Worse Redliners Identified: Department of Insurance Fails to Act

A report by the Center for Economic Justice

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Nationwide is not on your side—if you live on the wrong side of town. Neither is USAA, Farm Bureau, State Farm or Safeco. Analysis of individual company market data supplied by the Texas Department of Insurance shows these companies are among the state's worst redliners. Yet, despite the clear evidence of redlining from the Department's own data, the Texas Department of Insurance (TDI) has done little to address the problem.

This analysis complements the Center for Economic Justice's recent study of urban drivers placed in sub-standard companies (usually county mutual companies) or assigned to the Texas Auto Insurance Plan Association (TAIPA), which showed that drivers in poor and minority communities were disproportionately rejected by standard (lower priced) insurers.

Now, CEJ examines the market share in Anglo and non-Anglo areas of the largest auto insurers in Texas. The study shows that five of those insurers —Nationwide, USAA, Farm Bureau, State Farm and Safeco—have a substantially smaller market share of *insured* drivers in minority communities than they do in Anglo communities.

Although the Texas Department of Insurance provided the data that establishes these companies as among the state's worst redliners, the Department itself has done little to address unfair discrimination in the sale of auto insurance in Texas.

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USAA writes far more than the statewide average in predominantly Anglo areas. The results are particularly striking in San Antonio where the company writes more than 25% of the insured vehicles in Anglo areas but less than 5% in minority areas.

The Farm Bureau's statewide results may be partially explained by their large rural market, where the non-Anglo population is lower. However, this company also controls a substantial urban market, and in urban areas Farm Bureau's market share also drops dramatically in minority zip codes.

Nationwide's homeowners insurance sales practices have been the subject of consumer complaints and federal redlining investigations for years. In predominantly Anglo areas of the state's largest cities Nationwide controls 3 to 6% of the market. In minority areas it covers less than 1.5% of the insured vehicles.

State Farm and Safeco also show significant marketshare declines in minority areas. On a statewide basis, State Farm's market share drops from 31% in Anglo areas to only 19% in non-Anglo areas. Safeco, with a far smaller share of the market as a whole, also drops to about half of its Anglo area market strength in non-Anglo areas.

The significant reduction in market share in minority neighborhoods for these five insurers contrasts with that of Geico. Geico's market share is as great or greater in minority communities as in Anglo areas.
Farmer's market share in high-minority communities is less than its market share in low-minority communities, but to a lesser extent than Nationwide, USAA, Farm Bureau, State Farm and Safeco. While Allstate shows strong standard market presence in minority communities, the company places more consumers in these areas in its higher-priced county mutual company. Statewide, Allstate markets and writes far more high-cost, non-standard insurance in high minority ZIP Codes than in low-minority ZIP Codes.

CEJ recommends the Department exercise its regulatory responsibility and immediately investigate the underwriting, marketing and sales practices of Nationwide, USAA, Farm Bureau, State Farm and Safeco. It should then take swift and decisive action to end the practices that result in redlining. The state requires all drivers to carry auto insurance, so it has a duty to protect consumers from unfair discrimination by insurers.
Second, the Department should more aggressively investigate redlining and unfair discrimination by using “testers.” In testing, paired “shoppers” of insurance are matched on all characteristics except their race or the racial composition of their neighborhood. Consumer advocates and regulators throughout the country have successfully used testers to identify and ultimately reduce insurance redlining.

Third, the Department should take prompt and decisive action to stop illegal and unfair discrimination by insurers. In September 1996, CEJ identified a new and illegal underwriting guideline by one of Texas’ largest auto insurers. This illegal guideline made it more difficult for low income consumers to comply with financial responsibility laws. The Department agreed that the guideline is illegal, but took months to even begin an investigation and to date has not issued a cease and desist order or initiated disciplinary action.

Fourth, the Department should follow-up on the Houston redlining task force created in 1994. That task force included the Department, insurers, and community leaders who all agreed that there is an availability problem and worked together to solve the problem. Although several insurers made commitments to increase their writings or take other steps in those underserved areas, the Department has done nothing to ensure that insurers have kept those promises.

Fifth, the Department should pass rules to prohibit unfair underwriting guidelines that are not risk-related. Underwriting guidelines are the rules used by insurers to determine if they will offer coverage to a consumer, and if so, at what price. Although the Department has the authority to prohibit the use of unfair underwriting guidelines, it has failed to do so. Consumers Union, for instance, petitioned the Department to adopt rules in July of 1996, one of which would prohibit the blacklisting underwriting guideline described below. Although state law required the Department to act on the petition within 60 days, the Department has failed to take any action on it.

The Commissioner should bar the use of the following underwriting guidelines:

- Credit History—many insurance companies subscribe to the credit history scoring service of Fair, Isaac. The Fair Isaac product takes information in a consumer's credit report and creates a score—the higher the score the more attractive the risk to insurers. Fair, Isaac refuses to show regulators the inner workings of its credit scoring model, which may penalize lower income consumers.

- Prior Insurance Carrier/Blacklisting—companies have used underwriting guidelines which deny coverage to consumers who have already been turned down by other insurers or covered by non-standard companies (like County Mutuals). Consumers who are already the victims of redlining continue to face discrimination because insurance companies rely upon actions of other insurers instead of making their own independent business decisions. This underwriting practice is profoundly anti-competitive.

- Employment and Residencial Stability—underwriting guidelines which deny auto insurance to people who have recently changed jobs, been unemployed, moved or do not own their own home also punish poor and minority communities where employment is scarce. These guidelines also have an unfair impact on people who rent.

- Occupation—some insurers deny coverage to consumers in low-wage jobs. For instance, they insure attorneys but refuse to insure clerical workers. Occupation related guidelines have a disproportionate affect on poor and minority communities.

The Commissioner has ample authority to investigate and halt illegal redlining and eliminate underwriting and marketing practices that disproportionately affect minority areas. Auto insurance should be equally available to every good driver and available at the same affordable rates.