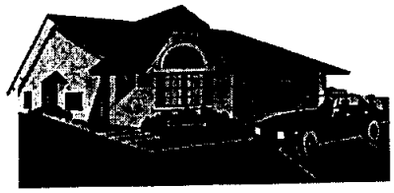

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BRAND MEETING
April 18, 1997

CCPR UPDATE
AUTO AND HOMEOWNER

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Discussion Topics

- Elements of New Approach
- California Outcomes
  - Learnings and solutions
  - Transition to Front Line
  - Results
- Florida Strategy
  - Approach
- Preliminary Implementation Strategy
  - Country wide support
  - Segment-specific implementation
- Decision Tool

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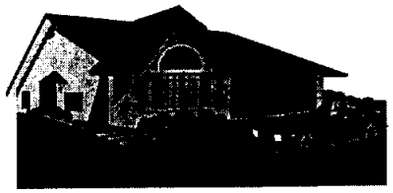

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April 18, 1997

Auto CCPR New Approach

ELEMENTS OF NEW APPROACH

CCPR Process	Damages • Estimating Accuracy Requirement • Total Loss • Service Calls	Segmentation • Comparative negligence • Matrices • Contacts
Supporting solution	MOS/MOI Performance management New UCM Role	Rigor and Discipline

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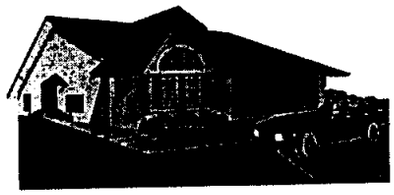

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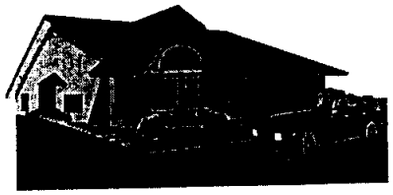

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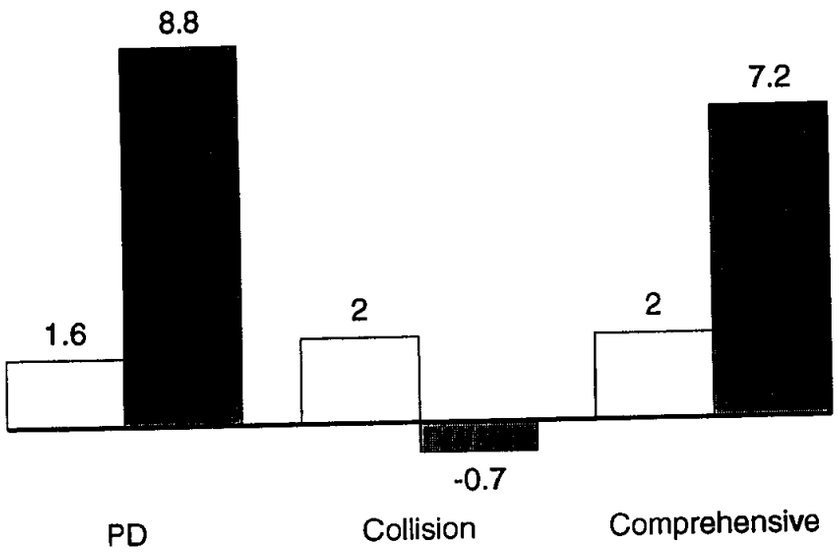
COMPARISON OF AUTO PD PERFORMANCE

Percent

Country wide
Southern California

1 month (March) 1997 vs. 1996



Source: OIS

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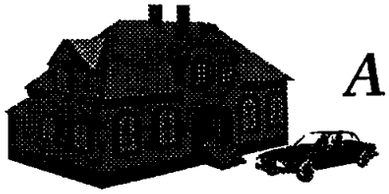

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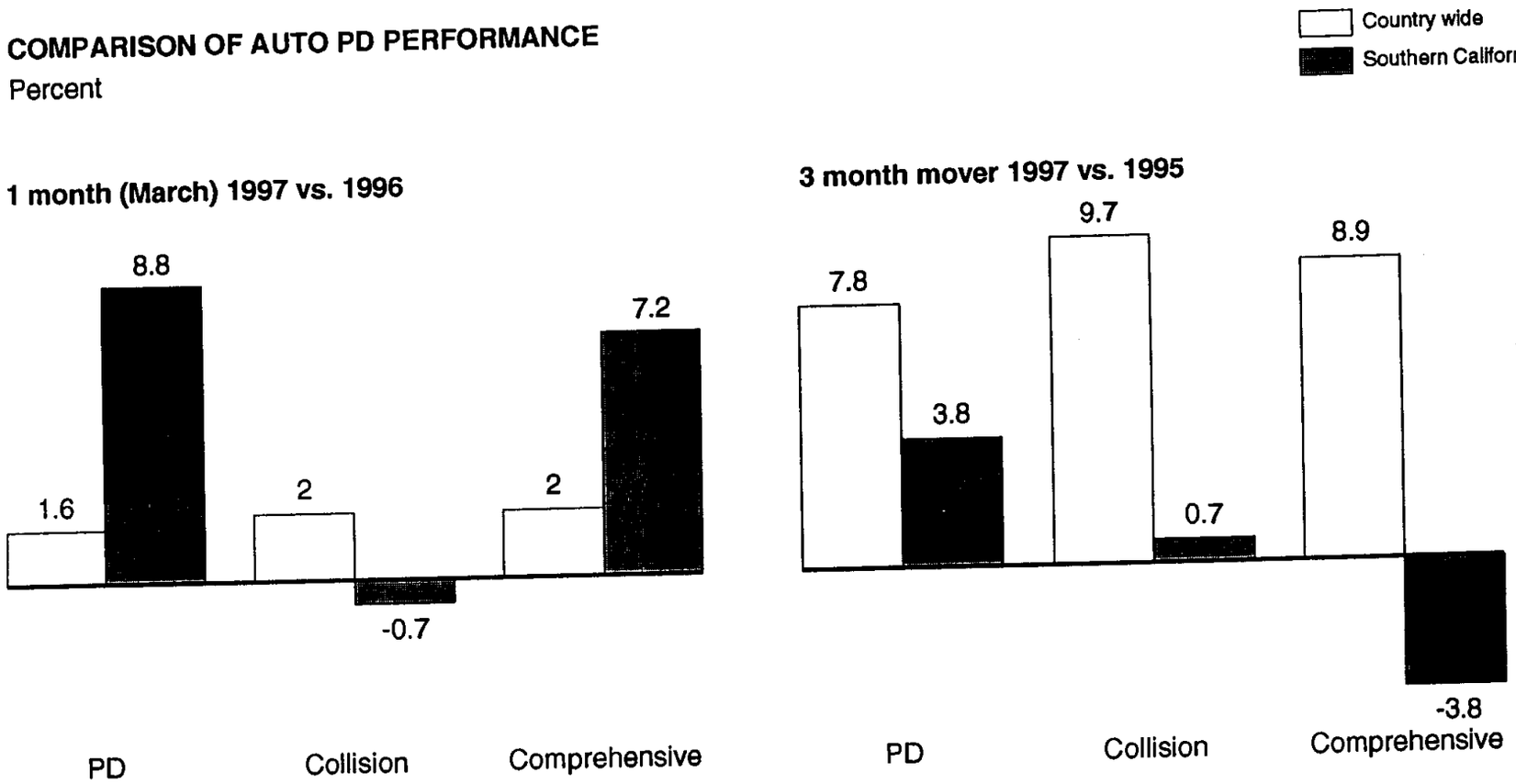

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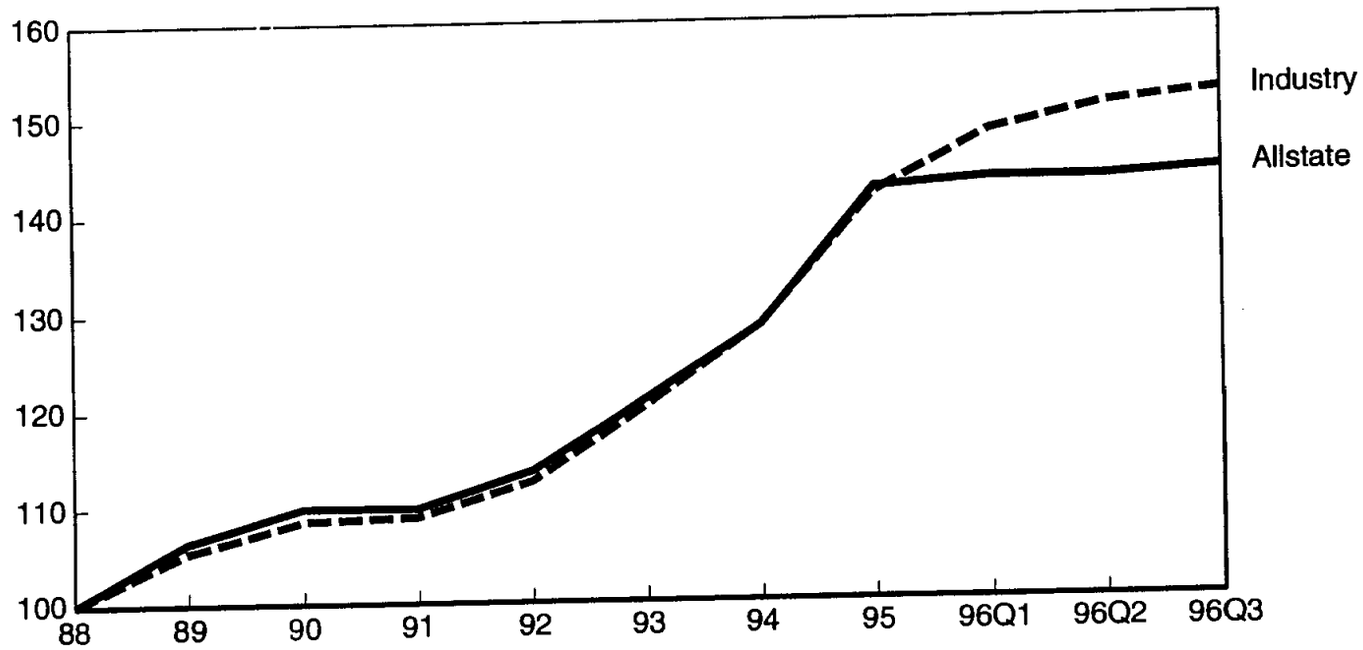

Source: Fast track

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

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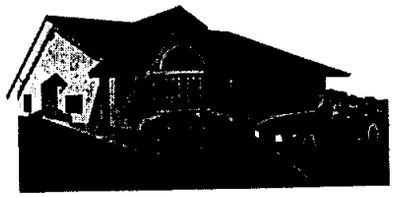

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Auto CCPR New Approach

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  - MOS/ MOI

  - New UCM Role

  - Miscellaneous job aids

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BRAND MEETING
April 18, 1997

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  - Implementation Vs. nonimplemented
  - Percent economic opportunity
  - Staffing status (hiring completed, experience levels, culture, skill)
  - Geography
- Design CSA specific implementation approach
- Build timeline and estimate potential economic impact

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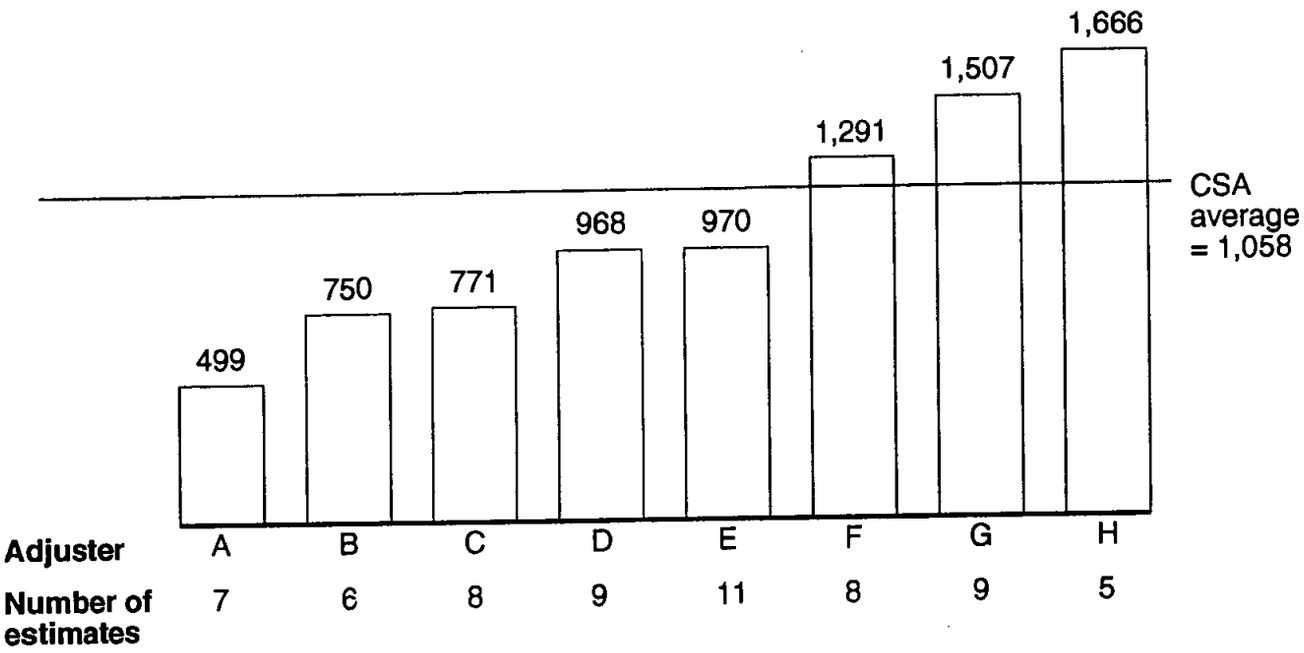
HONDA CIVIC 1992-95 – ADJUSTER COMPARISON FOR DRIVE-IN

Average estimate amount in dollars



Current status

- Organizing team to conduct test
- Developing manual decision tool for test
- Selecting test sites in Florida
- Begin testing in May

* Adjusters with less than 5 estimates on Honda Civic were not shown, 134 total Honda Civic drive-in estimates

Source: ADP damage data for Oct-Nov 1996 in Southern California CSA

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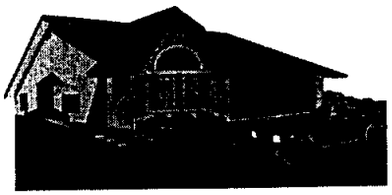

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BRAND MEETING
April 18, 1997

Homeowner CCPR

FACT BASE

- 36 MCOs
- 1225 file reviews
- 533 re-inspections

KEY FINDINGS BY PERIL

FIRE

- 26.2% ($135 million) opportunity
- Opportunity concentrated in structure/contents evaluation and subro ($120 million)

WIND/HAIL

- 23.5% ($32 million)) opportunity non-Cat
- 30.5% ($154 million) opportunity Cat
- Largest area of opportunity is in evaluation of roof damage ($18 million non-Cat and $80 million Cat)

THEFT/CONTENTS

- 22.7% ($42 million) opportunity
- Opportunity driven by coverage identification, loss investigation/evaluation

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BRAND MEETING
April 18, 1997

Homeowner CCPR

DESIGN WORK

AREA OF FOCUS	PROCESSES BEING TESTED
Fire Structure	• clean vs replace • cause and origin investigation • subro ID/pursuit
Fire contents	• on-site inventory • pricing • evaluation
Wind/Hail roofs	• coverage/damage identification • repair vs replace • estimating skill

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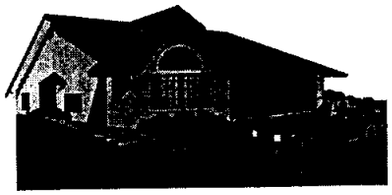

Allstate Brand - P-CCSO

BRAND MEETING
April 18, 1997

Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Locations
  - Roseville (fire structure and contents)
  - Albuquerque (roof adjusting - non-Cat)
- Challenges
  - Skill assessments
  - Technical training
  - Calibration
  - Customer satisfaction
- Strategy

  First Round Testing
  - Limit testing to two processes
  - Use first test sites to identify solutions/develop process
  - Perfect processes
  - Prove processes will capture opportunity

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BRAND MEETING
April 18, 1997

Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Strategy

Subsequent Testing
- Expand scope (refinement and transportability)
- Test Roof Process in Cat environment
- Begin theft/contents testing

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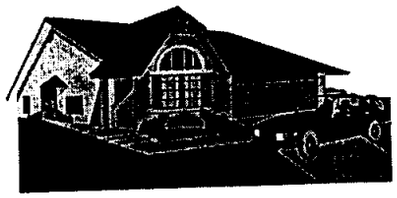

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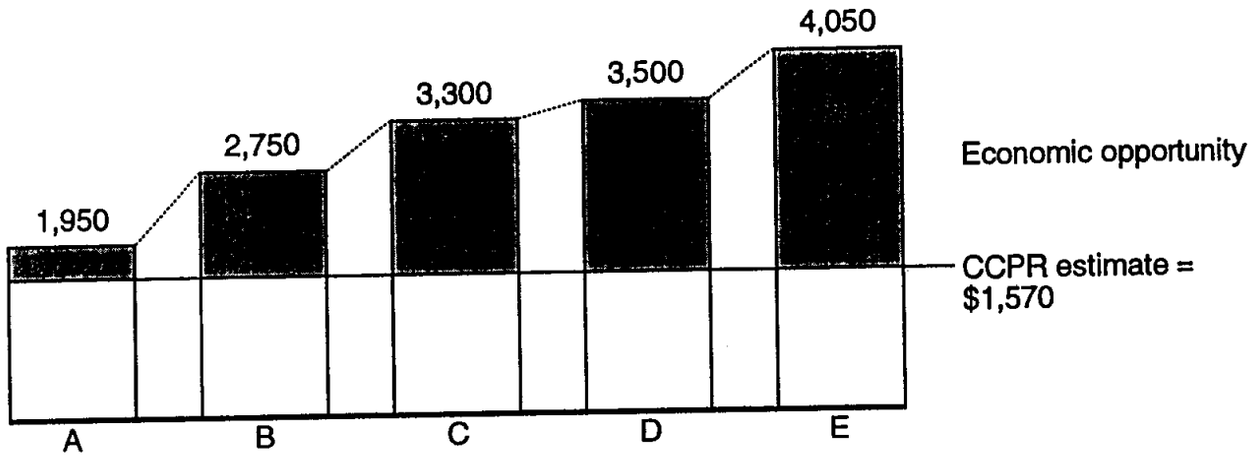
BRAND MEETING
April 18, 1997

RESULTS FROM MCO CALIBRATION EXERCISE

Dollars

Estimate written on identical hail damaged roof



- 5 adjusters asked to adjust the same roof during field calibration exercise
- Unit cost for shingles varied between $59 per square to $85 per square
- Area measurement varied between 25 and 43 squares
- 2 contractors visited the site and confirmed the CCPR scope and estimate

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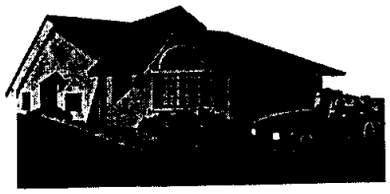

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BRAND MEETING
April 18, 1997

Intro: Scott Smith - CCPR Director over Design & Implementation all disciplines

Joni Boyd - CCPR Design Co Ordinator currently focused on HO

CCPR UPDATE
AUTO AND HOMEOWNER

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

We have some very positive trends to share with you, gap to the industry, 2 year DASIS 2 year severity trends and a 1 month picture for florida that is very encouraging

Discussion Topics

- Elements of New Approach
- California Outcomes
  - Learnings and solutions
  - Transition to Front Line
  - Results
- Florida Strategy
  - Approach
- Preliminary Implementation Strategy
  - Country wide support
  - Segment-specific implementation
- Decision Tool — Mick

When we finish Auto - Tom H.O

Scott will cover our New Approach & Calif Outcomes with you.

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

ELEMENTS OF NEW APPROACH

CCPR Process

Damages 62% of opportunity
- Estimating Accuracy Requirement EAR
- Total Loss Accuracy plus Value
- Service Calls - Direct Link to Cust Sat - Keep cust inform

Segmentation
- Comparative negligence recognition & application
- Matrices - Compliance
- Contacts - Direct Link to Cust Sat - Setting & meeting expect.

Need for support

Supporting solution

MOS/MOI

Performance management

New UCM Role

Rigor and Discipline

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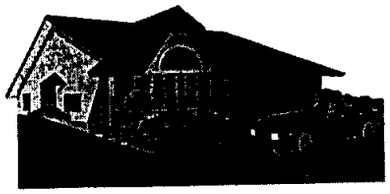

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Southern California learnings November 1996 - February 1997

Processes as designed are effective, supporting solutions to include infrastructure are necessary

Learnings	Solutions
Original implementation was too focused upon "what to do" (not how to do it)	• Ensure that Front Line understand exactly how the new processes work • Develop job aids - MCO monthly meetings content, desired outcomes - Weekly calibration; role plays every week - forever - Weekly Auto Tech team sessions — Not on our team, on body shop
UCMs operated in a reactive manner engaging in minimal coaching or training	• Redesign UCM role to be proactive - new job - One-on-one coaching - Teaching/training at desk/car - Process focused - Model new behavior - Understanding of reports - Institute regular figure review meetings 60% of time in field
Performance management system did not reflect new processes	• Redesign performance management system to support CCPR processes - Develop MRs/PSs by position - Set effective goals by CSA, MCO and position
Physical Damage assignment process needed refinement	• Create dispatch workshop to a level to effectively apply MOS/MOI • Develop directed MOS/MOI strategy
Original Auto CCPR implementation had little impact on liability assessment and application	• Institute comp. neg. training module • Test "second look" process • Redesign AFR • Ensure weekly round table discussion and role plays

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MIAMI MARKET RESULTS

— first 1/4 97

AUTO CUSTOMER SATISFACTION: +10.1

MARCH 97/96 SEVERITY: BDH -7.3

One mo only

B -7.7

Positive indicator

D -8.4

Could be an aberration

H = all in Atlantic Central

QLMS OVERALL SATISFACTION: MIAMI NO +6.0

MIAMI SO +11.0

CSA +7.0

On top of + Sat & - Sev. Great employee relationships

It can be done! Now can it be sustained

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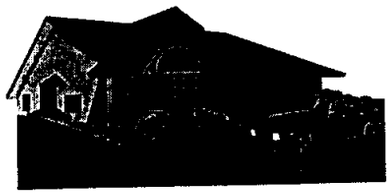

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

TRANSITION TO FRONT LINE

Goal: To gain and sustain significant competitive advantage by achieving 10 point improvement in customer satisfaction and 7 point severity improvement while enhancing employee relationships

Critical levers driving success of Auto CCPR	Ongoing priorities	
Estimating accuracy requirements	• DE reinspections • UCM ride-alongs/coaching • ACPS validation of accuracy	⇨ Calibration
Liability accuracy requirements	• UCM file reviews • UCM sit-alongs/coaching • ACPS validation of accuracy	⇨ Calibration
Total loss accuracy	• DE reinspections • UCM reinspections and sit-alongs/coaching •ACPS validation of accuracy	⇨ Calibration
Customer service requirements	• UCM ride-alongs/sit-alongs/coaching • Monitoring of customer service drivers (via C199) • ACPS validation of process compliance	

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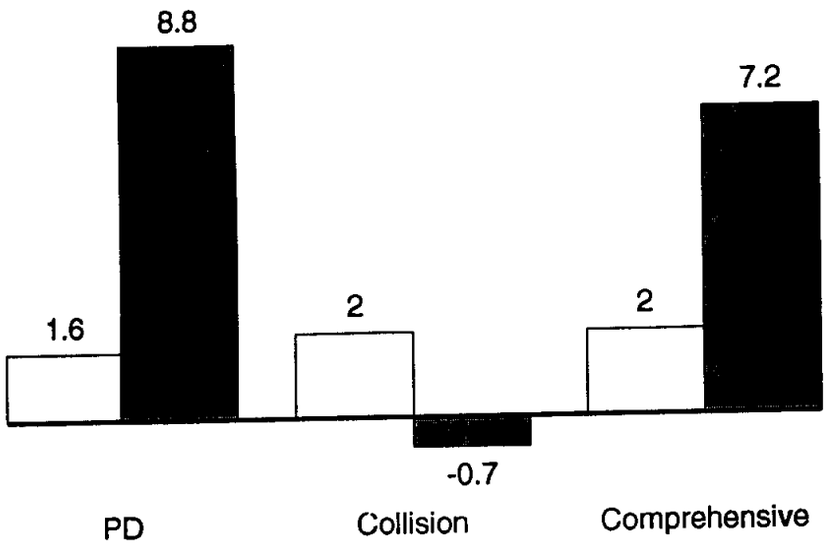
COMPARISON OF AUTO PD PERFORMANCE
Percent

1 month (March) 1997 vs. 1996



Source: OIS

Now here is a picture of how we ARC currently looking At results. The shaded BARS ARE So CAL

Not A pretty picture If you only look At 1 month to PRIOR YEAR.

You could draw the conclusion that the WORST thing you could do is send in the CCPL Team

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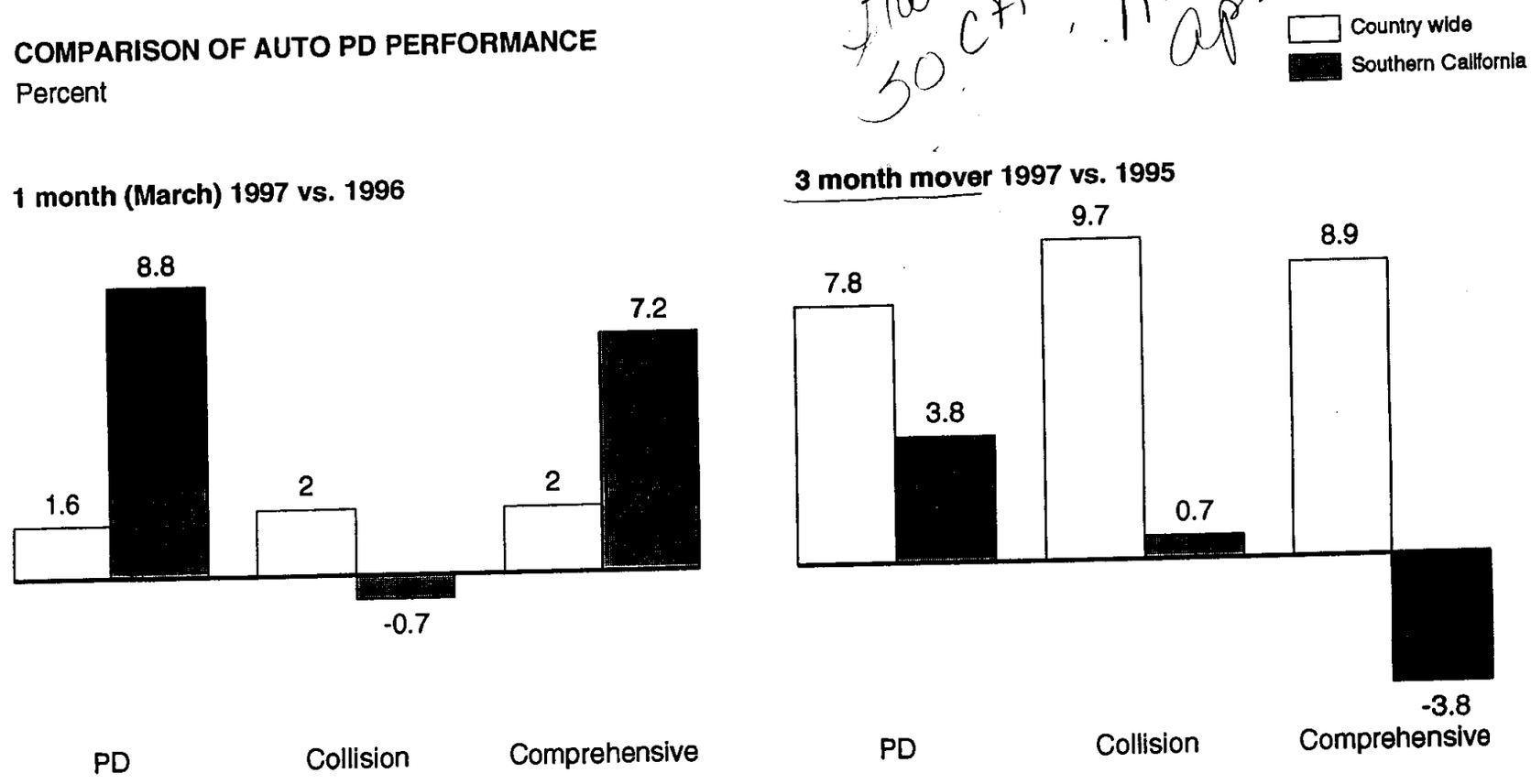
Hartford testing Calif in 30 CAL Dec 95 — March 96 - Implemented April

COMPARISON OF AUTO PD PERFORMANCE

Percent



Source: OIS

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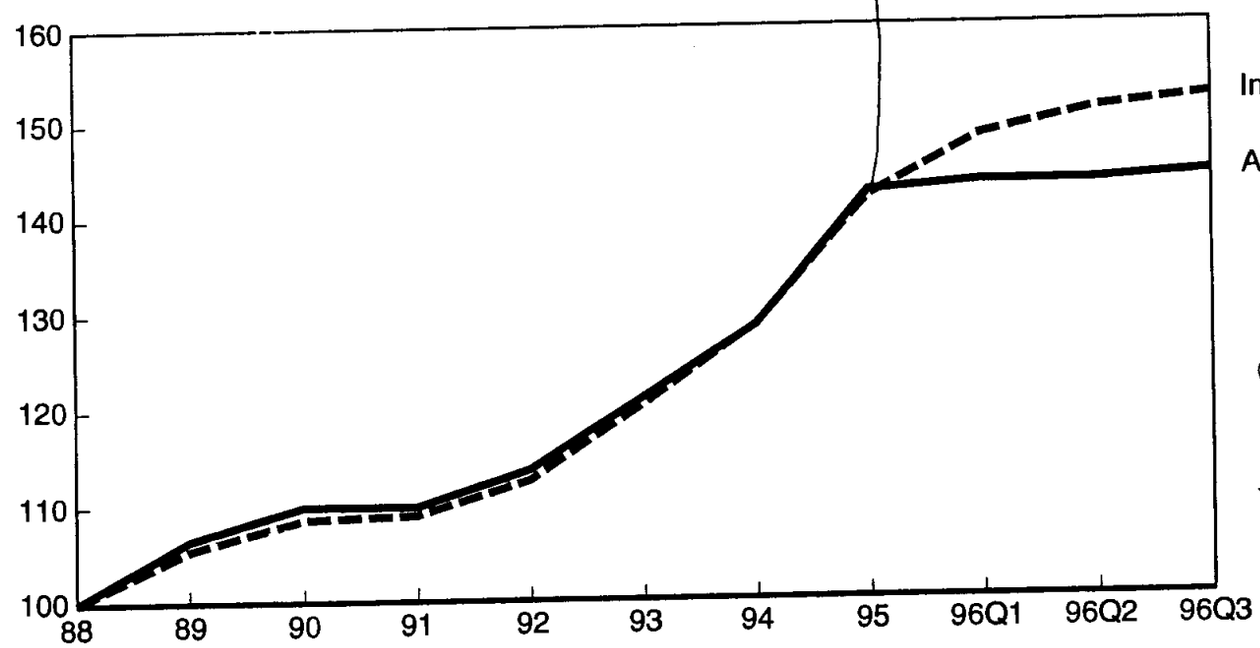
COLLISION SEVERITY TRENDS

Percent severity growth indexed to 1988



Auto CCPR began in 1995

7pt gap

We are going to do this – There is still a capturable 500,000,000 out there

Source: Fast track

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

FLORIDA STRATEGY MARCH-JULY '97

Mission: To utilize our learnings from Southern California to design an effective implementation strategy for the rest of the country

- Create a showcase for Auto CCPR success - We had showcases in Cas- San Antonio & Ft Washington
- Ascertain ability to transfer knowledge in multiple segments in stable and unstable environments Orl - Miami
- Drive results through new performance management system
- Create winning team culture - Teaching technicians how to win at the car
  Teaching Reps how to win at liability
- Enhanced PRO integrated into CCPR solution
  6% bottom line on 60% of 32% of cars
  Selecting Premier shops, reducing # of shops
  Leveraging our skill & scale to secure bottom line discounts.
  Orlando

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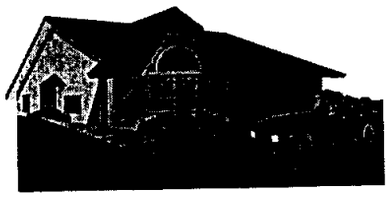

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Preliminary Countrywide Implementation Strategy

- Release Auto CCPR support processes prior to New Approach implementation

  - Performance Management

  - MOS/ MOI

  - New UCM Role

  - Miscellaneous job aids

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Preliminary Countrywide Implementation Strategy

- Develop Segment Specific Implementation
- Triage CSAs
  - Implementation Vs. nonimplemented
  - Percent economic opportunity
  - Staffing status (hiring completed, experience levels, culture, skill)
  - Geography
- Design CSA specific implementation approach
- Build timeline and estimate potential economic impact

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Now Nick will take you through our thinking on a decision tool for auto estimating that we think will force calibration

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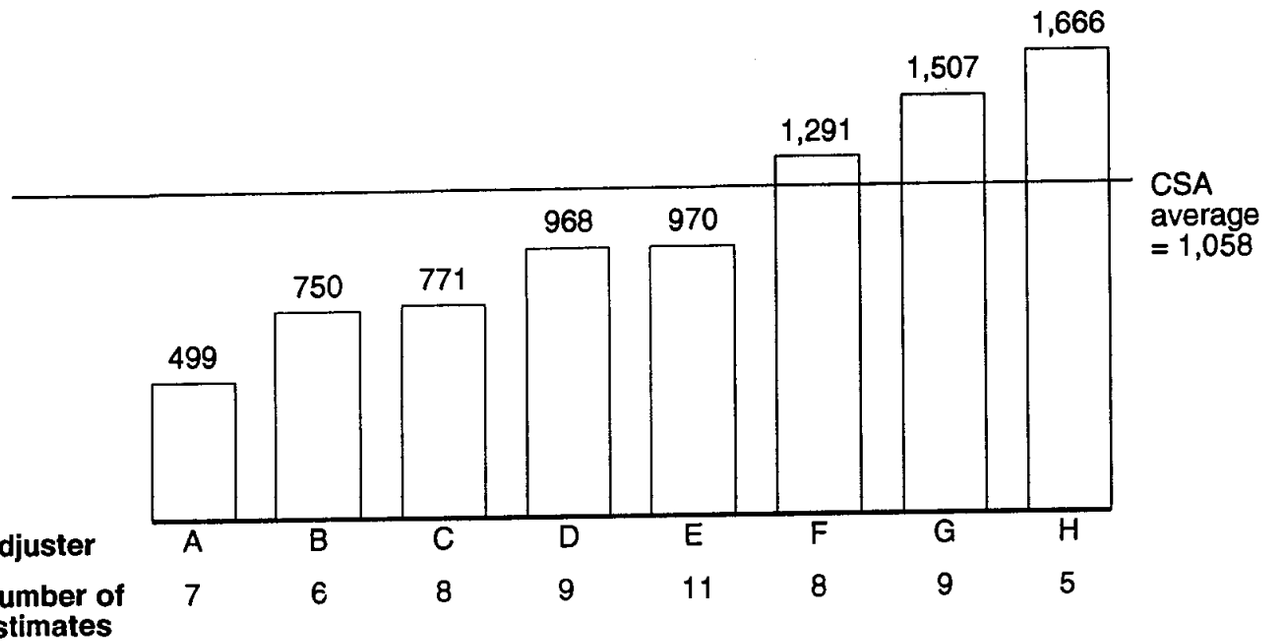
HONDA CIVIC 1992-95 – ADJUSTER COMPARISON FOR DRIVE-IN

Average estimate amount in dollars



Current status

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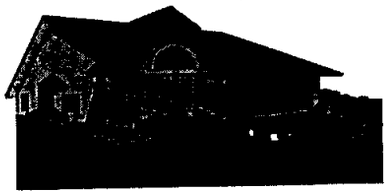

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BRAND MEETING
April 18, 1997

Homeowner CCPR

FACT BASE

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- 1225 file reviews
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KEY FINDINGS BY PERIL

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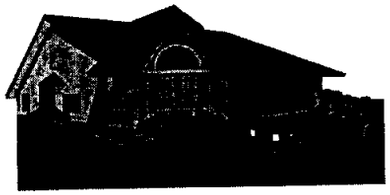

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BRAND MEETING
April 18, 1997

Homeowner CCPR

DESIGN WORK

AREA OF FOCUS	PROCESSES BEING TESTED
Fire Structure	• clean vs replace • cause and origin investigation • subro ID/pursuit
Fire contents	• on-site inventory • pricing • evaluation
Wind/Hail roofs	• coverage/damage identification • repair vs replace • estimating skill

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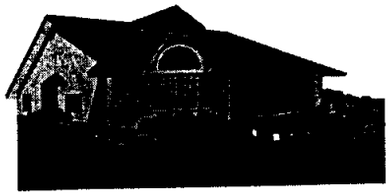

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BRAND MEETING
April 18, 1997

Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Locations
  - Roseville (fire structure and contents)
  - Albuquerque (roof adjusting - non-Cat)
- Challenges
  - Skill assessments
  - Technical training
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  - Limit testing to two processes
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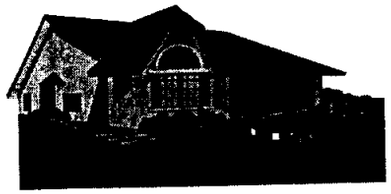

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BRAND MEETING
April 18, 1997

Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Strategy

Subsequent Testing
- Expand scope (refinement and transportability)
- Test Roof Process in Cat environment
- Begin theft/contents testing

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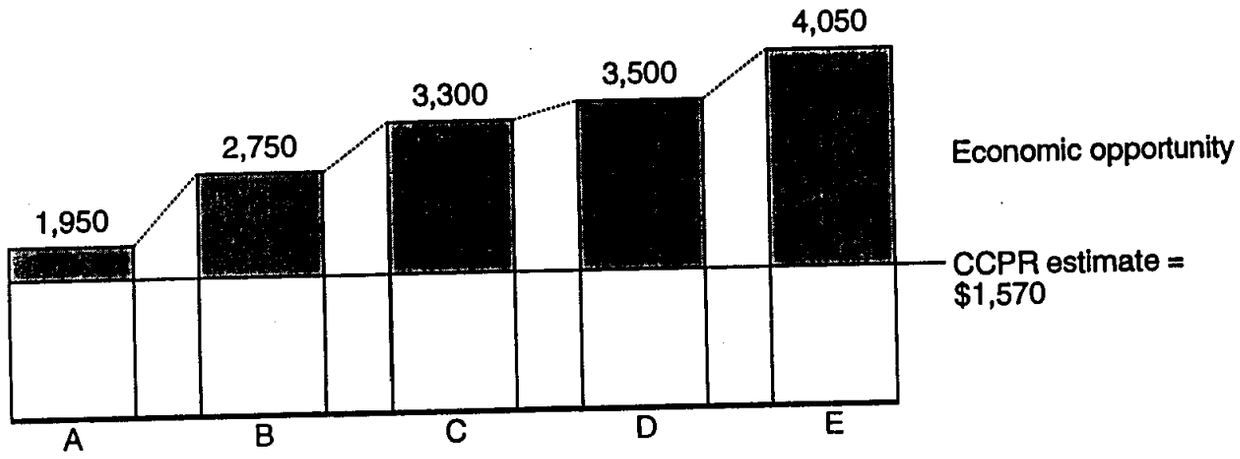
BRAND MEETING
April 18, 1997

RESULTS FROM MCO CALIBRATION EXERCISE

Dollars

Estimate written on identical hail damaged roof



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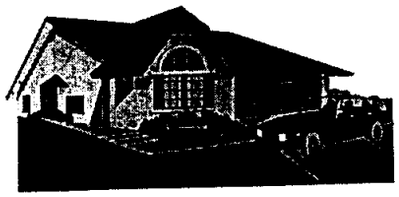

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CCPR UPDATE
AUTO AND HOMEOWNER

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Discussion Topics

- Elements of New Approach
- California Outcomes
  - Learnings and solutions
  - Transition to Front Line
  - Results
- Florida Strategy
  - Approach
- Preliminary Implementation Strategy
  - Country wide support
  - Segment-specific implementation
- Decision Tool

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

ELEMENTS OF NEW APPROACH

CCPR Process

Damages
- Estimating Accuracy Requirement
- Total Loss
- Service Calls

Segmentation
- Comparative negligence
- Matrices
- Contacts

Supporting solution

MOS/MOI

Performance management

New UCM Role

Rigor and Discipline

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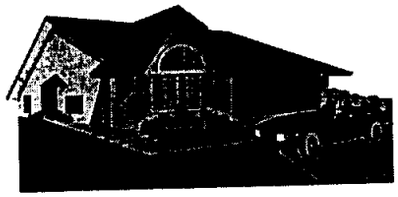

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

Southern California learnings November 1996 - February 1997

Processes as designed are effective, supporting solutions to include infrastructure are necessary

Learnings	Solutions
Original implementation was too focused upon "what to do" (not how to do it)	• Ensure that Front Line understand exactly how the new processes work • Develop job aids - MCO monthly meetings - Weekly calibration; role plays - Weekly Auto Tech team sessions
UCMs operated in a reactive manner engaging in minimal coaching or training	• Redesign UCM role to be proactive - new job - One-on-one coaching - Teaching/training at desk/car - Process focused - Model new behavior - Understanding of reports - Institute regular figure review meetings
Performance management system did not reflect new processes	• Redesign performance management system to support CCPR processes - Develop MRs/PSs by position - Set effective goals by CSA, MCO and position
Physical Damage assignment process needed refinement	• Create dispatch workshop • Develop directed MOS/MOI strategy
Original Auto CCPR implementation had little impact on liability assessment and application	• Institute comp. neg. training module • Test "second look" process • Redesign AFR • Ensure weekly round table discussion and role plays

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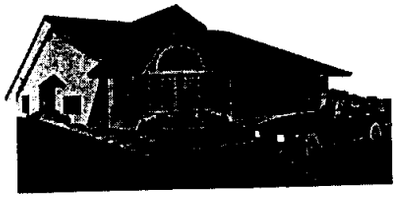

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BRAND MEETING
April 18, 1997

Auto CCPR New Approach

TRANSITION TO FRONT LINE

Goal: To gain and sustain significant competitive advantage by achieving 10 point improvement in customer satisfaction and 7 point severity improvement while enhancing employee relationships

Critical levers driving success of Auto CCPR	Ongoing priorities	
Estimating accuracy requirements	• DE reinspections • UCM ride-alongs/coaching • ACPS validation of accuracy	Calibration
Liability accuracy requirements	• UCM file reviews • UCM sit-alongs/coaching • ACPS validation of accuracy	Calibration
Total loss accuracy	• DE reinspections • UCM reinspections and sit-alongs/coaching •ACPS validation of accuracy	Calibration
Customer service requirements	• UCM ride-alongs/sit-alongs/coaching • Monitoring of customer service drivers (via C199) • ACPS validation of process compliance	

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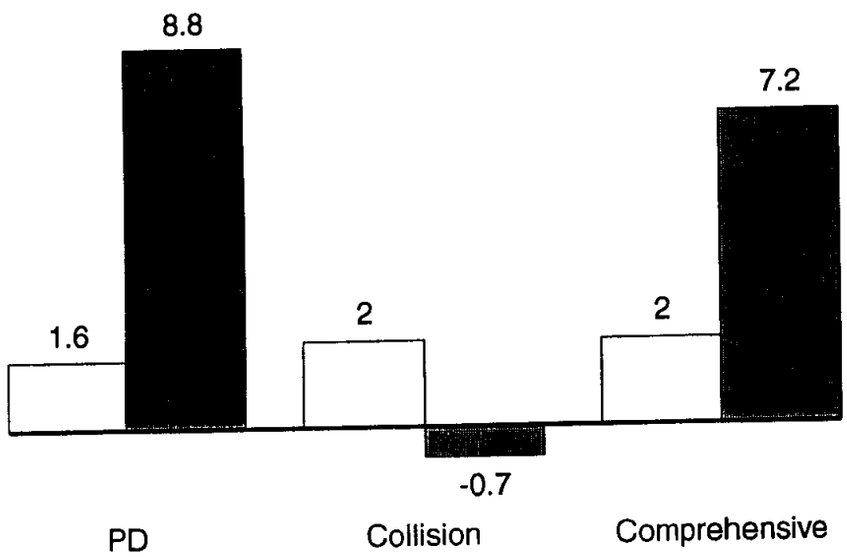
COMPARISON OF AUTO PD PERFORMANCE
Percent

Country wide
Southern California

1 month (March) 1997 vs. 1996



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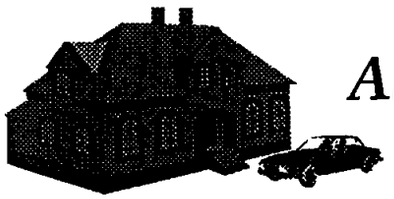

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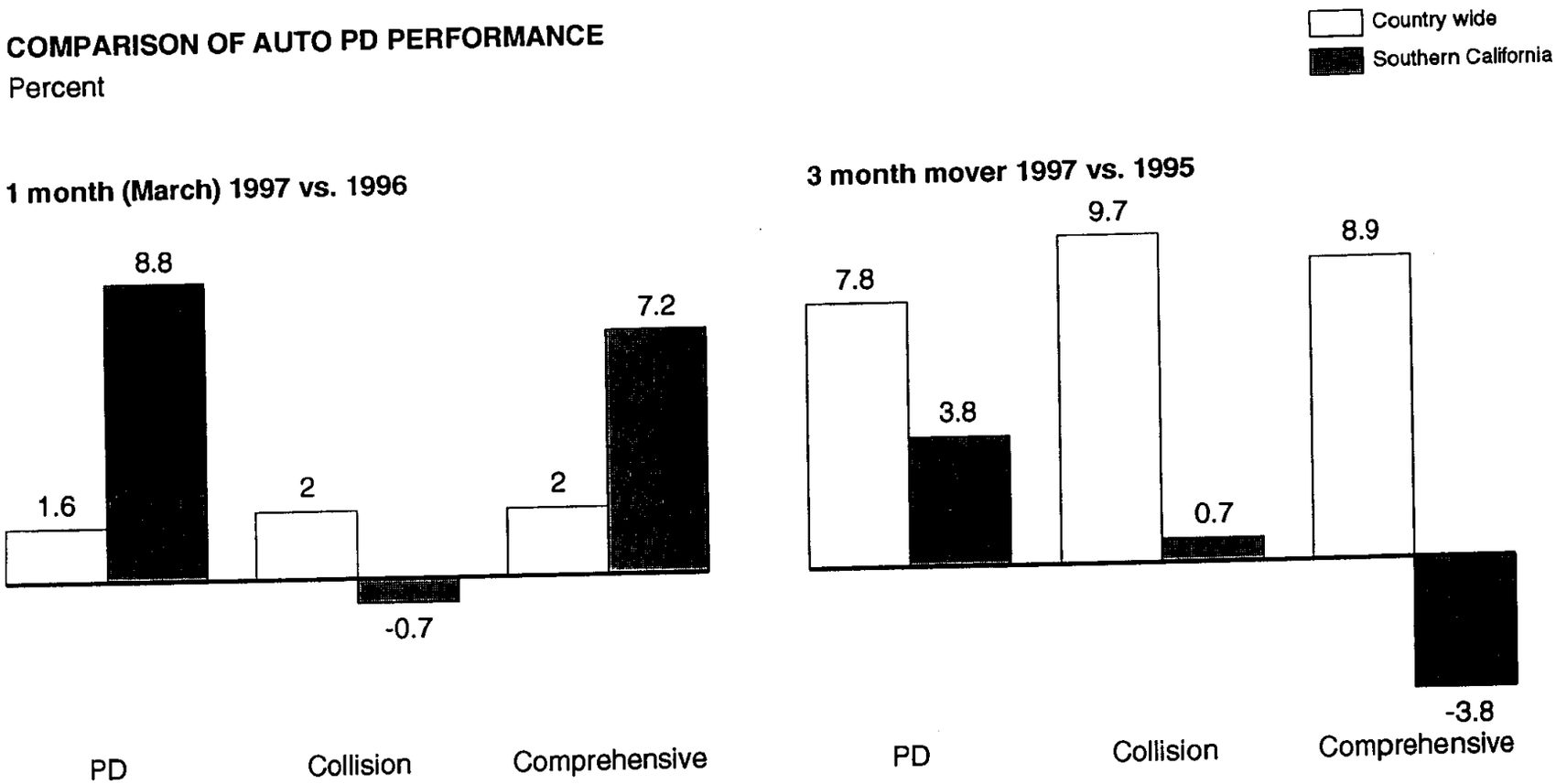
COMPARISON OF AUTO PD PERFORMANCE

Percent



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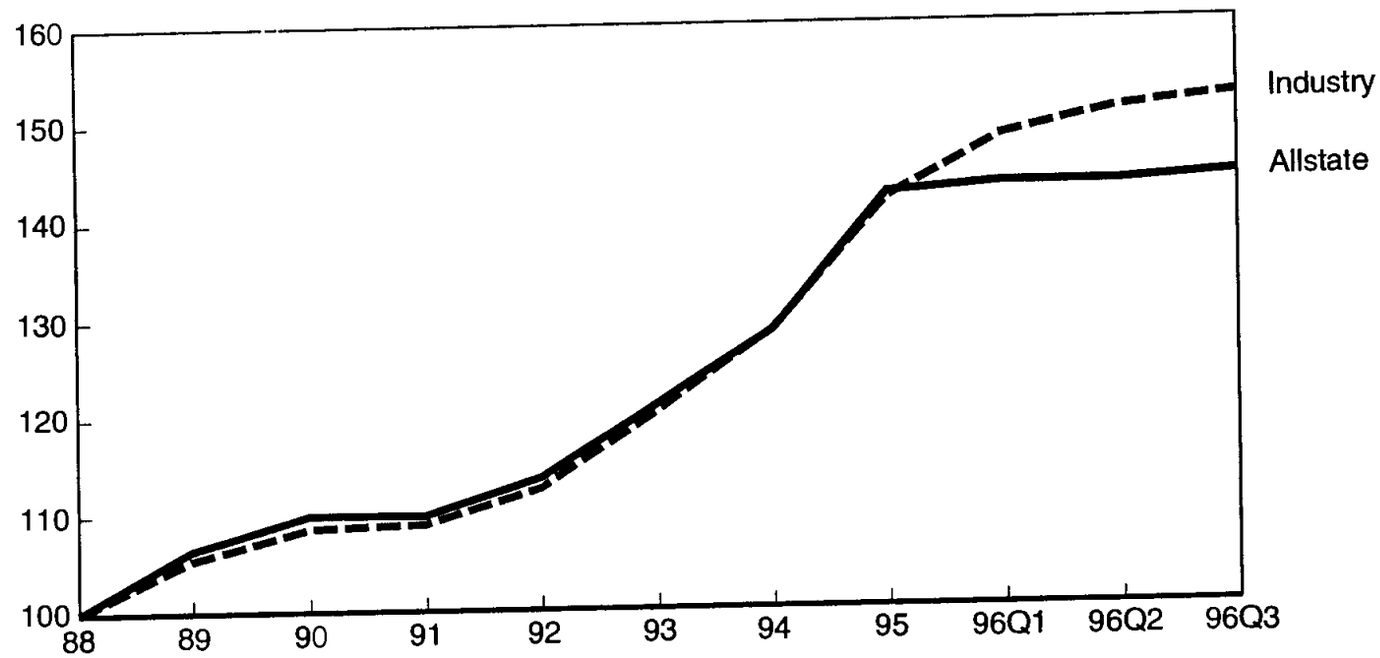
COLLISION SEVERITY TRENDS

Percent severity growth indexed to 1988



Source: Fast track

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Auto CCPR New Approach

FLORIDA STRATEGY MARCH-JULY '97

Mission: To utilize our learnings from Southern California to design an effective implementation strategy for the rest of the country

- Create a showcase for Auto CCPR success
- Ascertain ability to transfer knowledge in multiple segments in stable and unstable environments
- Drive results through new performance management system
- Create winning team culture
- Enhanced PRO integrated into CCPR solution

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Auto CCPR New Approach

Preliminary Countrywide Implementation Strategy

- Release Auto CCPR support processes prior to New Approach implementation

  - Performance Management

  - MOS/ MOI

  - New UCM Role

  - Miscellaneous job aids

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Auto CCPR New Approach

Preliminary Countrywide Implementation Strategy

- Develop Segment Specific Implementation
- Triage CSAs
  - Implementation Vs. nonimplemented
  - Percent economic opportunity
  - Staffing status (hiring completed, experience levels, culture, skill)
  - Geography
- Design CSA specific implementation approach
- Build timeline and estimate potential economic impact

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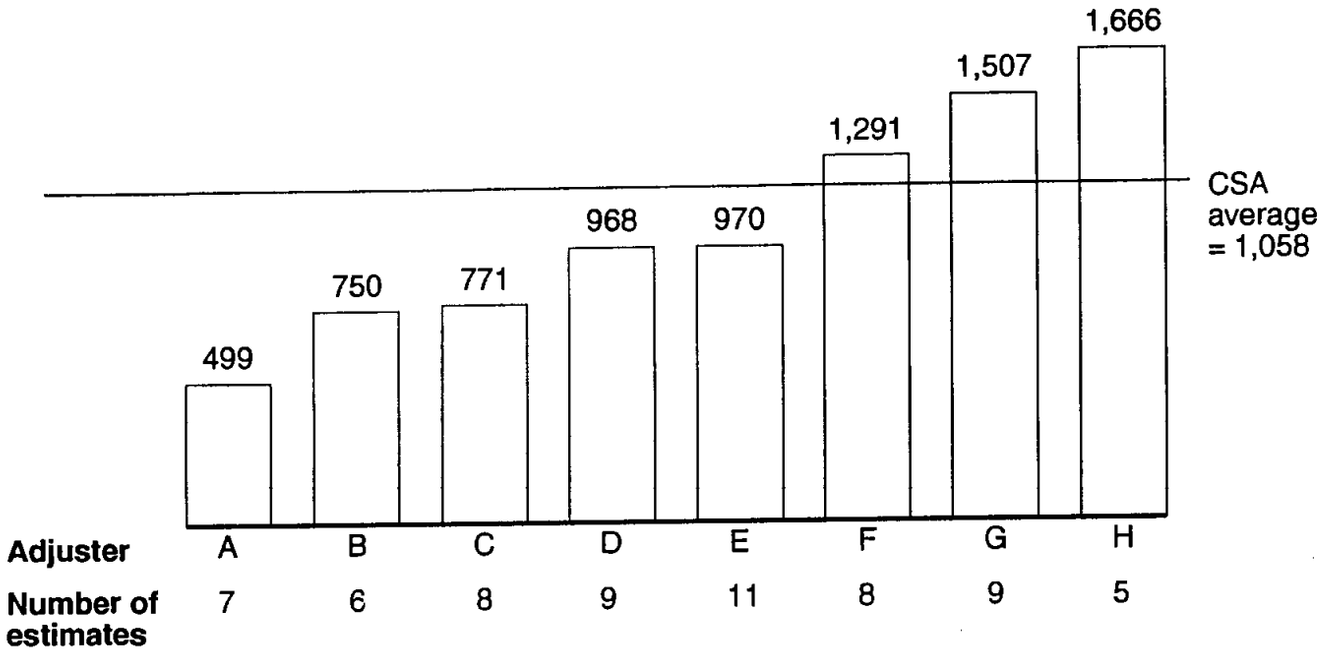
HONDA CIVIC 1992-95 – ADJUSTER COMPARISON FOR DRIVE-IN

Average estimate amount in dollars



Current status

- Organizing team to conduct test
- Developing manual decision tool for test
- Selecting test sites in Florida
- Begin testing in May

* Adjusters with less than 5 estimates on Honda Civic were not shown, 134 total Honda Civic drive-in estimates

Source: ADP damage data for Oct-Nov 1996 in Southern California CSA

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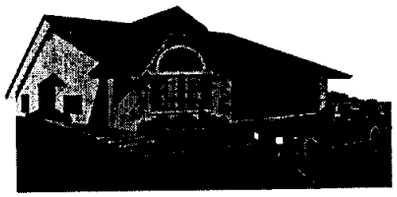

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Homeowner CCPR

FACT BASE

- 36 MCOs
- 1225 file reviews
- 533 re-inspections

KEY FINDINGS BY PERIL

FIRE

- 26.2% ($135 million) opportunity
- Opportunity concentrated in structure/contents evaluation and subro ($120 million)

WIND/HAIL

- 23.5% ($32 million)) opportunity non-Cat
- 30.5% ($154 million) opportunity Cat
- Largest area of opportunity is in evaluation of roof damage ($18 million non-Cat and $80 million Cat)

THEFT/CONTENTS

- 22.7% ($42 million) opportunity
- Opportunity driven by coverage identification, loss investigation/evaluation

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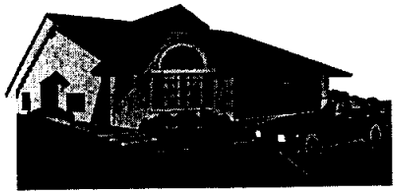

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Homeowner CCPR

DESIGN WORK

AREA OF FOCUS	PROCESSES BEING TESTED
Fire Structure	• clean vs replace • cause and origin investigation • subro ID/pursuit
Fire contents	• on-site inventory • pricing • evaluation
Wind/Hail roofs	• coverage/damage identification • repair vs replace • estimating skill

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Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Locations
  - Roseville (fire structure and contents)
  - Albuquerque (roof adjusting - non-Cat)
- Challenges
  - Skill assessments
  - Technical training
  - Calibration
  - Customer satisfaction
- Strategy

  First Round Testing
  - Limit testing to two processes
  - Use first test sites to identify solutions/develop process
  - Perfect processes
  - Prove processes will capture opportunity

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Homeowner CCPR

TESTING PLANS

Target Tests (March - August)

- Strategy

Subsequent Testing
- Expand scope (refinement and transportability)
- Test Roof Process in Cat environment
- Begin theft/contents testing

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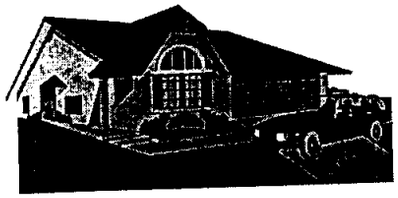

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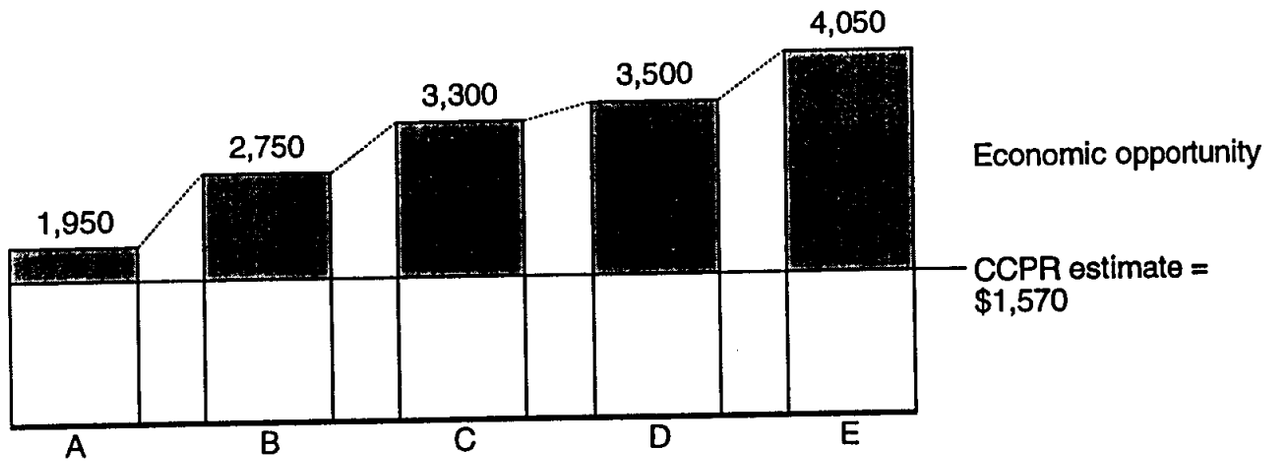
RESULTS FROM MCO CALIBRATION EXERCISE

Dollars

Estimate written on identical hail damaged roof



- 5 adjusters asked to adjust the same roof during field calibration exercise
- Unit cost for shingles varied between $59 per square to $85 per square
- Area measurement varied between 25 and 43 squares
- 2 contractors visited the site and confirmed the CCPR scope and estimate

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