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

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## *Abstract*

The availability of insurance in urban communities has long been a contested public policy issue. One of the central points of contention has been the value of publicly available data on the geographic distribution of property insurance policies. This debate has intensified since the Home Mortgage Disclosure Act, which requires geocoded disclosure of mortgage lending activity, was passed. A small number of states have required disclosure of limited data. But precisely what data are available has been unclear, and their utility has been debated.

This survey of all state insurance commissioners documents what is in fact the very limited availability of insurance disclosure data. Only eight states require any disclosure of geocoded data, and just four of them make company-level data available to the public. Data from one of those states, Wisconsin, are used to show how such data could benefit insurers, consumers, and regulators.

**Keywords:** Discrimination; Insurance; Underserved

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. Five major property insurers (American Family, State Farm, Allstate, Nationwide, and Liberty) have settled racial discrimination suits since 1995, and several complaints and lawsuits are pending. But there is no systematic, public information available that permits even preliminary assessments of how pervasive insurance redlining and discrimination problems may be.

Discrimination in property insurance mirrors the types of practices and affected communities that frame the debate over discrimination in mortgage lending. The Home Mortgage Disclosure Act (HMDA) has required census tract–level disclosure of mortgage lending activity for more than 20 years, and selected data on individual mortgage applications have been available since 1991. The National Community Reinvestment Coalition has noted that, in conjunction with the Community Reinvestment

Act (CRA) and other fair lending initiatives, HMDA data have been critical in the development of reinvestment agreements negotiated by community organizations with lenders and totaling more than $1 trillion in new lending commitments to traditionally underserved communities. No comparable national disclosure requirement applies to the property insurance industry.

Some states do require ZIP code disclosure of various types of information. Such information was used by the plaintiffs in the case of *NAACP et al. v. American Family Mutual Insurance Co.* (978 F. 2d 287 [7th Cir. 1992]), which resulted in a $16.5 million settlement, including $9.5 million to support homeownership in Milwaukee's predominantly black community. Community reinvestment groups in Boston have used a new Massachusetts law to engage several insurers in reinvestment efforts in that city, 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 which data are publicly available and provides detailed information on those data sources for insurers, regulators, fair housing organizations, community reinvestment groups, and others engaged in community reinvestment activities. It also offers concrete illustrations of the ways the information could be used 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 use disclosure data in ways that would likely increase access to adequate and affordable insurance in currently underserved markets. State insurance commissioners could use the information to screen and target insurers for further investigation. Community organizations could identify potential partners for reinvestment initiatives. Insurers could examine their own underwriting and marketing activities and identify business opportunities being missed in some communities.

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

## Insurance redlining research and policy debates

In 1968 a presidential advisory panel concluded, "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 home loan, and without a loan, homeownership is simply unattainable for the vast majority of households. As the 7th Circuit Court stated in 1992 in the case of *NAACP et al. v. American Family Mutual Insurance Co.,* "No insurance, no loan; no loan, no house; lack of insurance thus makes housing unavailable" (297). 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 this disparity and what should be done about it.

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 (Association of Community Organizations for Reform Now 1993, 1994; Illinois Public Action Council 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. 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; Grace and Klein 1999; Insurance Research Council 1997; National Association of Independent Insurers 1994; Warfel 1996).

Action has been taken on a variety of fronts: Several insurers have settled discrimination complaints, often in response to paired testing and other research initiatives by fair housing groups, academics, and other research organizations (Millen and Chamberlin 2000; Smith and Cloud 1997; Wissoker, Zimmerman, and Galster 1998). In such tests, white and nonwhite auditors or auditors from white and nonwhite communities posing as consumers are matched in terms of the structure and condition of the homes, the financial characteristics of the homeowners, and the 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 differences in the rates charged for similar policies, different types of policies or coverages offered, different levels of counseling provided, different barriers created, and differences in the standards applied (e.g., requiring inspections in nonwhite but not white areas).

Statistical analyses conducted by the National Association of Insurance Commissioners (NAIC) of the distribution of policies across communities in 33 metropolitan areas have found disparities associated with racial composition even after controlling for losses and other demographic factors (Klein 1995, 1997). Reviews of company documents, interviews with current and past employees, and other investigations have found evidence of underwriting policies that have a disparate impact on minority communities (minimum value and maximum home age requirements), concentration of policies and preferred policies (along with agents) in predominantly white areas, subjective language in underwriting manuals that negatively stereotype minority neighborhoods, and explicit instructions to agents to avoid minority communities (Lynch 1997; Ritter 1997). In one case, a sales manager instructed an agent, in a tape-recorded conversation, "You write too many blacks.…You got to write good, solid, premium-paying white people" (Lynch 1997, 159).

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

In addition, the industry has launched a number of voluntary initiatives, including education programs to inform consumers on how to shop for insurance, increased marketing activities in urban areas, fire and crime prevention programs to mitigate losses, and mentoring programs to recruit and train minorities for insurance careers (Neighborhood Reinvestment Corporation 1995, 1997).

In recent years, many insurers have simply found profitable business in older urban areas that had previously been shunned (Bowers 1999). Part of the strategy has involved combining relatively small agencies in central cities so that collectively they could qualify for contracts with major insurers that none of them would be able to obtain individually, 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 available information is anecdotal. There is no HMDA-like database that would provide 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 purposes of clarification. Telephone numbers of state insurance departments were obtained from a directory included in the Insurance Information Institute's (1998) reference book *The Fact Book 1998: Property/Casualty Insurance Facts*. The Insurance Information Institute is an informational resource providing data on a variety of insurance-related issues primarily to the property/casualty insurance industry.

The information sought from each department was as follows: whether or not any geocoded information on insurance policies and practices is collected, if so what information is available (policy counts, premium data, loss costs), at what level the information is provided (by company, aggregate for all insurers), the geographic unit of analysis (census tract, ZIP code), the years covered by the reports, the format of the data (hard copy, electronic files), the cost of the information to the public, and related information. This research focuses on the states where such data collection has become institutionalized to at least some degree and was not just a single occurrence or special project carried out on one occasion.

Information was obtained from each insurance commissioner's office except two: Nevada and Vermont. Contact people in these two states were provided, but after three unanswered messages were left, no further attempt was made to reach them. The person who answered the initial phone call was informed that information was being sought on any geographic disclosure data that the department might maintain and whether he or she was the correct person to speak to about such information. If the person indicated that someone else should be consulted, he or she was asked to transfer the call to the correct person. The same question was posed until the respondent provided a substantive response. If the initial contact indicated that he or she did not know who might have the information, the person was asked to transfer the call

to the actuary department, under the assumption that someone there would either have the information or know where to direct the call. If there was no actuary department, the person was asked whether a supervisor was available. In those cases in which 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 ensure accuracy. Where additions or corrections were noted, they have been incorporated into the information reported in the following sections.

## Findings

The vast majority of states do not require disclosure of any geocoded data 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.

Eight states require some insurers to provide at least some geocoded data to the state insurance commissioner every year (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 state collects information at the census tract, block, or individual policy level. ZIP code reporting, in fact, is the only standard feature across the eight states that have a disclosure requirement.

One of the most significant findings is that individual insurance company data are publicly available in just four states, Illinois, Massachusetts, Minnesota, and Wisconsin. (Missouri, however, is reviewing its policy and may make company data available in the future.) 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 the fact that it collects 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 policies written, renewed, cancelled, and not renewed. Illinois reports separate counts for each of these categories. Minnesota requires and makes publicly available separate information on policies written, cancellations, and nonrenewals. Maryland collects only premium data by ZIP code. No policy count information is collected there.

*Table 1.* **Availability of Geocoded Property Insurance Information**

| | California | Illinois | Maryland | Massachusetts | Minnesota | Missouri | Texas | Wisconsin |
|---|---|---|---|---|---|---|---|---|
| Institutions and areas | | | | | | | | |
| Insurers required to report | > $10 million in premiums | All | Major companies | Largest 25 companies | All | > 500 annual exposures | All | Largest 22 companies |
| Area covered | Entire state | Entire state | Entire state | Entire state | Metropolitan areas | Entire state | Entire state | Metropolitan areas |
| Level of data available | Aggregate | Individual company | Aggregate | Individual company | Individual company | Aggregate | Aggregate | Individual company |
| Data available | | | | | | | | |
| Application data | No | No | No | No | Yes | No | No | No |
| Policy counts | Yes | Yes | No | Yes | Yes (onsite inspection only) | Yes (exposures) | Yes | Yes |
| Policy counts separated by new, renewal, etc. | No | Yes | No | Yes | Yes | No | No | No |
| Policy counts separated by homeowners, fire, etc. | Yes | Yes | No | Yes | No (homeowners only) | Yes | Yes | Yes |
| Premium data | Yes | No[a] | Yes | No | No | Yes | Yes | No |
| Loss data | No | No[a] | No | Yes[b] | No | Yes | Yes | No |
| FAIR Plan included | No | Yes | No | Yes | Yes | Yes | Sea coast area only | Yes |
| Format and cost of data | | | | | | | | |
| Hard copy | Yes | Yes | Yes | Yes | No | Yes | Yes | Yes |
| Electronic copy | No | Yes | No | No | No | Yes | Yes | Yes |
| Cost of data | Based on request and free to universities | Based on request | None | No charge | Onsite inspection only | Based on request | Based on request | $50 |
| Years available | | | | | | | | |
| Number of years available | 4 | 15 | 7 | 3 | 2 | 11 | 6 | 20 |

[a]The data are collected but are not available to the public.
[b]Loss data are available in Massachusetts only on an aggregate level, but remaining data are available for individual companies.

The 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 except in Massachusetts, Minnesota, and Wisconsin, but this information is made available to the public only in California, Maryland, Missouri, and Texas. Loss data are collected in four states and made publicly available in three of them: Massachusetts, Missouri, and Texas. Illinois collects but does not release these data. 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 hard copy, while four make the information available electronically.

The cost of the data varies, depending on what is being requested and who is doing the requesting. In Massachusetts, the data are available at no charge. California indicated that the data are available free to representatives of universities. Wisconsin charges $50 for the raw data in either hard copy or electronic format, while 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 2 years. In California, data are maintained for 4 years, in Texas for 6 years, and in Missouri for 11 years. Illinois has data for 15 years, and Wisconsin's information goes back at least 20 years. None of the states produces routine annual reports analyzing the data, although Missouri indicated that it was planning to do so soon. 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 A.)

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 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 it. 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 between October and December 1999. The contact person was different in Illinois, Maryland, and Missouri, but otherwise the same person supplied the information. There were discrepancies in the information provided by three states. 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 the reverse. Also, Massachusetts indicated in each communication that only aggregate data were available. But individual company data are available, except for loss information, which is available only at the aggregate level. Tom Callahan, Executive Director of the Massachusetts Affordable Housing Alliance, obtained and analyzed these data (Massachusetts Affordable Housing Alliance 1997). He also indicated that the department had provided incorrect information on other features of the data (Callahan 2000). The corrections supplied by Callahan were sent to the department with a request to indicate precisely what data were available, but no response was received.

Subsequent to the distribution of a preliminary draft of the findings to these eight states, five responded with additional corrections. (Maryland and Minnesota did not respond, and Massachusetts responded that the draft summary was correct, even though this appears not to be the case.) In two cases—Illinois and Wisconsin—the number of years for which data were maintained was changed. The specific data available in Illinois—new policies, renewals, cancellations, and nonrenewals rather than just 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 by telephone or mail requests, except for Minnesota, where the information is available only to those who visit 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 public information. The following case study illustrates how the disclosure data from one state can be used to illuminate property insurance availability issues.

## A Milwaukee case study

To illustrate some potential uses of such information, 1999 data were obtained from the Office of the Commissioner of Insurance (OCI) in Wisconsin, one of the four states that make individual company data available to the public. In 1999, the 22 largest property insurers in the state were required to provide ZIP code data. This analysis focuses on 19 of these insurers, because 3 wrote no homeowners insurance policies in the Milwaukee area (Peterson 1999). (Earlier Wisconsin data were used in the American Family case settled in 1995.) Such disclosure data were analyzed in previous research projects (City of Milwaukee 1998; Squires and Velez 1987), and their primary value lies in what is revealed 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 the targeting of particular companies for subsequent investigations by the state insurance commissioner, organizing efforts by community groups, and self-examinations by the companies themselves.

The following analysis focuses on levels of coverage of homeowners insurance in Milwaukee's predominantly white and black neighborhoods. Black areas were defined as the 6 ZIP codes where the black population in 1990 exceeded 50 percent. These 6 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 (almost 70 percent) in the Milwaukee metropolitan area, including 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 (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 with 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 such as fire, theft, windstorm, vandalism, and water damage for the home and its contents. They provide both property and liability insurance.)

*Table 2.* **Number of Policies and Percentage of Dwellings Covered with Homeowners Insurance Policies, by Neighborhood Racial Composition, Milwaukee Metropolitan Statistical Area, 1999**

| Insurer | Number of Policies in White Areas[a] | Percentage of Dwellings Covered in White Areas | Number of Policies in Black Areas | Percentage of Dwellings Covered in Black Areas | White/ Black Ratio of Percentage of Dwellings Covered |
|---|---|---|---|---|---|
| *Voluntary Market* | | | | | |
| Allstate Insurance Co. | 14,211 | 5.8[b] | 2,230 | 6.8 | 0.9[c] |
| American Family Mutual Insurance Co. | 79,425 | 32.3 | 7,661 | 23.4 | 1.4 |
| Auto Owners Insurance Co. | 265 | 0.1 | 11 | 0.0 | 3.2* |
| Badger Mutual Insurance Co. | 7,575 | 3.1 | 1,341 | 4.1 | 0.8 |
| Economy Preferred Insurance Co. | 3,421 | 1.4 | 692 | 2.1 | 0.7 |
| Fire Insurance Exchange | 7,223 | 2.9 | 569 | 1.7 | 1.7* |
| General Casualty Co. of Wisconsin | 4,819 | 2.0 | 643 | 2.0 | 1.0 |
| Germantown Mutual Insurance Co. | 2,177 | 0.9 | 844 | 2.6 | 0.3 |
| Heritage Mutual Insurance Co. | 15,872 | 6.5 | 1,140 | 3.5 | 1.9* |
| Integrity Mutual Insurance Co. | 1,039 | 0.4 | 71 | 0.2 | 2.0* |
| Milwaukee Mutual Insurance Co. | 4,512 | 1.8 | 625 | 1.9 | 1.0 |
| Prudential Property and Casualty Insurance Co. | 3,618 | 1.5 | 224 | 0.7 | 2.2* |
| Regent Insurance Co. | 2,328 | 0.9 | 430 | 1.3 | 0.7 |
| Rural Mutual Insurance Co. | 737 | 0.3 | 49 | 0.1 | 2.0* |
| Sentry | 6,281 | 2.5 | 774 | 2.4 | 1.1 |
| State Farm Fire and Casualty Co. | 22,702 | 9.2 | 2,346 | 7.2 | 1.3 |
| West Bend Mutual Insurance Co. | 1,228 | 0.5 | 173 | 0.5 | 0.9 |
| Wilson Mutual Insurance Co. | 76 | 0.0 | 10 | 0.0 | 1.0 |
| Wisconsin Mutual Insurance Co. | 706 | 0.3 | 367 | 1.1 | 0.3 |
| Total | 178,215 | 72.4 | 20,200 | 61.6 | 1.2 |
| *Involuntary Market* | | | | | |
| Wisconsin Insurance Plan | 367 | 0.2 | 495 | 1.5 | 0.1 |

*Source:* State of Wisconsin Office of the Commissioner of Insurance.

[a]ZIP codes included are those that are in the Milwaukee metropolitan area and are represented in the Wisconsin insurance data. Black neighborhoods are defined as the total number of ZIP codes (six) where 50 percent or more of the population is black. These are the same ZIP codes covered in the American Family settlement.

[b]The percentage of owner-occupied dwellings that are covered by homeowners policies is calculated by dividing for each insurer the number of policies written by the number of owner-occupied dwellings. For example, Allstate wrote 14,211 homeowners policies in white neighborhoods where there were 245,617 owner-occupied dwellings. Therefore, 5.8 percent (14,211/245,617) of owner-occupied dwellings in white neighborhoods are covered by Allstate. Percentages for dwellings in black neighborhoods (32,792) are similarly calculated. The number of owner-occupied dwellings is from the 1990 census and provided by Maptitude 4.0.

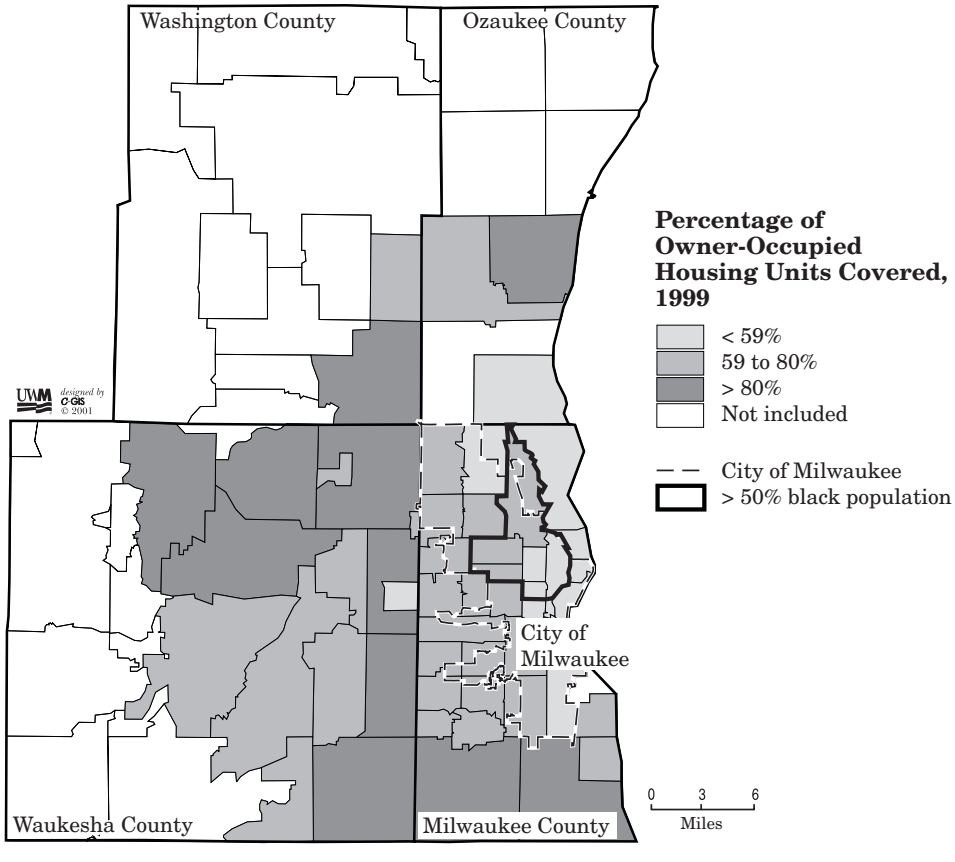
*Table 2.* **Number of Policies and Percentage of Dwellings Covered with Homeowners Insurance Policies, by Neighborhood Racial Composition, Milwaukee Metropolitan Statistical Area, 1999** *(continued)*

[c]Due to rounding, some ratios may appear to be inaccurate, but they are, in fact, correct. For example, 0.108 percent of all owner-occupied dwellings in white neighborhoods are covered by homeowners policies written by Auto Owners Insurance Co., and the corresponding number in black neighborhoods is 0.034 percent. The ratio of 0.108/0.034 is 3.2, which is the ratio indicated on the table.

*$p < 0.05$ (refers to the difference between the white/black ratio for each insurer and the industry average white/black ratio).

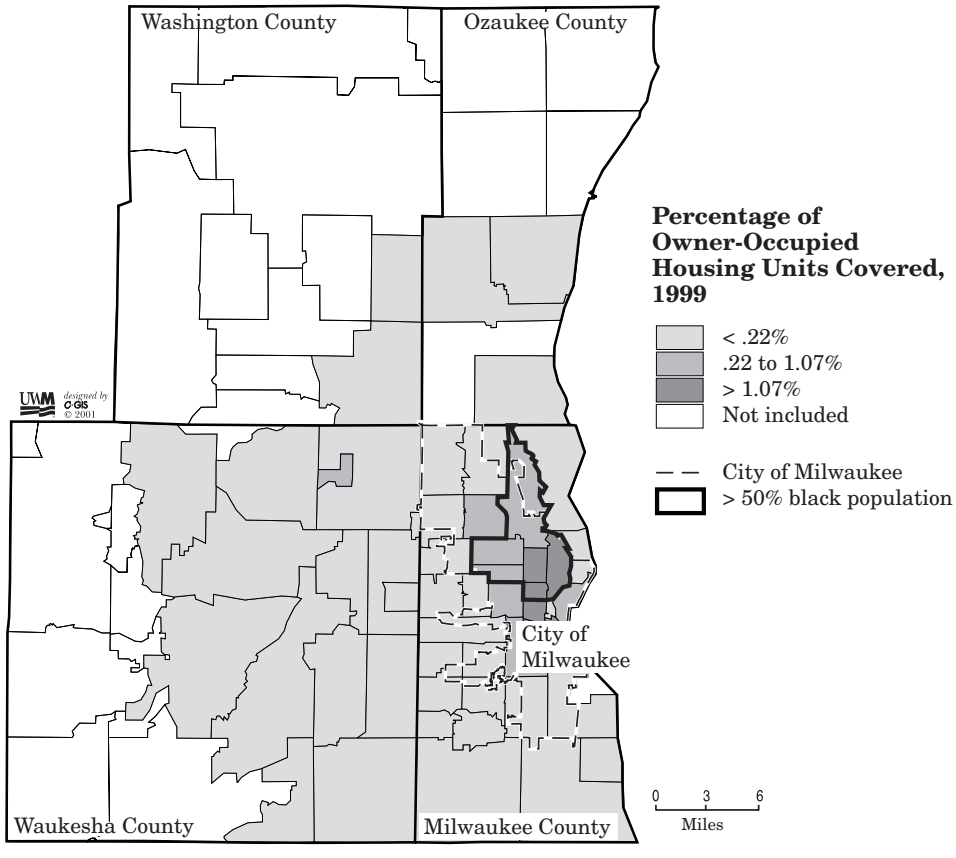
In addition to the insurers that constitute the voluntary market, most states with large urban populations (about half of all states) offer insurance through what is called the "involuntary market." The principal involuntary market vehicle is generally referred to as the FAIR (Fair Access to Insurance Requirements) Plan. FAIR Plans are privately financed and publicly administered pools primarily for risks unable to obtain insurance in the voluntary market mainly because of exposure to environmental hazards beyond the control of any individual household. They were created in response to the civil disobedience that occurred

*Figure 1.* **Voluntary Market Homeowners Policies, Milwaukee Primary Metropolitan Statistical Area, 1999**



in several cities in the 1960s to make property insurance available to good risks in neighborhoods that private insurers avoided because of 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, versus just 0.2 percent in white ZIP codes (see table 2 and figure 2).

*Figure 2.* **Wisconsin Insurance Plan Policies, Milwaukee Primary Metropolitan Statistical Area, 1999**




Clearly, some homeowners are covered by insurers other than the companies required to report ZIP code data and the WIP. (It is unlikely that a substantial number are uninsured, since mortgagors require insurance and most homeowners want to protect their property.) But these disparities are not ameliorated by the nonreporting insurers. Smaller companies, which have relatively larger shares of the market in the

central city, generally offer fewer choices and charge higher rates. And insurers are generally less likely to offer the full homeowners package and more likely to offer more limited fire or repair cost policies in central cities. For example, before settling its fair housing complaint, American Family sold fewer homeowners policies and more repair cost policies per 1,000 single-family homes in Milwaukee's black ZIP codes, and this pattern held even after controlling for the income level and other demographic characteristics of census tracts in predominantly white and black areas (Lynch 1997). It is likely, therefore, that black neighborhoods are disadvantaged even more than the distribution of homeowners policies by the largest, ZIP code–reporting insurers would suggest.

No doubt, to at least some extent, these racial disparities result from the association between racial composition and other demographic factors associated with loss experience. In regressing the percentage of owner-occupied dwellings covered on racial composition, race was negatively and statistically significantly associated with coverage. (See table 3.) Controlling for income, the racial coefficient remained negative but was no longer significant, which suggests the importance of examining the patterns of individual insurers.

*Table 3.* **Coefficients of the Percentage of Owner-Occupied Dwellings Covered by Homeowners Policies Regressed on Racial Composition and Household Median Income of ZIP Code**

| Insurer | Percent Minority | Median Income | Constant |
|---|---|---|---|
| Auto Owners Insurance Co. | $-7.60 \times 10^{-4}$ | $4.37 \times 10^{-6}$ | –0.003 |
| Fire Insurance Exchange | –0.016 | $3.63 \times 10^{-5}$ | 1.957 |
| Heritage Mutual Insurance Co. | –0.0138 | $1.44 \times 10^{-4}$ | 1.258 |
| Integrity Mutual Insurance Co. | –0.005* | $6.87 \times 10^{-7}$ | 0.489 |
| Prudential Property and Casualty Insurance Co. | –0.017** | $2.53 \times 10^{-6}$ | 1.502 |
| Rural Mutual Insurance Co. | –0.002 | $6.10 \times 10^{-6}$ | 0.136 |
| All reporting companies (19) | –0.112 | $4.01 \times 10^{-4}$ | 57.708 |

*Note:* The percentage of owner-occupied dwellings that were covered was negatively and statistically significantly associated with the racial composition of the ZIP code for two insurers: Prudential at the 0.05 level and Integrity Mutual at the 0.1 level.
*$p < 0.10$; **$p < 0.05$.

Disparities among individual companies are substantial. Six insurers have a homeowners insurance penetration rate in white areas that is at least 50 percent higher than in black areas. (For these insurers, the "White/Black Ratio" in table 2 exceeds 1.5. These ratios are statistically significantly larger, at the 0.05 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 with 0.7 percent in black areas, a ratio of 2.2. In regressing the percentage of owner-occupied dwellings covered on racial composition, race was negatively and statistically significantly associated with

coverage for each insurer. Controlling for income, race was significant at the 0.05 level for Prudential and at the 0.1 level for Integrity Mutual. These findings illustrate the value of these disclosure data for initial screening to identify areas where future investigative resources, organizing activities, and voluntary initiatives might be most productive.

Several factors likely contribute to these racial disparities:

1. Loss costs may be higher in minority neighborhoods due to a range of socioeconomic differences between white and nonwhite communities.

2. Inner-city residents may be less knowledgeable insurance consumers.

3. Insurance agents and companies may be less familiar with, and therefore less able to serve, urban neighborhoods.

4. Marketing strategies may simply differ among companies and agents.

5. Companies not covered by the disclosure requirements may market their products more aggressively in black neighborhoods, although 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 the gaps. These findings are also consistent with the possibility of unlawful discrimination by at least 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 neighborhood racial composition was statistically significantly associated with the number of policies per owner-occupied dwelling, even after controlling for the age of the 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 was reported in the *Milwaukee Journal,* one of the authors received a phone call from a person claiming to be an insurance professional and asking, "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).

Before the settlement of the American Family case in 1995, investigators with the U.S. Department of Justice and the National Association

for the Advancement of Colored People 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. Neighborhood racial composition was associated with the number and type of policies even after controlling for 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, although 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 this does not seem to be the case with several other insurers.

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 nonwhite areas, offering more comprehensive policies in white communities, and applying standards differently. For example, in one case, a black tester was told that 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 with an adverse disparate impact on minority neighborhoods were found. Minimum value and maximum age requirements were the most frequent examples. As noted earlier, 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 OCI might target enforcement efforts in Wisconsin. 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 whether neighborhood racial composition is still associated with agent location. And OCI could conduct its own paired testing, or contract with the Metropolitan Milwaukee Fair Housing Council for additional tests. A variety of enforcement tools are available to the OCI. These findings suggest how and where those tools might be used.

This case study has focused on the race issue. But insurance availability problems are related to a variety of forces, most notably loss experience and risk potential, that affect communities unevenly. Geocoded disclosure data are essential to determine where gaps in the market may occur for any reason. Such information provides a systematic first cut for identifying communities that may be underserved. The data are also useful for preliminary analytical purposes that can help determine what appropriate remedial steps might be. With some additions and modifications, the data can be far more valuable for regulators, consumers, and insurers alike.

## Research implications

Despite the limitations and inconsistencies of information available from state to state, substantial information can be obtained that could be effectively used to advance current understanding 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 lead to 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 revealing market penetration in various communities could be readily produced. Policies per owner-occupied dwelling could be generated by type of neighborhood (e.g., racial composition, income level). Where information on policy type is available, such indicators as homeowners policies per owner-occupied dwelling, fire policies per owner-occupied dwelling, and other similar measures could be calculated. Determining how well minority, low-income, and urban areas generally are currently being served is a first step toward understanding whether significant gaps exist, 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 at the aggregate level, which would permit investigation of the extent to which neighborhood racial composition and other socioeconomic factors are associated with policy counts, after taking objective measures of risk into consideration. Descriptive indicators of losses per owner-occupied dwelling and by policy type could be created, and more analytical statistics could be generated that would help establish the extent to which race, income, or other demographic factors affect underwriting activities. A recent study of Texas found that neighborhood racial composition was not a factor once loss costs were controlled (Grace and Klein 1999). In light of the NAIC's earlier research of 33 metropoli-

tan 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 four states (Illinois, Massachusetts, Minnesota, and Wisconsin), individual company data that would permit replication of the Milwaukee case study are available. The aggregate indicators noted above could be generated at the company level to permit comparative analysis among insurers in those states. In addition, market share indicators (e.g., percentage of total policies written by each insurer) could be created to determine how effectively each insurer serves various types of neighborhoods. 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, and 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, have access to company-level data in each of these eight states and could use the information for targeting future investigations. They also have the authority to request additional data or recommend legislation requiring the collection of additional data, including geographic location, housing structure, loss costs, and other information for individual policyholders; underwriting guidelines; agent location; and related data. Indicators like number of losses per owner-occupied dwelling, severity of losses (dollar amounts), number of agents per dwelling, and variations in these measures by type of community could be created. With such information, far more sophisticated analytical studies could be conducted to understand market behavior and, again, target enforcement resources. (See appendix B for a list of selected geocoded insurance indicators that could be developed from existing data or information readily available to state insurance commissioners.)

Given their unique access to 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 mergers on 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, these personnel actions have on the penetration of insurance markets in those communities. There is some evidence that having minority employees favorably affects mortgage applications from minority borrowers to mortgage lenders (Kim and Squires 1998). The same phenomenon could occur in property insurance markets as well. And 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 currently available ZIP code disclosure data. But what is more evident is the need for more data, more consistency in the data gathered, and greater ease of access to the information.

## Policy implications

Forty-two states and the District of Columbia do not collect any geocoded disclosure data at all. Those that do collect data do so at the ZIP code level. Only four states make individual company data available, and only one collects information on applications. While much can be and has been learned from the limited data available, much more could be learned if more states participated and made more comprehensive information available. Ideally, Congress would pass and the president would sign legislation mandating a national property insurance disclosure requirement similar to HMDA.

A HMDA-like disclosure program would require property insurers to disclose the following information every year to determine whether any significant variations in service are associated with these characteristics: the race, gender, and income of all applicants for property insurance, the types and amount of insurance applied for, the premiums charged, and the disposition of all applications (policy approved, denied, referred to FAIR Plan, reason for not approving the application). Much of the current controversy focuses on the question of whether racial minorities and low-income residents are treated fairly, and in recent years the question of gender equity has also emerged. The metropolitan area, city or village, and census tract of the property to be insured should be disclosed to assess a related area of controversy, that is, whether applicants from low-income or minority neighborhoods are treated fairly. Discrimination on the basis of neighborhood racial composition or neighborhood income level constitutes an equally contentious set of issues in these debates. It is critical, therefore, to have both individual and neighborhood disclosure. Previous testing evidence has found some important differences across metropolitan areas, so it is important to include all metropolitan areas and an identifier for each area.

Where disparities are found, the question that arises is the extent to which objective characteristics of the property and risk exposure account for those differences. Type of property to be covered (brick or frame construction, number of rooms, square footage) and the number and dollar amount of previous claims are critical objective underwriting and pricing factors influencing the availability and price of insurance. Brick homes generally experience less damage than frame homes in the case of fire, and larger homes are generally more expensive to repair or replace than smaller ones. Prior losses may be a predictor of future claims. These features of properties should also be disclosed to begin sorting out the extent to which marketplace disparities reflect legitimate underwriting and pricing as opposed to unfair discrimination.

The U.S. Department of Housing and Urban Development (HUD), as the nation's chief fair housing law enforcement agency, should be designated as the agency responsible for developing the disclosure program and should be provided with the additional funds to carry out this responsibility. Theoretically, each state could carry out such a disclosure program through the offices of the state insurance commissioner. Many simply refuse to do so. To ensure the availability of comprehensive, uniform data, the federal government should assume responsibility.

The information should be made available in as convenient, user-friendly, and affordable a way as possible. Like HMDA data, which are available on the Internet through the Federal Financial Institution Examination Council's Web page, insurance data should be made available at no charge through HUD'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 could 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 the communities where they sell insurance, some market their products by telephone, and others are using the Internet. 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.

As is the case with HMDA, many different entities would use the data. Community groups could use the information to identify targets for organizing campaigns and potential partners for reinvestment. Insurance companies could identify business opportunities and, perhaps, stave off enforcement initiatives and other public relations problems. Members of the media could use the data if their local communities stood out for any reason. And, of course, regulators could use the data to target enforcement efforts. But the primary value of such data should not rest

in the occasional, ad hoc use by various groups. The public entities collecting the information—either HUD or state insurance commissioners—should issue annual reports analyzing the data and documenting how well the industry and individual companies are serving various communities. Attention should be focused on minority and low-income areas, particularly on changes occurring over time. Such research could lead to the identification of best practices as well as practices to be avoided. The 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. 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 than it used to be 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 amount of work that remains to be done.

Virtually all 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 (Grogan and Proscio 2000). 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 Financial Services Modernization Act of 1999 and the consolidation it no doubt will encourage among financial service industry providers raise questions about future commitments to community reinvestment efforts in general. Because the CRA itself, or CRA-like requirements of any type, were not applied to the insurance and securities firms that now will be more readily able to merge with lenders covered by the act, mortgage lending assets may well flow from covered to uncovered insti-

tutions, lessening the impact of CRA and diluting community reinvestment initiatives.

Another possibility, however, is that as insurers merge with financial institutions that have been under CRA jurisdiction, this might expedite the process by which the insurance industry learns some of the community reinvestment lessons that at least some lenders and regulators have learned, often slowly and painfully, over the years. One of these lessons is the importance of information sharing that HMDA has facilitated.

The insurance industry has been more successful in resisting calls for similar disclosure data. It is not clear whether anyone has benefited from that resistance. There is reason to believe that creating a comprehensive insurance disclosure program can result in a win-win situation for all parties engaged in the long-standing debate on insurance redlining.

## *Appendix A*

### *Individual state insurance disclosure requirements*

Until 1999, California collected limited data from property insurers for each ZIP code. Insurers writing in excess of $10 million in premiums (90 percent of the homeowners market) reported the number of policies and earned premiums for each of three types of policies: homeowners, fire, and commercial multiperil. These data cover the entire state and are available for 1995 to 1998. California will soon require that claims and loss data be added to the policy and premium data. The California Department of Insurance maintains a Web site 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 is based on the amount of data requested, and there is no cost to universities.

Illinois stipulates that all property insurers disclose data by ZIP code for the entire state. Companies must report on the number of policies, premiums, and losses for homeowners and fire policies. ZIP code reporting, including separate policy counts for new, renewal, nonrenewal, 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.

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

Massachusetts requires the 25 largest property insurers to collect policies in force, cancellations, and nonrenewals by ZIP code for the entire state. The Massachusetts Department of Insurance provides the data at no cost. Aggregate loss data are also made available.

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

Missouri compiles ZIP code data for the entire state from all property insurers that 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 this information available to the public. (The Department is currently reviewing this policy.) It does, however, make available for purchase an aggregate report (at $1,000 for each year of data at the ZIP code level). However, the Insurance Department frequently responds to special requests for various data reports, almost always free of charge.

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

Wisconsin requires ZIP coded data from the largest 22 property insurers, which account for about 75 percent of the homeowners insurance market. Companies must report insurance activity in specific ZIP codes, which cover all but one of Wisconsin's 11 metropolitan areas. Policy counts for homeowners, renters, and dwelling fire constitute the only filing requirement. Wisconsin does not collect premium or loss information by ZIP code. However, the data collected are made available for a fee of $50 for each reporting company. These data have been collected for more than 20 years. For the past 5 years, the data have been available electronically as well as in hard copy.

## *Appendix B*

### *Selected geocoded insurance indicators*

Policies/owner-occupied dwelling-unit (aggregate and by insurance company)

- Replacement cost policies/owner-occupied unit
- Basic fire policies/owner-occupied unit
- FAIR Plan policies/owner-occupied unit

Market share or percentage of total policies written by the insurance company

- Market share or percentage of total replacement cost policies written by the insurance company
- Market share or percentage of total basic fire policies written by the insurance company

Frequency or number of losses/owner-occupied unit (aggregate and by insurance company)

Severity or dollar amount of losses/owner-occupied unit (aggregate and by insurance company)

Number of agents/owner-occupied unit

Each of these indicators could be developed for neighborhoods of various income levels, racial composition, or other significant socioeconomic characteristics.

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