INSURANCE REDLINING AND
THE PROCESS OF DISCRIMINATION

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Insurance redlining and the racially discriminatory consequences of the sale of property insurance have been documented in several cities throughout the United States. In this study teams of “testers”—comparably qualified insurance consumers who differed only in the racial composition of the neighborhood of the homes they sought to insure—contacted three Milwaukee area insurance companies regarding the possibility of purchasing insurance for their homes. Though no blatantly discriminatory behavior was exhibited, agents representing these companies expressed a clear preference to pursue business in white communities and placed additional barriers in the way of testers from nonwhite neighborhoods. These findings parallel changes in other institutional sectors of the housing industry where blatantly discriminatory behavior has generally given way to more subtle forms of bias. Policy recommendations are offered to reduce existing racial disparities in the availability of insurance and to open up housing markets in general for minorities.

When Congress passed the federal fair housing act in 1968 it stated its intention “to replace the ghettos with truly integrated and balanced living patterns.” This sweeping legislation was enacted in part because Congress recognized that the reality of housing discrimination had become less a matter of explicit racial prejudice and more the result of subtle biases in various institutional sectors of the nation’s housing industry. While overt bigotry has certainly not disappeared, subsequent research has confirmed the prevalence of diverse institutional practices which, though not necessarily racially motivated, have served to reinforce dual housing markets in cities across the United States. Redlining by insurance companies constitutes one set of such practices. Though the term “redlining” is most
commonly associated with certain discriminatory practices by lending institutions, property/casualty insurance companies have exhibited similar behavior in their underwriting activities. This study examines the process of insurance redlining in one major midwestern city.

In each of the key sectors of the housing industry, explicit, intentional racially discriminatory practices have gradually given way to subtle forms of bias. Compliance with racially restricted covenants by realtors has given way to racial steering. Explicit utilization of race in mortgage lending and appraisal practices has given way to underwriting decisions based on neighborhood characteristics such as the age and value of housing, which have similarly adverse effects on minority communities. Whereas insurers formerly used racial classifications to evaluate potential consumers, they too now use neighborhood characteristics in a manner that adversely affects minority communities.

INSURANCE REDLINING, URBAN DISINVESTMENT, AND RACIAL DISCRIMINATION

At least since the mid-1960s, when several urban areas experienced race riots, revolts, and other forms of civil disobedience, many insurers have concluded that urban communities are uninsurable. Underwriting manuals have frequently included maps with red lines drawn on them to indicate areas where policies should not be written, or should be written only after careful examination and frequently at higher cost or with special exclusions. The racial composition of the neighborhoods within the red lines was frequently cited as the justification for such policies.

Growing awareness of the problems associated with insurance redlining generated protest activity and other forms of direct action by community groups against the practices of insurers, regulators, and elected officials around the nation. In response to this pressure, government agencies at all levels launched their own investigations. Lawsuits charging insurers with unlawful racial discrimination in violation of the federal fair housing act have been won (Dunn v. Midwestern 427 F. Supp. 1106 (S.D. Ohio 1979). Several states passed anti-redlining laws, community groups negotiated reinvestment commitments with some insurers, and many urban residents formerly denied coverage have been able to obtain insurance. The industry itself responded with its own analyses of the problems and voluntary programs aimed at better informing the public about the nature of the insurance industry. And all parties to the debate have utilized available academic research on redlining and related issues.