Fair Housing At Its Worst: Insurance Redlining, report 10

Education/Instruccion
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In Ya Basta Report series #9, Education/Instrucccion documented mortgage lending patterns of Hartford-based banks in 1975. The loan statistics demonstrated that the net effect of these lending patterns was a redlined city, with the lowest amount of dollars lent occurring in minority and interracial neighborhoods.

The insurance industry can also now be identified as an active participant in the redlining process in Hartford which starves neighborhoods of financing, fair appraisals, and equal housing opportunities. There is an absolute need for reasonable and adequate homeowner's insurance for a mortgage closing. Insurance redlining threatens the present equity which Hartford homeowners have accumulated and prevents the stabilization and revival of "declining neighborhoods."

A report done recently for the Insurance Commissioner of Illinois defined insurance redlining as "any discriminatory practice by an insurance company or its agents which would have the effect of making it more difficult, if not impossible, to obtain homeowners insurance with that company because of the geographic location or age of that property." (Valukas Report 1975)

Education/Instrucccion adopts this definition and has documented in this report the existence of insurance redlining in the City of Hartford. Results of a testing program, agent interviews, and a compilation of homeowners' cancellations and non-renewals, prove that insurance availability is a problem for City of Hartford homeowners.

Simultaneously, there is a sharp discriminatory effect of this withdrawal on minority and racially integrated neighborhoods.

The insurance industry claims that insurance is "discriminatory" since it must distinguish between "good" and "bad" risks. In theory, this identification of risks by the insurance industry would create a fair risk selection process. In reality, insurance industry practice has evolved away from a concept of sharing loss and spreading risk. Aggressive marketing and risk "refinement and selection guidelines" actually eliminate and therefore discriminate against "undesirable" city neighborhoods.

In Hartford and other cities, the risk selection process has been institutionalized into an unfair and arbitrary process. An entire neighborhood or an entire city, is branded with code phrases such as "high crime, high risk area," "element in the area," or "too many losses." Subtle underwriting standards have become tools for redlining city neighborhoods as well as the outright denial of homeowners' insurance based on the location of the dwelling.

In this report, E/I examines insurance redlining on the various levels that it is implemented, including origin of the decision to redline and the net effect of these decisions on urban property. Additionally, E/I proposes comprehensive reform within the industry's underwriting and rate making procedures in order to return to the true function of insurance:

TO SPREAD RISK AND PROVIDE STABILITY
In December 1977, Education/Instruction began a testing program of Hartford area insurance agencies. The three (3) month testing program documented the unavailability of homeowner's insurance in the City of Hartford, particularly the North End of Hartford.

The testers were staff members from Education/Instruction, claiming to be homebuyers seeking insurance through the private market. Agents representing the major property insurance companies were selected from the telephone company's yellow pages. Some agents represented one company; others represented several companies. Agency offices were located both in Hartford and its contiguous suburbs.

The test properties were approximate in size, type of construction and age. Heating, electrical and plumbing systems were updated. None of the test homes had ever filed a claim with a company during the time of their current ownership. The only major difference between the dwellings was LOCATION. The following dwellings were used as test homes:

**NORTH END**

1) 67 Williams St. Hartford, Conn.
   3 family/frame construction
   black/Hispanic Neighborhood

2) 125-127 Enfield St. Hartford, Conn.
   3 family/frame construction
   Predominantly black Neighborhood

3) 77-79 Oakland Terrace - Hartford, Conn.
   2 family/frame construction
   Predominantly black Neighborhood

**SOUTH END**

41 Newbury St. Hartford, Conn.
3 family/frame construction
Predominantly white Neighborhood

**WEST HARTFORD**

20 Park Road - West Hartford, Conn.
3 family/stucco
Predominantly white Neighborhood

All of the dwellings had market values which were less than 80% of the replacement cost (replacement cost equals the amount of money needed to rebuild the dwelling).

The following companies were tested through independent and affiliated agents:

Aetna Life and Casualty Company
Aetna Insurance Company (Conn. General)
Allstate
Covenant
Fireman's Fund
Home Insurance Companies

Insurance Co., of North America (INA)
Middlesex Mutual
Nationwide
The Hartford Group
Travelers Insurance Corporation
United States Fidelity and Guaranty

Thirty-six (36) agents were contacted regarding one or more of the properties. Out of these thirty-six agents twelve (12) were contacted regarding both a North End property (predominantly minority neighborhood) and a South End or West Hartford property (predominantly white neighborhood).

In some of the contacts, the agents were asked specifically for insurance from a particular company. Other contacts were left open ended to see which companies the agent would offer.
Of the thirty-six (36) contacts there were twenty-three (23) city denials, fourteen (14) were outright denial of homeowners' insurance based on LOCATION. All but one (1) of these denials was located in the North End (predominantly minority neighborhood).

The following examples are excerpts from conversations with the agents. In each of these redlining examples denial was based solely on LOCATION:

**TRAVELERS - ANDREWS AGENCY**
994 Farmington Avenue-West Hartford, Conn.

Agent:....."On Williams St? - I'm sorry we couldn't write that area, we couldn't."

Tester:..."Is there any way someone could come by and take a look at the house?"

Agent:....."Well, not out of this office...you've got a problem."

**TRAVELERS - HAROLI HOLCOMBE AGENCY**
903 Asylum Ave.-Hartford, Conn.

Agent:....."No, I don't think so, mainly because of the location."

Agent:....."It's simply because of the location...I think we will have to write a separate fire and liability...you have got a problem in being up in the North End you see."

**THE HARTFORD, HOME INSURANCE, AND NEW LONDON COUNTY MUTUAL-UNIVERSAL INSURANCE SERVICES**
50 State St.-Hartford, Conn.

Agent:....."Well, I will be honest with you, we have very little available that our companies will let us write anywhere in the City of Hartford. We're having an awful lot of trouble."

Agent:....."It happens with all of our companies - and we have got four/five of them and it's happening to us."

Agent:....."Of course, we can always get you a fire policy in what we call the FAIR Plan but that's just a fire policy and that's all it is. You won't get any theft insurance or liability. If you decided to go FAIR Plan because you can't get anything else we would get you a fire policy then when we go to get you liability, they say ah-ha, the fire insurance is in the FAIR Plan so this won't be very good."

Agent:....."Nothing at all will they let us write, and if we complain they cancel us for writing for their company."
Agent: ... "I've learned through experience if they want to turn an area down they will and it won't be redlining - they'll find something wrong."

Tester: ... "You mean more subtle?"

Agent: ... "Yes, redlining but they can't say in this area circled you can't write a policy because it's against the law but they can find something else wrong - like the area is not good or we told you two blocks away is no good, or too many houses insured by them already on that street, or many other things they can."

UNITED STATES FIDELITY & GUARANTY-KALWYN AGENCY
225 Spring St.-Wethersfield, Conn.

Tester: ... "Is it the house, cause I feel it is in good condition?"

Agent: ... "Yeah the company has looked at it and you can't argue that."

Tester: ... "Well, what was the problem?"

Agent: ... "Well, you just got to...huh-huh-well-huh...it is...well...it is the location really. That is it in a nut shell."

THE HARTFORD - HOWARD BURKE & TATAMI
266 Pearl St.-Hartford, Conn.

Agent: ... "We can write it through the pool, the assigned risk plan but we can't give you a homeowner's policy on it because the companies don't allow homeowner's policies in those areas. It is kind of discriminatory, course I never said that - but that is the way that works."

Tester: ... "Is that for all of Hartford that they do that?"

Agent: ... "Pretty much, pretty much that area. What's happening is, it's being redeveloped and one of these days they'll change their underwriting guidelines."

Agent: ... "You can call anybody you want they are going to tell you the same thing."

THE HARTFORD - CHAPMAN & SILAG
54 Pratt St.-Hartford, Conn.

Tester: ... "It's off of Albany Avenue."

Agent: ... "Okay, oh yes, I see it now (on a map). Well, about the only thing I can offer you off of Albany Avenue, it isn't as if anyone has put up any specific guidelines for me, but on William Street, I would have difficulty writing anything for a fire policy in the FAIR Plan."
Agent:......"If there are companies willing to write a homeowner's, I am not sure who it would be."

NATIONWIDE - STEVENS AGENCY
78 Benton Lane - Glastonbury, Conn.

Agent:......"One thing I didn't mention to you cause I happened to call over to Wethersfield (the district office) and I got one of the managers who is in charge of the Hartford area...and we've got it outlined and apparently we can't write 100% over in Hartford, because some of the areas are kinda bad, and (we) have been having alot of claims in there so we're staying away from them, you know."

Tester:...."Where do I fall on the map?"

Agent:......"I can't tell you, because I asked him whether you were in the fringe or out of it, and you were in it. I don't know where it extends to."

Tester:...."Does that mean I can't get homeowner's insurance?"

Agent:......"I can't do anything for you with Nationwide, because I am strictly a Nationwide agent."

AETNA LIFE AND CASUALTY
ROBERT O'BRIEN AGENCY
303 Burnside Ave.-East Hartford, Conn.

Agent:......"No, I couldn't...I couldn't write a package on that....the location."

Tester:...."The location of the house?"

Agent:......"That is right...is it near Edwards Street? I looked it up on a map and it is right near Edwards Street. It's been fairly arsioned..Edwards Street has..so it would be too close to the area."

Tester:...."Even though I am going to occupy it?"

Agent:......"No, we couldn't possibly consider it...the only way we could do it would be through the FAIR Plan and then a separate liability policy."

ALLSTATE
771 Main Street
East Hartford, Conn.

Agent:......"Where is Williams Street, frankly, Bill?"

Tester:...."It is off of Albany Avenue."
Agent: ...."Yeah, we won't sell it to you... we will not sell it to you!"

Tester: ...."The insurance?"

Agent: ...."That is correct -- I can put you through the FAIR Plan... the problem is the replacement cost $50,000 in light of the fact that you're purchasing it for $22,000 -- the percentage you have to insure exceed the price by 150% and frankly that establishes a moral hazard -- the moral hazard is that it could be torched tomorrow and you could be richer."

Tester: ...."Well, I am going to be living in the house and..."

Agent: ...."Frankly, I would not know of a carrier, doing business in the area, that honestly would write you under that circumstance."

These examples clearly point out the most blatant form of insurance redlining: outright denial based on LOCATION. Education/Instruction's insurance availability survey shows this is the most basic level at which insurance is denied, since most of the testers did not get beyond the first contact with the agent (nor did the agent offer to look at the property as a normal operating procedure).

**Racially Discriminatory Impact**

Further analysis of the survey results clearly demonstrates an additional effect of the decision-making process: discrimination against minority and racially integrated neighborhoods:

1. Nine (9) of the thirteen agents who denied insurance based on location in the North End, offered insurance to identical dwellings in the predominantly white South End or West Hartford.

2. There were nine other denials for reasons other than location of dwelling -- seven were North End properties, two were South End.

3. "Moral hazard" (which allegedly occurs with a disparity between market value and replacement cost) was cited four times as a reason for denial -- always on North End properties. This reason was given despite the fact that the North and South End property both had a substantial disparity between market value and replacement cost. In fact, one agent who denied a North End property based on moral hazard, offered a policy to the South End home.

4. Six tests were administered on suburban properties. The West Hartford property (3-4 family structure) was offered a homeowner's policy five out of six times. Three of the agencies who offered insurance to the West Hartford property denied coverage to North End properties.
There are other policies and practices which appear neutral but are discriminatory in effect. These practices often cause underwriters and agents to deny homeowner's policies to eligible and qualified homeowner's in the city. As "denial based on location" becomes an illegal phrase, the following subtle practices will become more obvious tools for redlining:

**DENIAL BASED ON AGE**

Many companies have begun to use the age of a dwelling as a reason for denying, canceling, or non-renewing homeowner policies. One agent indicated that Travelers would not write a 2 family home on Oakland Terrace, Hartford, Conn., because of its age. (approximately 50 years old).

The agent stated that any dwelling over 35 years old must have the electrical, plumbing and heating facilities updated. Although the tester indicated this had been done, the policy still was not accepted even after an inspection by the agent. The only policy that was offered was a personal dwelling policy, but the agent explained that the problem with a dwelling policy was limited coverage and high premium, as compared to a standard policy which he could not write.

The following diagram is a comparison of the standard homeowner's policy and the personal dwelling policy (which was the only coverage Travelers offered):

<table>
<thead>
<tr>
<th>STANDARD HOMEOWNER'S POLICY</th>
<th>PERSONAL DWELLING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Coverage</td>
<td>Fire</td>
</tr>
<tr>
<td>Dwelling)Extended Coverage</td>
<td>Dwelling)Extended Coverage</td>
</tr>
<tr>
<td>Vandalism</td>
<td>Windstorm-Hail</td>
</tr>
<tr>
<td>Fire Coverage</td>
<td>Limited Liability</td>
</tr>
<tr>
<td>Contents)Extended Coverage</td>
<td>Limited Contents</td>
</tr>
<tr>
<td>Vandalism</td>
<td></td>
</tr>
<tr>
<td>Burglary</td>
<td></td>
</tr>
<tr>
<td>Theft</td>
<td></td>
</tr>
<tr>
<td>Additional Living Expenses Following a Loss</td>
<td></td>
</tr>
<tr>
<td>Personal Liability</td>
<td></td>
</tr>
<tr>
<td>Medical Payments to Others</td>
<td></td>
</tr>
<tr>
<td>Coverage Available at Replacement Cost</td>
<td></td>
</tr>
</tbody>
</table>

On this particular test property, E/I was offered a full homeowner's policy for $327.00 through the Middlesex Mutual, yet Travelers would only offer a personal dwelling policy at $560.00 a year. Therefore, Travelers had effectively priced itself out of the homeowner's market in city neighborhoods which are over 35 years old.

The age of dwelling was cited by several agents as one major reason for imposing higher rates, less coverage, or no coverage at all.
DENIAL BASED ON MORAL HAZARD

The insurance industry claims a "moral hazard" is created when a dwelling has a market value below 80% of the replacement cost. Therefore, any person purchasing a home which would cost more to rebuild than its market value (the case for most city properties) can be denied insurance as a "moral hazard." As one agent put it:

"You paid $27,000.00 for it and to replace it would be $50,000.00 plus... if one could get that kind of policy - as today you know they are burning down houses like crazy, and a person could say - oh boy, I've got $50,000.00 worth of insurance, I think I'll burn it down..."

Neither the agent nor the underwriter challenges this guideline on a case by case basis. Undoubtedly, most applications which are categorized as a "moral hazard" are made by responsible homeowner's who seek the security of full insurance coverage. The industry at this point does not distinguish between owner occupied and non-owner occupied "moral hazards." In fact, E/I was unable to obtain, from any agent involved in the testing program, specific data which substantiated the agents moral hazard claim.

THE CO-INSURANCE TRAP (CATCH 22)

In a homeowner's policy contract there is an 80% co-insurance clause which states that at the time of a loss, the homeowner must have insurance equal to eighty per cent (80%) of the replacement cost of his/her home, in order to collect in full.

This clause is used by underwriters and agents to deny urban homeowners' insurance in two (2) very subtle ways:

1) As stated earlier, city properties with a market value of less than 80% of replacement cost are termed a "moral hazard." Therefore the ("moral hazard") city property owner cannot obtain a homeowner's policy at replacement cost coverage and consequently cannot collect in full on any claim.

2) The same "moral hazard property" owner is now forced to look for a homeowner's policy (HO-1, HO-2, HO-3) at less than 80% replacement cost in order to avoid a denial based on the moral hazard label.

But underwriters and agents in our survey told the tester that the (HO-1, HO-2, and HO-3) policies are only sold at 80% of replacement cost coverage and above. Therefore, the tester could not obtain a package policy at any amount of coverage less 80% of the replacement cost.
In other words, an urban home with a market value less than 80% of the replacement cost is a "moral hazard" and cannot obtain a package policy for 80% of the replacement cost. But neither can the same urban owner obtain a package policy at less than 80% replacement cost because a package policy is only offered at 80% replacement cost and above - which of course is a "moral hazard."

The only choice left: FAIR Plan, substandard insurance, or no insurance at all.

INSPECTION REPORTS

The E/I Testing Program did not proceed to the inspection report phase. However, it is clear from other research that urban dwellings must often face inspections which do not occur in other geographical areas. A study of redlining in Detroit, by Councilman Carl Levin described the various inspection reports as a "hybrid of a building inspection, credit report and social critique." The inspection report is supposed to evaluate the dwelling conditions including wiring, roof, etc., but apparently also includes a criteria for neighborhood evaluation. Therefore, a dwelling which is in good/excellent structural condition may receive a negative rating because of the subjective neighborhood criteria (i.e., low, middle, upper class or improving, stable, deteriorating ratings).

All of the underwriting criteria mentioned above, have the net effect of limiting insurance availability for city dwellers and undermining neighborhood stability. The immediate and long range effects of discriminatory underwriting guidelines act to complete a self-fulfilling prophecy of the real estate industry - realtors, appraisers, bankers and insurers. Homeowners and small business people in redlined neighborhoods walk a financial tightrope, threatened at each step by subjective and unsubstantiated underwriting guidelines which are the product of an industry geared toward profit making at a maximum, without regard for social consequences.

A report to the Governor of Michigan entitled "Essential Insurance In Michigan" clearly states this problem:

"The current system creates an availability problem...competition causes companies to establish classes for purposes of pricing policies and then to only cover the perceived better risks in each class. Those risks who are left over, not because they are bad risk, but because they do not meet underwriting or cancellation standards which are based in part on myths, are relegated to the programs created to provide universal insurance availability of essential insurance or to the high priced specialty market."
Executive officers of insurance companies sanctimoniously state that their company neither engages in insurance redlining, nor condones the practice among its affiliated agencies. Some companies have even adopted make-shift, Madison Avenue type policy statements which denounce redlining; however, as the following agent interview demonstrates, the root of insurance redlining and discrimination lies within the industry's institutional framework of underwriting:

(After being denied homeowner's insurance based on location by a Nationwide Agent).

Tester:......."Do you think it's fair that they do this?"

Agent:....."Are you kidding? I'm dying on my writings...I know you're in a bad boat and I feel for you because I can't write it at the other end. I am strictly a commissioned agent. If I don't write anything, I don't make any money."

Tester:......."How about it if I call the manager and try and persuade him to sell the insurance?"

Agent:....."No, because what happens is they tell the managers in the area what they and their agents can do, and what they've done is apparently blocked out a good part of the North End of Hartford here, as to what they can write and what they can't write. So it wouldn't make any difference...."

Agent:....."In fact, we're so bad here, say you called for an auto policy and you don't give me all the information, and then they find out from the Motor Vehicle Report that you've had a couple accidents, we can't write if you've had the accidents. Then I get hit with the rejection, and if I get enough rejections it costs too much money, then they're going to restrict my writing for six (6) months so things are really tough for most of the auto and fire policies."

This interview isolates several levels at which the redlining decision can occur within any company:

1) Agent/Field Manager Relationship: This is the agent's most direct contact with the arbitrary decision-making of the company. It is here that the agent is restricted as to the properties which may be considered for homeowner's coverage.

2) Field Manager/Home Office Manager Relationship: The primary instructions to redline or restrict writings clearly begins at this level as evidenced by the previous conversation. This is adamantly denied by the industry. Executives, Home Office Managers and Field Office Managers insist they see and hear nothing of the decision to restrict writing of new policies by location.
3) The Binding Process: A "binder" is a temporary agreement between customer and agent that provides insurance coverage while a permanent policy is obtained. In the insurance redlining process, this transaction is where agents are particularly vulnerable, since their livelihood depends on a company relationship. The sequence of events occurs in the following manner:

An agent submits several homeowners' policies on binders that are located in an area in which the company is seeking to restrict its business. Although the properties themselves may be sound, the binder is rejected due to age of dwelling, size of dwelling, or other arbitrary criteria. The agent has now cost the company several hundred dollars in rejected binders, and is threatening his/her own loss ratio, which is vital to the agent/company relationship.

If this occurs one or two more times in the same area the agent very quickly learns not to bind or write any policies in an area which will mean rejection, and therefore the company has successfully and subtly redlined an area without direct written communication.

WHAT ARE THE AGENTS' OPTIONS IN THIS CUT THROAT PROCESS?

"We can't do anything about the darn thing - the only thing I can do is gear my sights to talk to people about life insurance, health insurance and business insurance, and stay away from the auto and fire - because it is very depressing to keep telling people 'no' all the time."

4) Placement and Location of New Agents: Education/Instruccin recently interviewed a licensed insurance agent who was seeking "binder authority" with any of the major insurance companies for homeowner's coverage. This agent's experience in seeking affiliation with several companies reveals the industry's inner most layer of insulation against writing city policies. This is clearly an effective way for a company to reduce the number of prospective applicants in a given neighborhood and thereby reduce availability of homeowner's insurance for the residents.

This agent was denied a business relationship with any major insurance company because "the area in which he was located is not conducive to new insurance." The agent's area would have been the North and West End of Hartford. In fact, U.S.F. & G. indicated to the agent that they did not want any new agents in Hartford, but suggested that the agent relocate to a small suburban town. Only then would the company establish a business relationship.

The same agent was told by Travelers that the company was not interested in getting any more exposure in the Hartford area.
As this process is carried out over time, it eliminates or reduces the number of agents who are familiar with a neighborhood. When, there is no agent familiar with the area there is no one internally to challenge arbitrary and discriminatory underwriting decisions.

5) Marketing: Along with the four (4) methods of withdrawal mentioned above, some companies have significantly reduced their exposure through marketing methods (i.e., the lack of agent listings in the phone book yellow pages).

For example, E/I could not find any telephone listings for a Connecticut General (Little Aetna) agent in the yellow pages. To contact a Little Aetna agent, E/I went from the Connecticut General National Office to the Little Aetna National Office, to the Little Aetna Regional Office to a Little Aetna agent. Intentionally or inadvertently, such marketing discourages potential customers and insulates the company from "undesirable business."

The options left for the redlined homeowner/businessperson are the FAIR Plan, substandard insurance or no insurance; therefore, a closer look at the FAIR Plan is in order.
The federal government's response to the problem of insurance availability in urban areas has been the FAIR Plan (Fair Access to Insurance Requirements). The FAIR Plan came into existence with the Federal Urban Property Protection and Reinsurance Act of 1968 which was passed in direct response to urban riots in the late 1960's. Insurance companies must agree to participate in a FAIR Plan where consumers, who are refused in the conventional market, will be able to get coverage. The federal government in turn reinsures companies participating in the Plan against riots and civil disorders. However, FAIR Plan rates are high and in Connecticut a homeowner can only obtain fire coverage and must try to get liability and theft insurance elsewhere. (As of this writing, there is proposed Connecticut legislation which will provide more extensive coverage).

Insurance companies have used the FAIR Plan to avoid writing conventional homeowner policies and commercial properties in urban areas generally and black and Hispanic neighborhoods specifically.

"Almost as quickly as they were created...the FAIR Plan became the useful tool and the convenient whipping boy of many in the property insurance industry. While affording a handy dumping ground for subjectively determined 'bad risks,' the plans likewise furnish an escape valve which has, thus far, preserved the traditional and hitherto sacrosanct prerogative of the insurer to be arbitrary in the exercise of its underwriting judgements. There appears to be considerable basis for an inference that the plans have unintentionally provided a new vehicle for stepping up the abandonment of urban core areas by individual insurers."

Proof that this process of redlining continues was evident from E/I's Survey. Agents stated that Hartford test properties would have to be placed in the FAIR Plan as soon as they heard the location, regardless of individual risk.

As stated, FAIR Plan insureds can only obtain fire coverage in Connecticut and must pay high rates to get liability and theft insurance separately. In addition, a homeowner in the private market must insure his/her home to 80% of its replacement cost in order to collect in full, while a FAIR Plan insured can only insure up to his/her market value. Newly built suburban homes have about the same market value as replacement cost. However, there is usually wide difference between these two costs on older, urban properties. Many three family homes in Hartford are only worth $25-30,000.00 on the market but would cost $50-70,000.00 to replace. FAIR Plan coverage is only up to Market Value. If a home is destroyed by fire, the owner cannot replace it with his/her insurance.

Because of the arbitrary method which rates people in the FAIR Plan, many good risks are in the FAIR Plan. These good risks pay a high premium for market value fire coverage. They get less coverage than insureds in the regular market and they are paying "bad risk" rates. If "bad risks" were spread over the entire population, there would be only a modest premium increase across the board. Because all the "bad risks" are placed in a smaller pool, all the "good risks" in the high risk pool have to pay considerably higher rates.

Not only do FAIR Plan insureds get less coverage at a higher rate, they also receive different treatment than those who are in the voluntary market.
Since its inception nearly a decade ago, the management of the Connecticut FAIR Plan has been sharply criticized by the Insurance Examination Staff of HUD, whose duty it is to review the FAIR Plan. (The Connecticut FAIR Plan operates through one carrier the Covenant Mutual Insurance and is managed by the Insurance Services Office in East Hartford, Connecticut. The FAIR Plan operates on a state by state basis, hence not all states have a FAIR Plan in operation).

In a Federal Insurance Administration report released in May 1978, Connecticut was criticized for operating a FAIR Plan with differentially higher premiums (than the private market). This 15% rate increase was approved during a three (3) year period at five (5%) percent per year.

Not only did the FAIR Plan get three (3) consecutive rate increases, but they also wrote many more policies, as insurance companies withdrew coverage from Connecticut cities. The following are the total number (residential and commercial) FAIR Plan policies in Connecticut:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>7,686</td>
</tr>
<tr>
<td>1975</td>
<td>9,237</td>
</tr>
<tr>
<td>1976</td>
<td>9,874</td>
</tr>
<tr>
<td>1977</td>
<td>12,316</td>
</tr>
</tbody>
</table>

During this period, the percentage of FAIR Plan policies filing a claim were:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>unavailable</td>
</tr>
<tr>
<td>1975</td>
<td>13%</td>
</tr>
<tr>
<td>1976</td>
<td>12%</td>
</tr>
<tr>
<td>1977</td>
<td>10%</td>
</tr>
</tbody>
</table>

During this period many more "good risks" were placed in the Plan as indicated by the decreasing percentage of FAIR Plan policyholders filing claims.

In the private market, about 5% of the policyholders file a claim. In the FAIR Plan nationally, about 10% of the policyholders file a claim.
Therefore, the 90% "good risks" pay a much higher premium in the FAIR Plan and private market claims are held to a minimum, which maximizes private market profits.

E/I attempted to get an analysis of where FAIR Plan policies are written to determine which areas and neighborhoods are subjected to inadequate insurance coverage. Mr. M.P. Beckler, Administrator of the Connecticut Insurance Placement Facility, in response to our request, wrote: "Under HUD guidelines, we are not allowed to use area as a condition of underwriting, therefore, records are not maintained that provide the information you request." Information by street was unavailable also.

To get a determination of how many good risks are in the Plan, E/I also asked for the number of policies which were claim free when they entered the Plan, and how many of these remain claim free. Again, the information was unavailable.

The statistics that are kept show that the FAIR Plan is overconcentrated in Connecticut's largest cities. Eighty-eight percent (88%) of all FAIR Plan policies are located in four (4) cities:

<table>
<thead>
<tr>
<th>LOCATION OF ALL FAIR PLAN POLICIES - DECEMBER 31, 1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITY</td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>New Haven</td>
</tr>
<tr>
<td>Hartford</td>
</tr>
<tr>
<td>Bridgeport</td>
</tr>
<tr>
<td>Waterbury</td>
</tr>
<tr>
<td>Four (4) City Total</td>
</tr>
<tr>
<td>Balance of State</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

As of December 31, 1977, there were 1,860 owner occupied dwellings with FAIR Plan policies with the majority in the same four (4) cities:

<table>
<thead>
<tr>
<th>CITY</th>
<th>1 &amp; 2 FAMILY DWELLINGS</th>
<th>3 &amp; 4 FAMILY DWELLINGS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Haven</td>
<td>396</td>
<td>194</td>
<td>590</td>
</tr>
<tr>
<td>Hartford</td>
<td>106</td>
<td>149</td>
<td>255</td>
</tr>
<tr>
<td>Bridgeport</td>
<td>104</td>
<td>53</td>
<td>157</td>
</tr>
<tr>
<td>Waterbury</td>
<td>71</td>
<td>72</td>
<td>143</td>
</tr>
<tr>
<td>Four (4) City Total</td>
<td>677</td>
<td>468</td>
<td>1145</td>
</tr>
<tr>
<td>Balance of State</td>
<td></td>
<td></td>
<td>715</td>
</tr>
</tbody>
</table>

While these figures point to the extent of overconcentration of FAIR Plans in our major cities, they do not identify overconcentration in minority neighborhoods.
There is no analysis by neighborhood within these cities to determine the racial impact, but these four (4) cities have the highest concentrations of minorities in the state.

J. Robert Hunter, Deputy Administrator of HUD's Federal Insurance Administration (FIA), found a higher correlation in New York between a homeowner's race (Black) and having a FAIR Plan policy than the age of the dwelling or faulty wiring. The FIA conducted an in-depth analysis in New York of the FAIR Plan in 1977.

Aside from obvious problems of inadequate and expensive coverage, FAIR Plan policyholders receive second-rate treatment by the CIPF (Connecticut Insurance Placement Facility). HUD reviews have consistently been critical of the operation of Connecticut's FAIR Plan. The Connecticut Insurance Placement Facility has been slow in correcting these problems.

In the past, HUD has found non-compliance in major areas including:

1) assessing with multiple charges for a single condition through October, 1973.

2) causing Plan risks to be "grossly overcharged" through substandard condition charges. This practice continued till November, 1973.

3) charging for environmental hazards not within the control of the owners in violation of Section 1905-7 which provides that "no surcharge will be made on the basis of environmental hazards." This violation was cited twice by HUD personnel before it was changed effective August, 1974.

Other examples of the second-rate treatment Plan members still receive are:

1) one (1) payment premiums in full that must be paid right away.

2) mandatory inspections.

3) a 3 - 4 week delay which means homeowners are uninsured for this period.

While the more flagrant abuses of the FAIR Plan seem to have been corrected, the Federal Insurance Administration still finds major discrepancies in Connecticut's Administration of the FAIR Plan.

In a conclusion to their 1977 Examination of Connecticut FAIR Plan, the Insurance Examination Staff said:

"The effect of the aforementioned changes in the operation of the FAIR Plan (underwriting and Rate Increases) causes the applicant and/or policyholder of the FAIR Plan to be discriminated against inasmuch as they do not receive the same treatment as respects coverage, counts of insurance, loss settlement, and rate structures as those in the voluntary market. Further, it would appear that the aforementioned procedures are contrary to the Congressional intent as manifested in the Federal Regulations, Part 1905--Statewide FAIR Plans."
While the government's intent in passing the Federal Urban Property Protection and Reinsurance Act of 1968 was to assure that high risks were provided at least minimal insurance protection, it has also been used as a dumping ground when insurance companies decrease their capacity. The capacity of an insurance company directly affects the availability of insurance to consumers.

Capacity is how much insurance a Company can write. There is no strict rule used to define capacity but generally it is determined by a 3:1 ratio of net premiums to policyholders' surplus: i.e., the ratio of net premium written to policyholders' surplus should not exceed a 3 to 1 ratio. Premiums and surplus are invested to increase profits. Part of this profit is then added to surplus which increases capacity. Capacity, therefore, is directly related to the economic health of the stock and bond markets.

When the market is healthy there is an increase in surplus and an increase in capacity. When the market is off, the opposite is true. When the latter occurs, capacity is reduced and there is less insurance available. In this way, the FAIR Plan provides a convenient institutional scapegoat for the private insurance industry, when market conditions are "unfavorable." This selection process has a negative effect on inner city neighborhoods. City homeowners, then, are denied full insurance protection not because they are bad risks but because investment profits are down.

The changing nature of the insurance industry has another important effect on capacity. Increasingly, insurance companies are being bought up by conglomerates who depend on the insurance company for their huge cash flow and investment possibilities. As their concern is to maximize profits for the whole conglomerate, and not necessarily try to increase capacity, they can take money from the insurance company and invest it where they see a higher profit. Insurance availability becomes even more inter-connected to the economy and people are denied the legal and social necessity of full insurance coverage because profits are greater in other markets. Again, the FAIR Plan is used to absorb those who are denied coverage as money flows into other areas of the economy.

As insurance availability becomes even more dependent on outside economic factors, the need for an alternative system becomes imperative. The industry should be able to write insurance for everyone and not be allowed to select out risks because their capacity is limited due to the fluctuations in the stock and bond market and/or the attractiveness of other investments.
The E/I Survey did not directly test the availability of commercial insurance in Hartford, but there are strong indications that the same discriminatory, arbitrary and subjective homeowner's underwriting practices are also used against commercial properties.

The most devastating effect of commercial insurance redlining is the threat it poses to the viability and stability of a commercial strip and the surrounding residential area. The small shopowner is forced to purchase prohibitively high costing insurance with little coverage or elect no coverage at all, and pay for claims and repairs out of his/her pocket. This situation contributes to a cycle of declining services; as less services are offered by the shopowner there is less cash circulating within the community. Restricted cash flow means less opportunity for expansion or creation of neighborhood jobs. In addition to frustrating and restricting present business, insurance practices no doubt discourage new business from locating in city neighborhoods.

Equally devastating is the effect of an economically unstable commercial strip on the adjacent residential areas. It is clear that the problem of commercial insurance redlining becomes the problem of residential insurance redlining and vice versa. Convenience to shopping and employment is a major factor in creating or destroying market value for the whole neighborhood.

The following examples clearly substantiate the problem:

1) A survey of Albany Avenue, in the North End of Hartford, businesspersons revealed a number of businesses operating with no insurance coverage on either the building or contents. These shopowners stated various reasons for the lack of coverage; e.g., very costly premiums for small coverage, the lack of availability of agents who would write the property.

2) Other shopowners were covered by FAIR Plan Insurance, but in some cases this followed a cancellation or non-renewal from the private market. One Albany Avenue shopowner had a commercial package policy for ten (10) years. In 1973 he filed one (1) claim for $150.00. The company cancelled the policy shortly thereafter, and the owner now pays $200.00 more a year for substantially less insurance through the FAIR Plan. (no liability, workmen's compensation, plateglass insurance, etc.)
3) In March, Education/Instrucciones received a non-renewal complaint from a shopowner in the Charter - Oak South Green area in the South End of Hartford. The owner was insured under a 30-day binder from Aetna Life and Casualty until new coverage could be obtained. According to the owner, Aetna refused to insure the property after the binder expired due to "broken windows in a nearby building, evidence of severe vandalism in the area, the presence of K-9 dogs (which was not true), and vacancy exposure on two sides." The owner was quoted a FAIR Plan Policy which cost $2,274.00 a year for just fire and liability, while the old policy was $1,310.00 a year for a complete package.

These examples demonstrate the commercial insurance availability problem which businessespeople face throughout the city. Even properties in the highly publicized Charter Oak - South Green redevelopment area can be redlined by insurance companies and receive de facto denials of private market insurance.

The continuing effort of the insurance industry and other major corporations to invest in the City of Hartford, is clearly directed to only one "neighborhood" downtown, where many major corporations are located. The industry has pledged to help build a "bigger and better" downtown, while their underwriting practices and policies help bring the roof down on city neighborhoods.

These events emphatically point toward the need for complete and comprehensive reform of the industry, in order to deliver services to the neighborhood people who support and maintain the insurance industry.
There are both state and federal laws which make illegal the denial of insurance coverage on the basis of location, although there is no statute which specifically proscribes this practice.

At the state level, the Insurance Commission is charged with the enforcement of laws governing insurance. As a part of that mandate, the Insurance Commissioner has the statutory authority to call a hearing when he has reason to believe that anyone in the business of insurance is carrying on that business in an unfair or deceptive way. Section 38-63 of the Connecticut General Statutes reads:

"Whenever the (Insurance) Commissioner has reason to believe that any person engaged in the business of insurance is engaging in this state in any method of competition or in any act or practice in the conduct of such business which is not defined in Section 38-61 (Unfair Practices Defined) that such method of competition is unfair or that such act or practice is unfair or deceptive and that a proceeding by him in respect thereto would be to the interest of the public, he may issue and serve upon such person a statement of the charges in that respect and a notice of a hearing thereon to be held at a time and place fixed in the notice, which shall not be less than thirty (30) days after the date of the service thereof."

If the Commissioner, after a hearing, rules that there has been a violation, he may cause a petition to be filed in superior court to enjoin and restrain the guilty companies from engaging in such practices.

**Title VIII**

Title VIII of the Civil Rights Act of 1968, a federal statute, prohibits redlining when that practice is based on race. Section 805 of Title VIII states that:

"It shall be unlawful for any bank, building and loan association, insurance company or other corporation, association, firm or enterprise whose business consists in whole or in part in the making of commercial real estate loans, to deny a loan or other financial assistance to a person applying therefor for the purpose of purchasing, constructing, improving, repairing, or maintaining a dwelling, or to discriminate against him in the fixing of the amount, interest rate, duration, or other terms or conditions of such loan or other financial assistance, because of the race, color, religion, or national origin of such person or of any person associated with him in connection with such loan or other financial assistance or the purposes of such loan or other financial assistance, or of the present or prospective owners, lessees, tenants, or occupants of the dwelling or dwellings in relation to which such loan or other financial assistance is to be made or given..."
An individual who is aggrieved by a discriminatory housing practice may file a complaint with HUD and, later, sue in federal court. In addition, the U.S. Justice Department can bring legal action in federal court if they have evidence that anyone is engaged in a pattern and practice which denies full enjoyment of any of the rights guaranteed by Title VIII.

Insurance redlining falls under this statute because it denies financial assistance to people because of the race or ancestry of those who live in the dwellings surrounding the building which is to be insured.

Redlining has the further effect of forcing non-whites to pay more for the right to own their own homes. Once insurance is denied on a building, banks will refuse to lend money needed for home improvements or mortgages which are needed for the proper maintenance of the building. Non-whites, then, must pay these costs out of pocket rather than through loans which would extend these expenses and make them less burdensome.

1866 CIVIL RIGHTS ACT

Another federal statute prohibits redlining where it is done on the basis of race. The 1866 Civil Rights Act states that all citizens "shall have the same right, in every state and territory, as is enjoyed by white citizens thereof, to inherit, purchase, lease, sell, hold, and convey real and personal property."

Through insurance redlining, blacks are denied the same rights as whites in the purchasing and holding of real property. Regardless of their economic justification for redlining, the insurance industry's actions are racial in effect and, therefore, seem to be clear violations of the 1866 Civil Rights Act.

Civil Rights cases brought under this Act have established that a black property owner or potential property owner can file suit against any institution which causes the cost of the property to be higher because the person is black.

While Education/Instruccion's findings point to the fact that homeowners anywhere in the City of Hartford have trouble getting insurance because they are in the city, it is also clear that insurance redlining occurs to a greater extent in the black North End.

E/I's Insurance Survey showed that a new homeowner in the North End would have a much greater chance of being put into the FAIR Plan than a similar risk located in the South End or West Hartford.

Although insurance redlining documentation has just begun, studies in some major cities (Los Angeles, Chicago) indicate that insurance companies withdraw from black and racially integrated neighborhoods first.

ANTI-TRUST

Finally, insurance companies may be in violation of federal anti-trust laws if it's proven that they are boycotting certain areas, even if it's not a total boycott. The insurance industry appears to be involved in an arrangement whereby they are withholding their product from a specific group who are then denied the benefits of that product.
There is something seriously wrong with an economic system which puts corporate profits over people's needs and which allows entire neighborhoods to wither in the name of "sound business practice." Insurance companies are out to maximize profits and are not concerned with the social effects their business decisions have on urban communities.

The following recommendations are reform measures and do not address the issues of high premiums, capacity, or excess profits in times of high unemployment and inadequate housing.

Based on the evidence in this report and insurance redlining complaints from other cities in Connecticut, the existence of insurance redlining is a documented reality for urban homeowners in the State. The Connecticut system currently divides supposed "desirable risks" and "undesirable risks" into arbitrary underwriting categories as was the case in the State of Michigan:

"The present system itself creates the problems of arbitrary refusal to sell, redlining, unfair rate discrimination and inefficient regulation...(The system) channels competition in ways that are often counterproductive for the consumer. Under the current system competition between companies focuses upon risk selection. This kind of competition encourages arbitrary underwriting and cancellation practices and unfair rate differentials." (Michigan Report 1977)

Since the problem of insurance redlining is institutionalized within the insurance industry, legislative or administrative action must deal with the insurance structure as a whole in order to effectively deal with the availability problem. The public must consider a Full Insurance Availability mechanism for the State of Connecticut. This comprehensive alternative has been proposed by the Federal Insurance Administration (FIA) of HUD and put into Legislative form in Michigan. The following analysis is a combination of both the FIA/Michigan proposals in summarized form:

1) Every major insurance company doing homeowners and automobile business in the state must sell (and be prohibited from cancelling) all of the coverages offered by that company to any potential insured as defined under state law. Any consumer could apply to any insurance company through its regular insurance channels and would be assured of equitable treatment and access to full coverage.

2) Every major company as defined above would be required to accommodate objectively similar risks through the company's normal marketing channels at the established rates.

3) There must be a sufficient number of market outlets accessible to consumers. State regulatory officials must be authorized by statute to undertake administrative action to guarantee a market, and access to that market.
4) Agents and Brokers would not be penalized for producing insurance. Agents know there are certain types and locations of risks that their companies will not accept, or will accept only in limited numbers. Companies must not cancel agency contracts because the agent accepts "unwanted" business.

5) The insurance industry must be required to utilize objective and statistically supported classifications of risk and to compile credible statistical data consistent with basic principles of insurance. The state regulatory body must establish uniform statistical plans to assure the risk experience would be collected in a meaningful and intelligible way.

6) A Connecticut Reinsurance Association would be established as a financial and record keeping device that would reinsure risks (accept the premium and risk) not desired by major insurance companies. The Association would replace the present Connecticut Insurance Placement Facility (The FAIR Plan) and the Assigned Risk Plan for automobiles. The Association would not sell policies nor set rat 1; but merely serve as a pool through which all companies would assist in meeting demands for essential insurance.

7) To provide a financial safety valve for companies required to offer essential insurance to every consumer, each company must have the right to reinsure any risk it did not wish to cover with the Connecticut Reinsurance Association. The company writing the policy would continue to service the customer, but any profit or loss on a policy transferred to the Association would accrue to the Association, not to the individual company servicing the customer.

In effect, a company could continue to make choices about the customers it believed - correctly or incorrectly, objectively or subjectively - to be unprofitable. Those decisions would remain solely the business judgement of the company. However, the advantages to the public of assured availability, regardless of the vagaries of fluctuations in a company's surplus or market conditions, would be retained at the same time. In such a system, there are dangers that a company could attempt to misuse the Association to gain an unfair advantage. Disincentives and prohibitions as necessary would avoid these dangers.

8) Any profit or loss of the Association would periodically be spread back to members of the Association according to a formula established by the Association. The formula would be required to recognize both overall premium volume and the amount of use made of the Association by a company. The formula would be subject to the approval of the state regulatory body.
9) Under any system some risks still must be considered uninsurable. The Association, subject to state regulatory body approval, should be permitted to establish objective and uniform standards of uninsurability. The Association must also be permitted, subject to strict regulatory review, to develop objective criteria limiting the coverage options that it would be required to offer if the risk of loss under the coverage option were so great as to produce an unreasonably high priced product. These standards should be most limited.

This comprehensive approach, implemented as a package, allows all insurable risks to purchase insurance from the company of their choice and avoid separate, less adequate FAIR Plan markets.

One of the most important features of this plan is the capacity element mentioned earlier. If capacity becomes a problem under this system, the company cannot arbitrarily reduce business in a discriminatory way as occurs now. Rather, the company must either continue writing all risks and maintain an adequate amount of capacity or stop writing that line of insurance completely.

Such a comprehensive approach will undoubtedly take time to implement. Therefore, the public must consider temporary measures to ease the current redlining crisis and monitor corrective efforts:

1) State legislation requiring that each and every underwriting practice and standard be in writing, filed with and approved by the Insurance Commissioner, and that those underwriting practices which have a disproportionate effect on particular geographical areas be disapproved.

2) State legislation requiring that any rejection of an application, or refusal to renew, or cancellation of present insurance be accompanied by a notice informing the applicant of the specific underwriting practice or standard upon which the decision is based, the date on which the practice or standard was approved by the Commissioner, and the right of such applicant to appeal the decision through the state regulatory body.

3) Prohibiting refusal to renew policies solely because of termination of an agency relationship unless the insured is first advised in writing of his right to continue coverage with the same company through another agent. This notice should be at least sixty (60) days before agent termination.

4) Requiring insurance companies to disclose on an annual basis by census tract, the number of cancellations, rejections, nonrenewals, applications for new policies, and policies issued.