

# RESEARCH BRIEF #1

The Unavailability of Information  
on Insurance Unavailability:

Insurance Redlining and the Absence  
of Geocoded Disclosure Data

by: Gregory Squires



The Annie E. Casey Foundation

701 St. Paul Street  
Baltimore, Maryland 21202  
800.222.1099  
[www.aecf.org](http://www.aecf.org)



## Abstract

### **The Unavailability of Information on Insurance Unavailability: Insurance Redlining and the Absence of Geocoded Disclosure Data**

Gregory D. Squires, University of Wisconsin-Milwaukee

Sally O'Connor, University of Wisconsin-Milwaukee

Josh Silver, National Community Reinvestment Coalition

Allegations of redlining and racial discrimination by the property insurance industry have been the subject of research, litigation, and legislation for at least 50 years. Yet there is no comprehensive data base on the geographic distribution of property insurance products and services. Unlike the mortgage lending industry, where most lenders are required by federal law to publicly disclose detailed information on each mortgage loan application, only a handful of states have required any geographic disclosure of property insurance policies.

This paper examines which states require such disclosure, the type of information that is available, and how that information can be utilized to examine issues of insurance unavailability, redlining, and discrimination. It also recommends additional disclosure and research to assist community groups, insurance regulators, and insurance companies in addressing problems of urban insurance availability.

Some states do require zip code disclosure of various types of information. Such information was utilized by plaintiffs in the case of NAACP et. al. v. American Family (978 F.2d 287 (7<sup>th</sup> Cir. 1992)) that resulted in a \$16.5 million settlement including \$9.5 million to support home ownership in Milwaukee's predominantly black community. Community reinvestment groups in Boston have utilized a new Massachusetts law to engage several insurers in reinvestment efforts in that community and several California groups have taken advantage of a new state reinvestment initiative for similar purposes. But the geocoded information that is available varies from state to state and there are conflicting reports about what information is available. This research identifies precisely what data are publicly available and provides detailed information on those data sources for insurers, regulators, fair housing organizations, community reinvestment groups, and others who are engaged in community reinvestment activities. It also offers concrete illustrations of ways the information can be utilized to increase current understanding of insurance availability and affordability issues and to respond to problems that arise in the marketplace.

While community groups tend to advocate for such data collection and industry groups tend to oppose it, all parties engaged in insurance discrimination debates would be able to utilize disclosure data in ways that would likely increase access to adequate and affordable insurance in markets currently underserved by the industry. State insurance commissioners could use this information to screen and target insurers for further investigation. Community organizations could identify potential partners for reinvestment initiatives. Insurers could use this information to examine their own underwriting and marketing activities and identify business opportunities currently being missed in some communities. Just as HMDA (Home Mortgage Disclosure Act) has

informed fair lending debates, much more could be learned about property insurance availability. Such disclosure data alone would not prove or disprove compliance with state non-discrimination rules, the federal Fair Housing Act or other unfair trade practices requirements. But they would enhance efforts of insurers, regulators, and community groups to increase access to property insurance in urban communities. In turn, this would increase home ownership precisely in those areas where it is lowest and, therefore, the greatest opportunity exists for improvement.

### **Insurance Redlining Research and Policy Debates**

In 1968 a Presidential advisory panel concluded that “Insurance is essential to revitalize our cities . . . Communities without insurance are communities without hope” (President’s National Advisory Panel on Insurance in Riot-Affected Areas 1968: 1). The essential nature of insurance is beyond debate. Without an insurance policy, no lender can make a loan to purchase a home and without a loan home ownership is simply unattainable for the vast majority of households. As the Seventh Circuit stated in the case of NAACP v. American Family Mutual Insurance Co., “No insurance, no loan; no loan, no house; lack of insurance thus makes housing unavailable.” (978 F.2d 287 (7<sup>th</sup> Cir. 1992) p. 297)). And there is little debate over the fact that insurance is provided unevenly throughout metropolitan areas. It is widely recognized that property insurance is easier to get in some neighborhoods than in others. But there is much debate over the causes of these disparities and what should be done about them.

Many industry critics point to arbitrary redlining and racial discrimination as a major cause and call for stronger enforcement of the federal Fair Housing Act and state unfair discrimination statutes, as well as more aggressive community organizing to force insurers to comply with the law (1993; Kincaid 1994; Smith and Cloud 1997). Others point to the heightened risk associated with many urban communities in terms of the greater frequency of fire, theft, and other factors that create compensable losses. To the extent that there are racial disparities in the market, from this perspective, they are accounted for by the relatively high concentration of non-white households in such neighborhoods. The appropriate response, therefore, is more effective risk mitigation practices including better police and fire protection, education for consumers on property insurance and home maintenance, crime watch programs, and other steps that will reduce losses (American Insurance Association 1993; National Association of Independent Insurers 1994; Warfe 1996; Insurance Research Council 1997; Grace and Klein 1999).

Action has been taken on a variety of fronts. As indicated above, several insurers have settled discrimination complaints and in one case the jury awarded \$100 million in punitive damages. (This decision against Nationwide was overturned by the Virginia Supreme Court, which argued, in January 2000, that the plaintiff—Housing Opportunities Made Equal or HOME—did not have standing. But in March the Court agreed to reconsider its decision (Associated Press 2000)). Paired testing by fair housing groups provided much of the information on which these cases were based. In such “tests” white and non-white auditors or auditors from white and non-white communities posing as insurance consumers are matched in terms of the structure and condition of the homes, the financial characteristics of the “homeowners,” and type of neighborhoods in which the homes are located so that they represent comparable risks to the insurer. Among the types of disparate treatment that have been reported are the following:

- charging higher prices per \$1,000 of insurance coverage in non-white areas;
- offering inferior types of policies with fewer risks covered in non-white areas;
- providing more advice and counseling to help consumers qualify in white areas;
- placing more hurdles that have to be cleared to qualify for a policy in non-white areas (e.g., non-whites asked for social security number or told that first-time homebuyers do not qualify for their insurance) and;

- applying standards differently (e.g., requiring inspections of properties for non-whites but not whites) (Smith and Cloud 1997).

Reviews of company documents and interviews with current and former employees have uncovered other discriminatory practices including:

- utilization of underwriting standards that had a disparate impact on minority communities (e.g., maximum age and minimum value requirements);
- concentration of agents in white neighborhoods;
- instruction of agents to not do business in non-white communities or with non-whites households (e.g., in 1988 an American Family sales manager told an agent, in a conversation tape recorded by the agent, “you write too many blacks . . . you got to write good, solid, premium paying white people” (NAACP et. al. v. American Family (978 F.2d 287 (7th Cir. 1992)).
- concentration of preferred full replacement cost policies in white areas and the less desirable market rate or actual cash value policies in non-white communities, and;
- presence of subjective language in underwriting guidelines (e.g., “pride of ownership,” “population changes”) (Lynch 1997; Ritter 1997).

As a part of its fair housing enforcement efforts, HUD commissioned a study by the Urban Institute which used the audit method to examine the Phoenix and New York City markets. In Phoenix testers from white areas were more likely to be offered full replacement cost coverage on the contents of the home, testers in Hispanic areas were more likely to be told that a quoted price could not be guaranteed without an inspection, and prices in Hispanic areas were 12 percent higher than in white areas. These differences in treatment were statistically significant although the pricing difference could be accounted for by rate filings submitted by companies and approved by the state insurance commissioner. In New York testers from white areas were more likely to receive written as well as verbal quotes. While no significant differences were found in the availability of an insurance policy, this study demonstrates that racial composition of neighborhood is clearly associated with the terms and conditions of policies that are offered (Wissoker, Zimmerman, and Galster 1998).

In the early and mid 1990s the National Association of Insurance Commissioners (NAIC), a private organization of all state insurance commissioners, carried out a series of activities related to urban insurance availability and affordability issues. As part of that effort the NAIC obtained, on a one-time voluntary basis, zip code disclosure data including loss costs from major insurers in 33 metropolitan areas across 20 states for the years 1989-1991. These data have not been made available to the public, but in its analyses the NAIC found that even after controlling on loss costs both the number of policies written and the price of those policies were associated with zip code racial composition. In other words, loss experience could not account for racial disparities in these markets (Klein 1995, 1997).

Significant changes have occurred in the practices of those insurers involved in the fair housing litigation. Each of these five companies agreed to a number of steps to increase their share of the insurance market in inner-city neighborhoods. One critical change they all agreed to was to eliminate maximum age and minimum value underwriting guidelines. They have also agreed to open new central city offices in several metropolitan areas. Nationwide and American Family agreed to finance a variety of community reinvestment projects to support home ownership in these communities as well (Squires 1997, 1998).

In a related policy initiative the U.S. House of Representatives passed an insurance disclosure bill in 1994 (H.R. 1188) that would have required zip code disclosure of insurance policies in the 25 largest metropolitan areas.

And in 1999 Congressional Representatives Tom Barrett (D- WI) and Luis Gutierrez (D-IL) introduced an amendment to the bank reform bill then before Congress calling for the Commerce Department to collect appropriate data and determine whether or not insurance was available in all markets. Both measures failed, which explains, in part, the absence of publicly available disclosure data.

Several voluntary initiatives have been launched by insurers and industry trade associations, frequently in conjunction with community groups and state insurance commissioners. These activities include:

- education programs to inform consumers on how to shop for insurance and on the responsibilities of home ownership generally;
- marketing activities to inform insurers about inner city business opportunities;
- fire and crime prevention programs to mitigate losses;
- development of new products tailored to urban communities; and
- mentoring programs to recruit and train minorities for insurance careers.

Many of these actions have been spearheaded by the Neighborhood Reinvestment Corporation's National Insurance Task Force which now includes more than 30 insurance companies, intermediaries like Neighborhood Housing Services, and selected state insurance commissioners (Neighborhood Reinvestment Corporation 1995, 1997).

While legal and political developments have encouraged insurers to respond to urban insurance availability issues, market opportunities have also provided a major incentive. In recent years many insurers have simply found profitable business in older urban areas that had previously been shunned by the industry (Bowers 1999). Part of the strategy has involved combining relatively small agencies in central cities so that collectively they would qualify for contracts with major insurers that none of them, individually, would be able to obtain given their small books of business (Thomas 1999). These agents have often been critical in getting major insurers to see these opportunities and providing the vehicle for reaching them.

Much has been learned about insurance availability and affordability problems, and progress has been made in resolving them. But most of the information that is available is anecdotal. Again, there is no HMDA-like data base that would provide for more comprehensive knowledge about the distribution of insurance products. While some states collect zip code data on selected measures, and some of them have been doing so for many years, until now it has not been clear precisely how many states have such information, what types of information they collect, and what is available to the general public. This study answers those questions. One focus is on the common elements of, and differences among, the various disclosure programs. A related issue that is explored is the ease or difficulty with which the general public can identify and obtain this information. Finally, this research examines some of the types of indicators that can be developed from available information and how that information can be used to better understand and respond to problems of insurance availability and affordability.

### **Methodology**

State insurance commissioners' offices in each of the 50 states and the District of Columbia were telephoned between October 1998 and May 1999 to obtain this information. Follow-up calls were made between October and December 1999 for clarification purposes. (See Appendix A "Contacts at State Insurance Commissioners' Offices" for a list of individuals who assisted by providing this information.) Telephone numbers were obtained from a directory included in the Insurance Information Institute's (III) (1998) reference book The Fact Book 1998: Property/Casualty Insurance Facts. III is an informational resource providing data on a variety of insurance related issues primarily to the property/casualty insurance industry.

The following information was sought from each department:

- whether or not any geocoded information on insurance policies and practices is collected; if so what information is available (e.g., policy counts, premium data, loss costs);
- at what level the information is provided (e.g., by company, aggregate for all insurers);
- the geographic unit of analysis (e.g., census tract, zip code);
- years covered by reports;
- format of the data (e.g., hard copy, electronic files);
- cost of the information to the public, and related information.

States were not included if the only time insurers participated in such data collection was the 1989-91 one-time voluntary data call of the NAIC. This research focuses on those states where such data collection has become institutionalized, to at least some degree, and was not just a single occurrence.

Information from each insurance commissioner's office was obtained except for two: Nevada and Vermont. Contact persons in these two states were provided but after three unanswered messages were left, no further attempt was made to reach those individuals. In those cases where the offices reported that some geocoded information was collected, a written summary of that information was sent to the contact person in February 2000 to assure the accuracy. Where additions or corrections were noted they have been incorporated in the information reported below.

## **Findings**

The vast majority of states do not require any geocoded data disclosure on the part of property insurers operating in their jurisdictions. Among those that do, a variety of information is collected with some similarities and many differences across states. Types of information, format, cost, and access vary considerably. Just learning what type of information is available and accessing that information can be challenging.

A total of eight states require at least some insurers to provide at least some geocoded data to the state insurance commissioner on an annual basis (see Table 1). Those states are California, Illinois, Maryland, Massachusetts, Minnesota, Missouri, Texas, and Wisconsin. Each of these states makes at least some of the information they collect available to the public. In each case the data are collected at the zip code level. No states collect information at the census tract, block level, or individual policy level. Zip code reporting, in fact, is the only standard feature across the eight states where a disclosure requirement is in place.

One of the most significant findings is that individual insurance company data are publicly available in just three states: Illinois, Minnesota, and Wisconsin. (Missouri, however, is reviewing its policy and may make company data available in the future.) And in Minnesota the information is available only by inspection at the office of the Minnesota Department of Commerce. Obviously, individual company data are available to the state insurance commissioners. But in most cases the information is not available to the general public.

Minnesota is also unique in its collection of information on the number of insurance applications that are denied. No other state collects application or declination information. What is collected in every state, except Maryland, is a policy count or the number of policies in force. This number generally combines new policies written, policies renewed, policies cancelled, and policies non-renewed. Illinois reports separate counts for each of these categories. Minnesota requires and makes publicly available separate information on policies written,

cancellations, and non-renewals. Maryland collects only premium data by zip code. No policy count information is collected in that state.

A number of specific types of policies is collected and made available in six states. For example, Wisconsin collects data on homeowners, renters, and fire/dwelling policies. Illinois separates out homeowners and fire policies. But Maryland and Minnesota require no information on specific types of property insurance policies.

Premium data are also collected at the zip code level in each state except Minnesota and Wisconsin. But this information is made available to the public only in California, Maryland, Massachusetts, Missouri, and Texas. Loss data are collected in four states and made publicly available in three states: Massachusetts, Missouri, and Texas. Illinois collects these data, but does not release them. It is important to note that no state makes individual company data on premiums or losses available to the general public.

In most cases, the information is available in both written and electronic formats. Seven make the information available in written or hard copy format. Four of these states make the information available electronically.

The cost of the data varies depending on what is being requested and who is doing the requesting. California indicated the data are available free to representatives of universities. Wisconsin charges \$50 for the raw data in either hard copy or electronic formats. Massachusetts charges \$0.20 per page. Missouri charges \$1,000 for a full year's worth of raw data. Most of the departments contacted, however, said they respond to many specific requests at no charge.

Another area where states differ is the length of time for which data are currently available. Minnesota has data going back two years. In California data are maintained for four years. Texas maintains data for six and Missouri for 11. Illinois has data for 15 years and Wisconsin's information goes back for at least 20. None of the states produces routine annual reports analyzing the data though Missouri is planning to do so beginning in 2000. But each does produce various types of reports based on the requests they receive. (For a more detailed summary of each state's requirements see Appendix B "Individual State Insurance Disclosure Requirements.")

Determining what information is available is challenging. When insurance commissioners' offices were first contacted, information was provided by 29 on the first call and 16 provided it on the second. In most cases, of course, the information supplied was simply the fact that no geocoded disclosure requirements were in place. But in 14 cases it took three or more calls (and as many as nine in one case) to identify the person who had the information being sought and to obtain the requested information. In most cases, one transfer was sufficient to reach the right contact person. But in 19 cases it took two transfers and in five instances three transfers were required before reaching the right person.

On occasion, different and conflicting information was provided. As indicated above, the first round of telephone calls was placed between October 1998 and May 1999 with follow-up calls being made between October and December 1999 for clarification purposes. Three discrepancies occurred. In Maryland and Texas the initial information provided was that geocoded data were not publicly available but in the subsequent call the response was that these data were available to the general public. From Massachusetts the first response was that neither premium nor loss data were available but the second response was that this information was available. The contact person was different in Illinois, Maryland, and Missouri, but otherwise the same individual supplied the information. Subsequent to distribution of a preliminary draft of the findings to the eight states reporting some geocoded disclosure requirements, five responded with additional corrections. (Maryland and Minnesota did not respond and Massachusetts responded that the draft summary was correct.) In two cases—

Illinois and Wisconsin—the number of years for which data were maintained was changed. The specific data that were available in Illinois—new policies, renewals, cancellations, non-renewals rather than total policy counts—constituted another correction. And Missouri informed us that an annual report would be forthcoming and that the state was considering making individual company data available in the future.

Another problem is the unavailability of information through the internet. California does provide information about underserved zip codes through its web site, but no other information from that or any other state is available over the internet. Information is generally, but not always, available via telephone or mail requests. Again, in Minnesota the information is available only to those who visit the office of the Department of Commerce.

These communication issues clearly do not constitute insurmountable barriers. But they contribute to an already complex problem of trying to learn what is happening in the property insurance marketplace at any given time, and what changes are in the offing.

Despite these obstacles, much can be learned about the availability of property insurance from existing public information. The following case study illustrates how the disclosure data from one state can be utilized to illuminate property insurance availability issues.

### **Milwaukee: A Case Study**

To illustrate some potential uses of such information, data for 1999 were obtained from the Office of the Commissioner of Insurance (OCI) in Wisconsin. Wisconsin is one of the three states that makes individual company data available to the public. Earlier Wisconsin data were utilized in the American Family case settled in 1995. Such disclosure data were analyzed in previous research projects (Squires and Velez 1987; City of Milwaukee 1998). The primary value of these data lies in what they reveal about the market penetration of the industry generally in different neighborhoods and how market shares in these communities vary among individual insurers. Consequently, the data facilitate targeting of particular companies for subsequent investigations by the state insurance commissioner, organizing efforts by community groups, and self-examinations by companies themselves.

The following analysis focuses on levels of coverage in Milwaukee's predominantly white and black neighborhoods. Black areas were defined as those six zip codes where the black population in 1990 was greater than 50 percent. These six contiguous zip codes, located on Milwaukee's north side, make up the neighborhood on which the American Family settlement focused. The remaining zip codes constitute the white communities in the Milwaukee metropolitan area. The disclosure data provided by OCI cover 53 of the 76 zip codes (70 percent) in the Milwaukee metropolitan area. These include the most heavily populated portions of the community containing 88 percent of the total population, 87 percent of all owner-occupied housing units, and 93 percent of all renter-occupied units.

As Table 2 and Figure 1 illustrate, the voluntary market (i.e., regular private insurance companies) covers a larger share of homes in white areas than in black areas. Reporting insurers in 1999 had a homeowners policy in force for 72.6 percent of owner-occupied dwellings in white areas compared to 61.6 percent in black areas. This represents a penetration rate in white neighborhoods that is 20 percent greater than in black neighborhoods. (Homeowners insurance policies cover a variety of perils—e.g., fire, theft, windstorm, vandalism, water damage—for the home and its contents. They provide both property and liability insurance.) The disparity in renters' policies, those that cover the possession of tenants, is even greater (see Table 2 and Figure 2). Reporting insurers cover 36.6 percent of renter-occupied dwellings in white areas compared to 10.9 percent in black areas. Renters in white areas are 3.4 times more likely to have insurance for their

possessions. The Wisconsin data also include “Fire Dwelling” policies which, according to Rhonda Peterson (1999), Examiner of the Office of the Commissioner of Insurance, are generally purchased by landlords to protect their property. Therefore, this analysis focuses on the homeowners and renters policies.

In addition to the insurers who constitute the voluntary market, most states with large urban populations (about half of all states) offer insurance through what is called the “involuntary market.” The principle involuntary market vehicle is generally referred to as the FAIR (Fair Access to Insurance Requirements) Plan. FAIR plans are privately financed and publicly administered pools primarily for risks who are unable to obtain insurance in the voluntary market principally because of exposure to environmental hazards beyond the control of any individual household. They were created in response to the civil disobedience that occurred in several cities in the 1960s in an effort to make property insurance available to good risks in neighborhoods that private insurers avoided due to concern for potential riot-related losses. In Wisconsin the FAIR Plan is called The Wisconsin Insurance Plan (WIP). Given the market WIP was designed to serve, it would be expected that its coverage would mirror that of the voluntary market. In other words, WIP policies would likely be concentrated in neighborhoods where the voluntary market did not concentrate its policies. And that is indeed the case in Milwaukee. In the Milwaukee metropolitan area 1.5 percent of owner-occupied homes in black zip codes are covered by WIP compared to just 0.2 percent in white zip codes (see Table 2 and Figure 3).

Perhaps more revealing are disparities among individual companies. Six insurers have a homeowners insurance penetration rate in white areas that is at least 50 percent greater than in black areas. (For these insurers the “W/B Ratio” in Table 2 exceeds 1.5. These ratios are statistically significantly larger, at the .05 level, than the industry-wide ratio of 1.2) For example, Prudential Property and Casualty Insurance Company covers 1.5 percent of owner-occupied dwellings in white areas compared to 0.7 percent in black areas; a ratio of 2.2. In each of these six cases, the renters insurance penetration rate is twice as great in white areas as in black areas. Two of these six insurers and two other insurers have a renters insurance penetration rate that is four times greater in white than in black zip codes. These disparities are also statistically significant.

As discussed below, at least part of these gaps may be accounted for by uneven loss patterns and exposure to risk across the metropolitan area (Insurance Research Council 1997). An examination of market share, however, covers only those properties deemed insurable by at least one of the reporting property insurers. Consequently, it is more difficult to account for market share discrepancies in terms of loss or risk. As indicated in Table 3, in the homeowners insurance market six insurers have a market share in white communities that is at least 50 percent greater in white communities than in black areas ( $p < .05$ ). These are the same insurers that cover a statistically significantly higher percentage of homes in white than in black areas. For example, Prudential Property & Casualty Insurance Company has two percent of the market in white zip codes compared to 1.1 percent in black zip codes; a ratio of 1.9. For renters insurance, market shares in white and black areas differed significantly for the same four insurers noted above that covered a significantly higher percentage of homes in white than in black zip codes.

Several factors likely contribute to these racial disparities. Loss costs may be higher in minority neighborhoods due to a range of socio-economic differences between white and non-white communities. Inner city residents may be less knowledgeable insurance consumers. Insurance agents and companies may be less familiar with, and therefore less able to serve, urban neighborhoods. Marketing strategies may simply differ among companies and agents. Companies not covered by the disclosure requirements (only the 22 largest insurers are required to report) may market their products more aggressively in black neighborhoods, though the concentration of WIP policies in the predominantly black zip codes suggests that the voluntary market generally does not penetrate white and black areas equally. But it is unlikely that these factors alone account for these gaps. These findings are also consistent with the possibility of unlawful discrimination on the part of the

industry. And there is ample evidence, both systemic and anecdotal, that such practices have been and continue to be carried out in Milwaukee.

A previous analysis of the distribution of home insurance policies in Milwaukee found that the racial composition of the neighborhoods was statistically significant when considering those associated with the number of policies per owner-occupied dwelling even after controlling on age of housing, mean income, poverty level, residential turnover, and statewide loss ratios (losses incurred divided by premiums earned in Wisconsin) (Squires and Velez 1987).

When a preliminary summary of these findings were reported in the Milwaukee Journal one of the authors received a phone call from a person claiming to be an insurance professional king "Is it so difficult for you to conceive of the possibility that blacks are simply more irresponsible than whites?" A similar analysis of the location of insurance agents in Milwaukee yielded similar findings (Squires, Velez, and Taeuber 1991).

Prior to the settlement of the American Family case in 1995 investigators with the U.S. Department of Justice and the NAACP found that the insurer had 32 percent of the market in Milwaukee's predominantly white neighborhoods but less than 8 percent in black areas. Among the homes American Family insured, 41 percent of those in black areas were covered by lower quality repair cost policies while more than 94 percent of the homes in white areas were protected by higher valued homeowners policies. Racial composition of these neighborhoods was associated with the number and type of policies even after controlling on loss experience. Agents had been instructed to avoid black neighborhoods and the insurer had a history of closing agent offices when neighborhoods became predominantly minority (Lynch 1997; Ritter 1997). American Family's market share in black areas has improved considerably to 37 percent for homeowners policies though this is still well below its 44.5 percent in white areas. American Family has clearly become a much more aggressive competitor in Milwaukee's black community. But it appears this is not the case with several other large companies.

In 1997 the Metropolitan Milwaukee Fair Housing Council reported the results of paired tests of three insurers: Liberty, Aetna, and Prudential. Disparate treatment was found in two-thirds of the tests favoring white testers and testers from white neighborhoods. Types of discriminatory practices included charging higher prices for similar coverage in non-white areas, offering better policies in white communities, and applying standards differently. For example, in one case a black tester was told the insurer did not cover homes more than 30 years old while white testers seeking coverage on older homes were offered quotes. In addition, several underwriting standards were found that had an adverse disparate impact on minority neighborhoods. Minimum value and maximum age requirements were the most frequent examples. As indicated above, Liberty is one of the five major insurers that has settled fair housing complaints and increased its service in urban communities (Metropolitan Milwaukee Fair Housing Council 1997; National Fair Housing Alliance 1997).

The findings reported here indicate where the Office of the Commissioner of Insurance (OCI) in Wisconsin might target enforcement efforts. These findings alone, of course, do not prove that unlawful conduct has occurred. But the OCI has authority to obtain loss data to determine the extent to which legitimate risk related factors account for these racial disparities. The OCI could also obtain and analyze underwriting guidelines and rates along with any evidence insurers have developed to justify them. OCI also has access to the addresses of all licensed agents over time and could determine if racial composition of neighborhood is still associated with agent location. And OCI could conduct its own paired testing, or contract with the Metropolitan Milwaukee Fair Housing Council to conduct additional tests.

A variety of enforcement tools are available to the OCI. These findings suggest how and where those tools might be utilized.

### **Research Implications**

Despite the limitations and inconsistencies of available information from state to state, there is substantial information available that could be effectively utilized to advance current understandings of insurance availability in some urban areas. Community organizations, local media, academic researchers, insurance companies, and state regulators could conduct a wide range of studies that could result in increased insurance availability on equitable terms throughout several metropolitan areas. Insurance commissioners are also in a position to complement existing data to conduct more thorough examinations of the property insurance marketplace.

In seven states, aggregate data are available on policy counts by zip code. At a minimum, reports could be readily produced revealing market penetration in various communities. Determining how well minority, low-income, and urban areas are currently being served is a first step toward understanding whether significant gaps exist, if so why they exist, and what can be done in response to any market failures. In three of those states (Massachusetts, Missouri, and Texas) loss data are available that would permit investigation of the extent to which racial composition of neighborhoods and other socio-economic factors are associated with policy counts after taking objective measures of risk into consideration. A recent study of Texas found that racial composition of neighborhood was not a factor once loss costs were controlled (Grace and Klein 1999). In light of the NAIC's earlier research of 33 metropolitan areas where racial composition was found to be statistically significantly associated with the number and cost of policies (Klein 1995, 1997), the Texas findings illustrate the need for more case studies and related research on these issues.

In three states (Illinois, Minnesota, and Wisconsin) individual company data are available that would permit replication of the Milwaukee case study in future years. Comparative analysis of market shares in various communities can identify which companies are effectively serving, and which ones are avoiding, traditionally underserved areas. Community groups can use this information to identify targets for future paired testing and potential partners for reinvestment efforts. As noted earlier, some have already done so. Individual companies could also use this information, in anticipation of potential criticism or regulatory action, to identify business opportunities that may have been missed in the past.

Insurance commissioners, of course, currently have access to company level data in each of these eight states and could use the information for targeting future investigative activities. They also have the authority to request additional data, or recommend legislation requiring the collection of additional data, including the geographic location, housing structure, loss costs and other information for individual policyholders; underwriting guidelines; agent location; and related data. With such information far more sophisticated analytical studies could be conducted to understand market behavior and, again, target enforcement resources.

Given their unique access to all the relevant data, state regulators could carry out a variety of related research activities. Annual reports could be prepared on market penetration of various communities by insurers active in the state. Specific issues might be investigated when particular circumstances arise. For example, the Financial Services Modernization Act of 1999 will facilitate mergers among insurance companies, banks, and securities firms. The impact of any mergers on penetration of traditionally underserved markets could be the focus of research. Changes in market shares before and after a merger, or comparisons between insurers engaged in such mergers and those that remain independent might be tracked. Another issue that needs to be examined is the impact of minority insurance agents. Some major insurers have made commitments to hire more minority

agents and to appoint more agents in minority communities. A question that arises is what effect, if any, do these personnel actions have on the penetration of insurance markets in those communities. Similarly, the success of collaborative risk mitigation efforts among community organizations, insurers, and regulators can be evaluated with geocoded disclosure data.

Much can be learned from the zip code disclosure data that are currently available in eight states. But what is more evident is the need for more data, more consistency in that data, and greater ease of access to the information.

### **Policy Implications**

The amount of missing information is substantial. Forty-two states and the District of Columbia do not collect any geocoded disclosure data. Those that do collect these data do so at the zip code level. Only three states make individual company data available. None collects information on applications. Ideally, Congress would pass and the President would sign legislation mandating a national property insurance disclosure requirement similar to HMDA. As indicated above, the House passed a bill calling for minimal disclosure requirements in 1994 and similar legislation has been introduced since then. But no bill has come close to becoming law.

An HMDA-like disclosure program would require property insurers to disclose the following information on an annual basis: race, gender, and income of all applicants for property insurance; disposition of all applications (e.g., policy approved, denied, referred to FAIR Plan, reason for not approving application); metropolitan area, city or village, and census tract of property to be insured; type of policy applied for; amount of coverage requested; premiums charged; type of property to be covered (e.g., brick or frame construction, number of rooms, square footage of home); and the number and dollar amount of previous claims. HUD, as the nation's chief fair housing law enforcement agency, should be designated as the agency responsible for developing the disclosure program and the department should be provided with the additional funds necessary to carry out this responsibility.

The information should be made available in as convenient, user friendly, and affordable way as possible. Like HMDA data which are available on the internet through the Federal Financial Institution Examination Council's web page, the insurance data should be made available at no charge through ROD's web page. In addition the data should be made available at a central depository in each metropolitan area. Companies should also make their reports available through home and branch offices and through their web pages. Reasonable duplicating fees would be charged as is the case with HMDA. But unlike most banks, many insurance companies do not have a brick and mortar office in most of the communities they serve. While most companies do have agents in communities where they sell insurance, some only market their products by telephone and more are utilizing the internet to sell their products. Consequently, the distribution of insurance disclosure reports cannot precisely mirror the distribution of HMDA reports. This places a greater burden on public sector entities to make the information available, and to make it available in user-friendly formats.

The political prospects for such a legislative packet are ambiguous. Short of a national program, much more could be learned about urban insurance availability if more states' acted on their own and if those states that do have disclosure programs provided more comprehensive information. Again, such disclosure data on their own would not provide proof of unlawful or unfairly discriminatory practices. But they would enable state regulators to target more effectively their enforcement efforts.

As is the case with HMDA, many different entities would use the insurance disclosure data. Community groups could use the information to identify targets for organizing campaigns and potential partners for reinvestment. Insurance companies could be able to identify business opportunities and, perhaps, stave off enforcement

initiatives and other public relations problems. Members of the media could use them particularly if their local communities stood out for any reason. And, again, regulators could utilize these data to target enforcement efforts. But the primary value of these data should not rest in the occasional, ad hoc use by various groups. The public entities collecting the information—whether it is HUD under a national program or state insurance commissioners carrying out a local mandate—should issue annual reports analyzing the data. These reports should document how well the industry, and individual companies, are serving various communities. Attention should be focused on minority and low-income areas, particularly changes that occur over time. Such research could lead to the identification of “best practices” as well as those practices to be avoided. The end result would likely be increased insurance availability in traditionally underserved markets. Knowing that this information is being collected, that it will be used by various organizations, and that an annual accounting will be made available, would bring some healthy sunshine to what is often a most arcane business enshrouded in contentious policy debates.

### **Information and Insurance Availability**

There are no magic bullets for resolving what has been more than 50 years of debate over urban insurance availability issues. While contentious struggles persist, there have been important pockets of progress as well. Through litigation and fair housing law enforcement, educational programs (for consumers and insurers alike), collaborative loss mitigation initiatives, voluntary and self-interested pursuit of business opportunities, and other actions, property insurance is more available and affordable in many urban communities. It is often a messy process that leads to tangible gains. Some “best practices” are becoming recognizable though certainly no blueprint has been developed. Equally evident is the substantial work that remains to be done.

Virtually all the ongoing efforts would benefit from the availability of valid, reliable, user-friendly, on-point information about what is actually happening in property insurance markets. Yet developing that information is a struggle. The history of HMDA is instructive. Lenders long resisted this form of disclosure and have resisted the expansion of HMDA over the years. But in the end, they have been among the beneficiaries by finding profitable business in areas that previously had been underserved. Despite their limitations, HMDA data have been instrumental in educating consumers, community organizations, lenders, and regulators about the realities of redlining in mortgage markets and in creating billions of dollars in reinvestment initiatives.

The insurance industry has been more successful in resisting calls for similar disclosure data. It is not clear, however, if anyone has benefited from that resistance. There is reason to believe that creation of a comprehensive insurance disclosure program can result in a win-win situation for all parties engaged in the longstanding insurance redlining debates.

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**Appendix A**  
**Contacts at State Insurance Commissioners' Offices**

Ben Gentile  
California Department of Insurance  
Statistical Analysis Bureau

Don Wulf  
Assistant Deputy Director, Cost Containment Section  
Illinois Department of Insurance

Robert Friedman  
Property and Casualty Senior Form Review Analyst  
Maryland Insurance Administration

Bob McNichol  
Director of State Rating Bureau  
Massachusetts Department of Insurance

Robert Boyce  
Policy Analyst  
Minnesota Department of Commerce

Brent Kabler  
Supervisor–Statistics Section  
Missouri Department of Insurance

Terry Porter  
Manager  
Texas Insurance Office

Rhonda Peterson  
Examiner  
Wisconsin Office of the Commissioner of Insurance

## **Appendix B**

### **Individual State Insurance Disclosure Requirements**

California, until 1999, collected limited data from property insurers for each zip code. Insurers who wrote in excess of \$10 million in premiums (90% of the homeowners market) reported number of policies and earned premiums for each of three types of policies; homeowners, fire and commercial multi-peril. These data cover the entire state and are available for 1995-98. California will soon require that claims and loss data be added to the policy and premium data. The California Department of Insurance maintains a website where data for “underserved” zip codes are available. In addition, aggregate data that include all zip codes are made available to the public. The fee for the data is based on the amount of data requested, however, there is no cost to universities.

Illinois stipulates that all property insurers disclose data by zip code. Companies must report on number of policies, premiums and losses for homeowners and fire policies. The data are collected for the entire state. Zip code reporting, which includes separate policy counts for new, renewal, non-renewal and cancelled business by company has in the past been made available for purchase by the public. However, data on premiums and losses are not released because they are deemed proprietary data belonging to the companies.

Maryland collects insurance data by zip code from the major insurance companies. The companies are required to report the premium amount for the entire state. Maryland focuses on city vs. rural insurance activity to assess any redlining. Aggregate data are available to the public in hard copy at no charge.

Massachusetts requires all property insurers to collect by zip code policies in force, premiums written and loss ratios. All zip codes in the entire state are included in the report. The Massachusetts Department of Insurance provides an aggregate of the data in paper format to the public at a cost of \$.20 per page.

Minnesota demands disclosure data from each insurer writing homeowners insurance. The filing requirements include for each zip code a separate count of policies written, cancelled and non-renewed. Minnesota also requires a report of the number of applications for homeowners insurance declined. No premium or loss data are reported. The raw data are available only for inspection at the Minnesota Department of Commerce.

Missouri compiles zip code data for the entire state from all property insurers who report in excess of 500 annual exposures, i.e., “months written.” For all homeowners and dwelling fire policies insurers must disclose the number of written exposures (house months written), written premiums (annual), number of losses and dollar amount of losses paid. The Missouri Department of Insurance maintains individual company data but does not make them available to the public. (The Department is currently reviewing this policy.) It does, however, make available for purchase (\$1000 for each year of data at zip code level) an aggregate report. However, the Insurance Department frequently responds to special requests for various data reports, almost always free of charge.

Texas collects geocoded data from all property insurers. The data are collected for the entire state and have been collected for approximately six years. Data on policies and premiums written as well as loss ratios are required. An aggregate report of the data is available to the public the cost of which is determined by the amount of data requested.

Wisconsin requires zip-coded data from the largest 22 property insurers. These insurers account for approximately 75% of the homeowners insurance market. Companies must report insurance activity in specific zip codes. These zip codes cover all but one of Wisconsin’s 11 metropolitan areas. Policy counts for

homeowners, renters and dwelling fire is the only filing requirement. Wisconsin does not collect premium or loss information by zip code. However, the data that are collected are made available for each reporting company for a fee of \$50. These data have been collected for more than 20 years. For the past five years an electronic format of the data has been available along with a paper format.

**Appendix C**  
**Number and Type of Policy by Insurer**

	White Neighborhood <sup>1</sup> Policy		Black Neighborhood Policy	
	Homeowners	Renters	Homeowners	Renters
ALLSTATE INS CO	14,211	5,036	2,230	568
AMERICAN FAMILY MUTUAL INS CO	79,425	27,647	7,661	1,729
AUTO OWNERS INS CO	265	154	11	15
BADGER MUTUAL INS CO	7,575	1,802	1,341	205
ECONOMY PREFERRED INS CO	3,421	456	692	52
FIRE INSURANCE EXCHANGE	7,223	1,985	569	112
GENERAL CASUALTY CO OF WI	4,819	1,119	643	137
GERMANTOWN MUTUAL INS CO	2,177	811	844	89
HERITAGE MUTUAL INS CO	15,872	2,841	1,140	237
INTEGRITY MUTUAL INS CO	1,039	90	71	12
MILWAUKEE MUTUAL INS CO	4,512	655	625	57
PRUDENTIAL PROPERTY & CASUALTY CO	3,618	1,084	224	94
REGENT INSURANCE CO	2,328	2,140	430	185
RURAL MUTUAL INS CO	737	239	49	13
SENTRY INSURANCE A MUTUAL CO	6,281	2,139	774	331
STATE FARM FIRE & CASUALTY CO	22,702	10,093	2,346	652
WEST BEND MUTUAL INS CO	1,228	583	173	53
WILSON MUTUAL INS CO	76	25	10	3
WISCONSIN MUTUAL INS CO	706	368	367	56
Total	178,215	59,267	20,200	4,600

Source: State of Wisconsin Office of the Commissioner of Insurance

<sup>1</sup> The total number of owner occupied dwellings and renter occupied dwellings in white neighborhoods is 245,617 and 162,108 respectively. In black neighborhoods the numbers are 32,792 and 42,177. These numbers are from the 1990 Census and provided by Maptitude 4.0.

## Acknowledgements

This research was supported, in part, with grants from the Fannie Mae Foundation and the Annie E. Casey Foundation. We want to thank Donna Schenstrom, Head Cartographer of the Cartographic Services Laboratory at the University of Wisconsin-Milwaukee, for preparing the maps. We also want to thank William Velez, Professor of Sociology at the University of Wisconsin-Milwaukee, for consultation pertaining to the statistical analysis. Finally, we want to express our appreciation for data processing assistance provided by Frank Stetzer, Senior Consultant with Information and Media Technologies at the University of Wisconsin-Milwaukee.