Executive Summary

The Homeowners Insurance Gap:

How Race and Neighborhood Composition Explain Cost and Access Disparities in Rochester and Monroe County, NY

Barbara Van Kerkhove, Ph.D
Principal Researcher and Author
Public Interest Law Office of Rochester

May 2005

This study was supported by a generous grant from Assemblymember David Gantt.

In January 2004 the **Public Interest Law Office of Rochester** (PILOR) merged with **Greater Upstate Law Project** (GULP) combining the advocacy strengths of both organizations to form a new, dynamic force for change. The results of the merger continue to blossom as we work to combine the direct legal representation and impact litigation; research and policy analysis; training and technical assistance; and legislative and administrative advocacy expertise of the two organizations.

Our joint mission is to protect and strengthen the legal rights of people in New York State who are poor, disabled or disenfranchised through: systems change advocacy; training and support to other advocates and organizations; and high quality direct civil legal representation.

GULPILOR engages in a broad range of legal matters, including consumer; education; civil rights; disability; domestic violence; housing; health care; and public benefits issues, including child care, cash assistance and immigrant access to public benefits.

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This study was supported by a generous grant from Assemblymember David Gantt.

The Homeowners Insurance Gap: How Race and Neighborhood Composition Explain Cost and Access Disparities in Rochester and Monroe County, NY was researched and written by Barb van Kerkhove, Ph.D. in consultation with Ruhi Maker.

Barb van Kerkhove joined PILOR as the Community Reinvestment Act (CRA) Project Associate in April of 2001 to work with Senior Attorney, Ruhi Maker on community reinvestment issues. In this capacity Ms. van Kerkhove analyzes mortgage lending and small business lending data for the Rochester metropolitan area. Such analyses include marketshare comparisons of the area's top lenders and mapping their lending patterns. Her most recent analysis looked at lending patterns of HUD-designated subprime lenders.

Ms. van Kerkhove provides support to the Greater Rochester Community Reinvestment Coalition (GRCRC) and maintains the City of Rochester-sponsored Housing Choice website (www.housingchoice.org). She received her Ph.D. in Political Science from the University at Albany, SUNY in 2001.

Ruhi Maker is a Senior Attorney at GULPILOR with expertise in community reinvestment issues, including predatory lending, CRA and fair lending. Prior to PILOR, Ms. Maker worked as an attorney with the Monroe County Legal Assistance Corporation (MCLAC) in Rochester from 1989 to 1995 representing low-income tenants and working with the Community Development Block Grant Coalition on affordable housing issues in the City of Rochester. In 1994, she co-convened the GRCRC and now spends most of her time on community reinvestment issues.

Ms. Maker has worked on an ongoing basis with non-profit organizations and area banks to develop strategies to address lack of lending to minorities. She also participated in the committee that developed the Fair Housing Action Plan for the County of Monroe. Currently, she serves on the steering committee of New Yorkers for Responsible Lending and will complete her three year appointment to the Federal Reserve Board's Consumer Advisory Council in 2005. She obtained her law degree in 1979 from the London School of Economics (University of London).

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Executive Summary

Introduction

The availability of affordable, quality home property insurance is critical to improving access to homeownership in low and moderate income and minority neighborhoods in New York State. As noted by the court in Dunn v. Midwestern, "Since insurance is a precondition of adequate housing, a discriminatory denial of insurance would prevent a person economically able to do so from buying a house."[1]

Demographic Context of Rochester and Monroe County

As a whole, Monroe County has a relatively racially and ethnically diverse population. On average, residents make a good income and can afford to own a home. According to 2000 U.S. Census data, twenty-three percent (23%) of Monroe County's population is comprised of racial and ethnic groups other than non-Latino whites. The median household income for the county as a whole is $44,891. The county's median housing value is $98,700.[2]

However, within these averages and medians, there are substantial differences in the racial/ethnic diversity, incomes, and housing values between the city and the surrounding towns, as well as among the four quadrants of the city. The City of Rochester has over four times the proportion of minorities as the surrounding towns. The southeast quadrant of the city has the largest concentration of whites, while the southwest quadrant has the largest concentration of African-Americans. The city's median household income is less than one-half the income of surrounding Monroe County. An average home in the city has one-half the value of the average home in the surrounding towns. Within the city, an average home in the southeast quadrant is substantially more expensive than an average home in the northeast or southwest quadrant.

Summary of Findings

The analysis of access to homeowners insurance undertaken by the Public Interest Law Office of Rochester (PILOR) raises critical issues about how the insurance industry approaches property insurance in Monroe County and the City of Rochester.

The results of our homeowners survey indicate that respondents in areas with higher proportions of minorities, lower incomes and lower housing values (i.e. the city and the southwest quadrant) tend to:

- Pay higher annual premiums - both total premiums and premiums adjusted for the value of the properties;
- Hold policies with less comprehensive coverage; and
- Have their claims settled less quickly,

than respondents in areas with lower proportions of minorities, higher incomes and higher housing values (i.e. Monroe County towns and the city's southeast quadrant).

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1 Dunn v. Midwestern, 472 F. Supp. at 1109.
2 Income, race/ethnicity and housing value data are from the 2000 U.S. Census of Population and Housing.

Compared to white respondents, minority respondent homeowners tend to:

- Pay higher annual premiums - both total premiums and premiums adjusted for the value of the properties, and
- Hold policies with less comprehensive coverage.

Factors that are traditionally used by the insurance industry to explain differences in annual premiums - housing value, type of structure, policy type, claims history, age of house, and amount of deductible - generally do not help explain pricing differences between the city and the surrounding towns or within the city. These factors do help explain premium differences within the towns.

Thus, our analysis of the data indicates disparities in premium costs and in comprehensiveness of coverage based on:

- Location of the Property
- Race/Ethnicity of the Policyholder

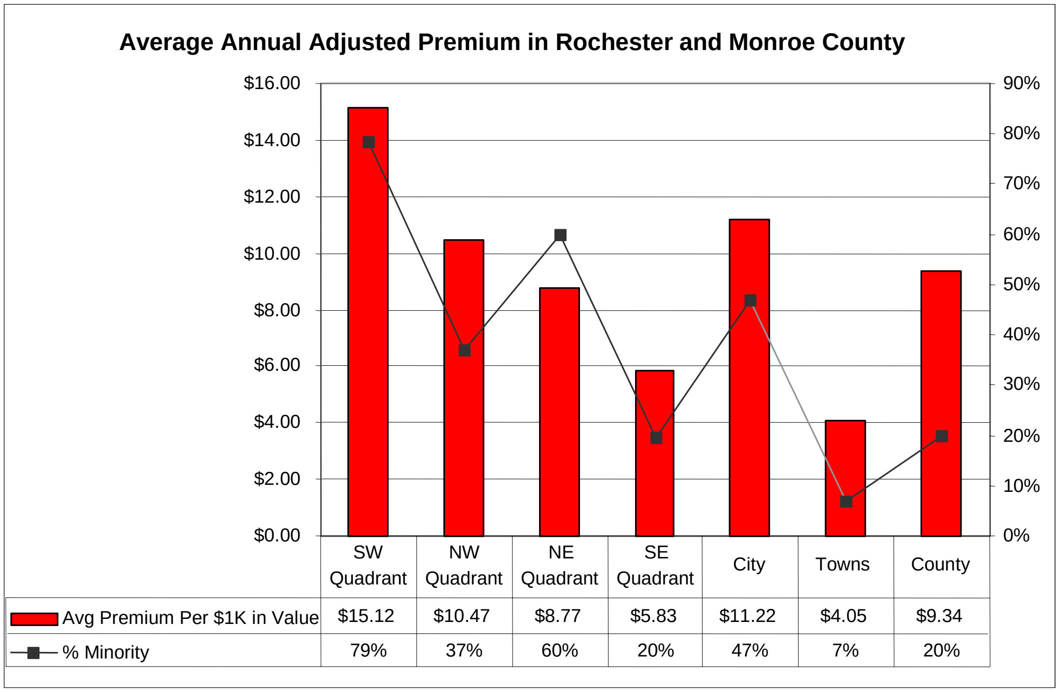
We are also unable to find significant relationships between annual premium and almost all factors traditionally used by the insurance industry to determine prices.

Together, these two findings indicate that something else is driving the pricing of and access to homeowners insurance in Rochester and Monroe County.

The demographics of the areas studied suggest that the pricing of and access to homeowners insurance may be driven, at least in part, by the racial/ethnic composition of the neighborhood, as well as the socio-economic status of its residents.

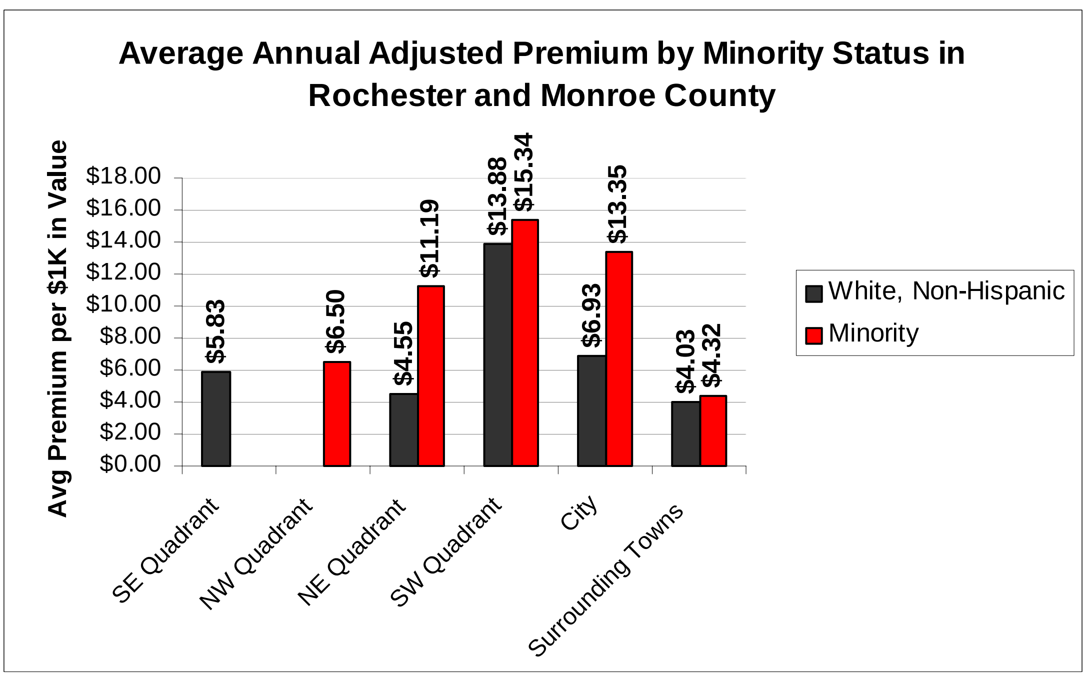
In more detail:

- Homeowner respondents in the southwest quadrant of the city of Rochester—the area with the highest proportion of minorities and some of the lowest housing values—pay more for homeowners insurance than respondents located in other areas in the city or in the surrounding towns. This was supported by insurance agent responses noting that it is more difficult to obtain homeowners insurance in the southwest or inner city neighborhoods.



- Premiums per $1000 in value were:
  - Almost three times as high for homeowner respondents in the city than for those in the surrounding towns
  - 2.5 times higher for homeowner respondents in the southwest quadrant than for those in the southeast quadrant

- Minority homeowner respondents pay more for homeowners insurance than white, non-Hispanic respondents.



- Premiums per $1000 in value were:
  - More than twice as high for minority respondent homeowners in Monroe County than for white, non-Hispanic homeowners.
  - Almost twice as high for minority respondent homeowners in the city than for white, non-Hispanic homeowners.

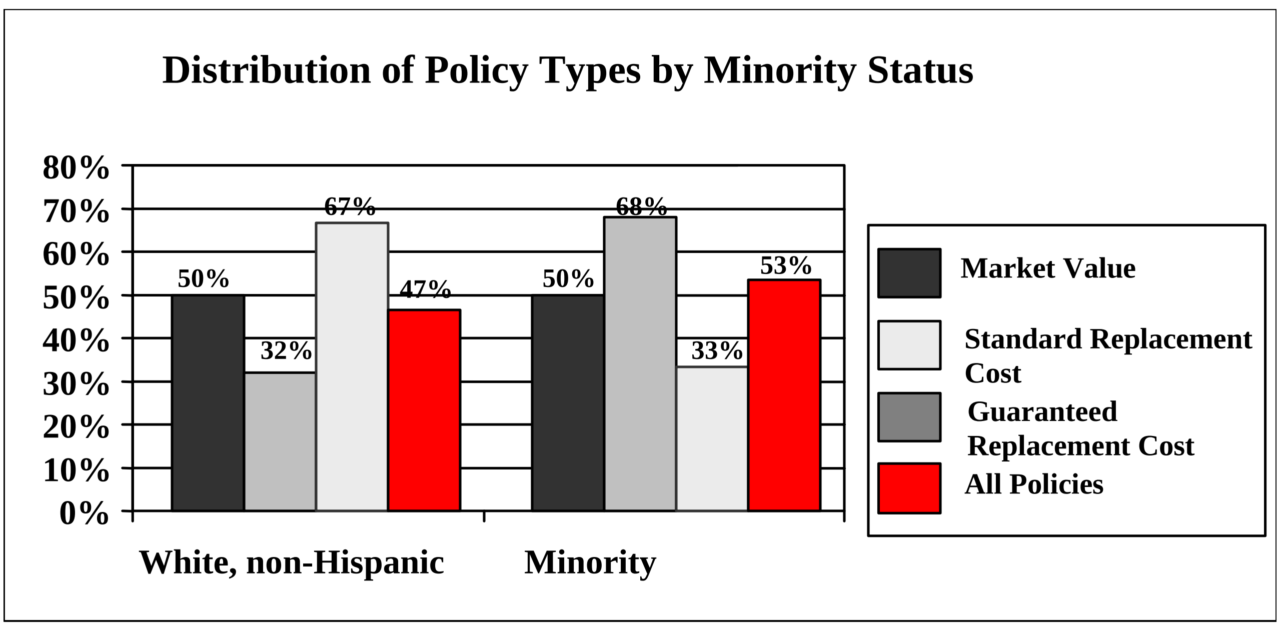
- Homeowner respondents in the city, particularly in the southwest quadrant, tend to hold policies with less coverage while respondents in the towns and the southeast quadrant tend to hold policies with more coverage. This is supported by one of the main issues noted by respondents in the insurance agent survey - the gap between the market value of the home and the cost of replacement.

- Minority homeowner respondents are more likely to hold policies with less coverage than white respondents. As seen by the chart below, minority homeowners hold just over one-half of all policies. However, minority homeowner respondents hold only:

  - One-third of the policies with the most comprehensive level of coverage (guaranteed replacement cost policies); and
  - Over two-thirds of the policies with less comprehensive coverage (standard replacement cost policies)

  In comparison, white homeowner respondents hold just under one-half of all policies, but they hold:

  - Two-thirds of policies with the most comprehensive coverage; and
  - Only one-third of the policies with less comprehensive coverage



- According to our survey of insurance agents, insurance redlining occurs at least occasionally in the Rochester area.

- Factors traditionally used by the insurance industry to explain pricing differences (housing value, type of structure, policy type, previous claims, age of house, deductible and length of ownership) generally do not help explain premium differences of homeowner respondents in the city. Except for length of ownership, these traditional factors are much better at explaining premium differences of homeowner respondents in the towns. While vacancy rate helps explain premium differences of homeowner respondents in both the city and the towns, it appears to do a somewhat better job at explaining premium differences among homeowner respondents in the towns.

How Well Traditional Factors Explain Differences in Premiums			
Explanatory Factor	Expected Relationship with Premium	Observed Relationship	
		City Properties	Town Properties
Housing Value	As housing value increases, premium increases	Weak relationship	Moderate to strong relationship
Housing Type	As housing unit density increases, premium increases	Moderate to strong relationship	N/A - all single family units
Policy Type	As level of coverage increases, premium increases	No relationship	Moderate to strong relationship
# Previous Claims	As number of previous claims increase, premium increases	Opposite relationship - moderate to strong	Moderate to strong relationship
Age of House	As age of house increases, premium increases	Opposite relationship - moderate to strong	Moderate to strong relationship
Deductible	As deductible increases, premium decreases	Opposite relationship - weak to moderate	Moderate to strong relationship
Length of ownership	As length of residence increases, premium decreases	Opposite relationship-- moderate	Inconsistent relationship
Vacancy rate	As vacancy rate increases, premium increases	Moderate relationship	Moderate to strong relationship
Note: Opposite relationship means that the actual relationship was opposite what was expected, i.e. for # previous claims, the actual relationship found in the city was premiums decreasing (rather than increasing) when number of previous claims increase.			

Recommendations

To help address the issues with respect to the pricing of and access to homeowners insurance for homeowners in lower-income and minority areas of Rochester and Monroe County, and to determine the extent to which such discrepancies are at play in other areas of the state, PILOR recommends a two-pronged strategy:

- Public disclosure of data on the issuance and pricing of property insurance by a geographic identifier, and
- Implementation of a homeowners insurance testing program

Specifically, PILOR calls on the NYS Legislature to:

> **Develop and adopt legislation requiring insurance companies to collect, and the State Insurance Department to publicly disclose, data on the issuing and pricing of policies by a geographic identifier (i.e. census tract or zip code) similar to that required of mortgage lenders by the federal Home Mortgage Disclosure Act (HMDA).**

Such disclosure will provide additional information to the State Insurance Department and to consumer groups about where insurance companies issue homeowners insurance policies and the pricing of those policies.

However, until there is a law requiring public data disclosure, the use of trained testers is one of the only ways to gather comprehensive data on pricing and policy differences across neighborhood and/or applicant characteristics. Therefore, PILOR recommends that an insurance testing program be implemented in Rochester and Monroe County, as well as in other key areas of the state, to further examine the extent of the disparities found in this study.

About the Study

Concerned about fair opportunity for home ownership, the Public Interest Law Office of Rochester (PILOR) began collecting anecdotal information indicating a disparity in the cost of homeowner's insurance in various parts of Monroe County, NY.

PILOR then conducted a study about differences in the cost of homeowners insurance between the city of Rochester and the surrounding towns in Monroe County, funded by a grant from Assemblymember David Gantt.

PILOR focused on two areas where discrimination in homeowners insurance has been shown to occur elsewhere: differences in the cost of policies and in the types of policies issued. We studied these differences mainly through a survey of 50 homeowners in the city of Rochester and in the rest of Monroe County. We also surveyed 21 independent insurance agents and interviewed two agents to gather background information on the application of company policies and standards, issues about insuring homes in certain neighborhoods, and recent trends in insurance.

PILOR used additional information from the homeowner surveys to examine whether certain factors that are traditionally used by the insurance industry to determine access to and cost of homeowners insurance might help explain differences we found in the pricing of, and policy type of, insurance by location and race/ethnicity. These factors included the type of structure, the age of the structure, the value of the property, the amount of deductible, the type of coverage, length of ownership and vacancy rate.

Introduction

An Overview of Previous Studies and PILOR's Examination of Homeowners Insurance in Rochester

The availability of affordable, quality home property insurance in low and moderate income and minority neighborhoods is critical to improving access to homeownership in these areas. As noted by the courts in Dunn v. Midwestern, "Since insurance is a precondition of adequate housing, a discriminatory denial of insurance would prevent a person economically able to do so from buying a house."[3]

Concerned about the local housing and insurance market, the Public Interest Law Office of Rochester (PILOR) began collecting anecdotal information indicating a disparity in the cost of homeowner's insurance in various parts of Monroe County, NY. PILOR found there are relatively few available studies on homeowner's insurance redlining, especially when compared to studies on mortgage lending redlining. This is because New York doe not require insurers to report homeowners insurance data with either some type of geographic identifier or the race/ethnicity of applicant/policy holder.

Eight states now require at least some property insurers to report homeowner's insurance data by zip code to the state insurance commissioner.[4] Neither the federal government nor New York State insurance regulators require the insurance industry to publicly report data on where and to whom they underwrite policies. Therefore, unlike Home Mortgage Disclosure Act (HMDA) data, there is no insurance policy data collected at the census tract level or by the race/ethnicity of the policyholder. The only available data on differences in cost and availability of homeowners insurance has been collected by organizations conducting consumer based testing.

When data has been available, it has been used to increase access to insurance in underserved neighborhoods. According to reports by the Massachusetts Affordable Housing Alliance, state required disclosure and financial incentives have encouraged a majority of the state's top companies to write more policies in underserved zip codes.[5]

Despite the difficulty of obtaining data, several types of homeowner's insurance redlining studies have been conducted:

- analyses of policies by zip code in certain states and in select major metropolitan areas[6]
- insurance application redlining studies using insurance testers[7]
- documenting insurance redlining via pre-trial discovery[8]

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3 Dunn v. Midwestern, 472 F. Supp. at 1109, as quoted in Dane, p. 32.
4 These states are California, Illinois, Maryland, Massachusetts, Minnesota, Missouri, Texas, and Wisconsin, as reported in Squires, O'Connor, and Silver, pp. 352-356.
5 Massachusetts Affordable Housing Alliance, p. 3.
6 See Klein, p. 44, Lynch, p. 165, and Massachusetts Affordable Housing Alliance.
7 See Smith and Cloud, p. 97 and Fair Housing Council of Suburban Philadelphia.
8 For example, see Lynch, p. 164.

- analysis of insurance claims payments through surveys of homeowners[9]
- surveys of insurance agents to document practices[10]
- examining insurance agents' office locations by minority/non-minority neighborhood[11]

The National Fair Housing Alliance (NFHA) has developed six categories for classifying types of homeowners insurance discrimination:

- Cost
- Type of policy
- Agent responsiveness
- Level of service
- Differential application of company policies and standards
- Discouragement[12]

Each of the studies cited above found disparate treatment in at least one category based upon the race/ethnicity of the applicant/policyholder and/or the location of the property.

Cost

Cost differences can be measured by comparing cost per $1000 of coverage or cost per square foot for the same type of policies. Studies have found differences in cost of insurance between white and minority neighborhoods and between white and minority applicants in the same or similar neighborhoods.[13]

Type of Policy

There are several basic types of homeowners insurance policies. The most common,[14] from most to least comprehensive, are:

- **Guaranteed Replacement Cost Policy**: Insures the homeowner for all risks of physical loss, except those specifically excluded, up to the amount estimated to actually repair or replace the home, <u>even if the replacement cost exceeds the stated value of the policy</u>. Also insures the contents of the home, usually for their replacement cost. This policy is generally the most comprehensive type.

- **Standard Replacement Cost Policy or Homeowners-3 (HO-3) or Special Form Policy**: Insures the homeowner for all risks of physical loss, except those specifically excluded, up to the amount estimated to actually repair or replace the home, <u>up to the limits of the policy</u>. Also insures the contents of the home, which may or may not be for the replacement cost of the contents.

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9 Baker and McElrath, p. 141.
10 Community Action Committee of the Lehigh Valley.
11 Schultz, p. 82, Lynch, p. 166, and Squires, Velez, and Taeuber, as quoted in Lynch, p. 166.
12 See Smith and Cloud, pp. 109-113, and Breines, pp. 8-13.
13 Smith and Cloud, p. 109, Klein, pp. 68-71, NJCA, et.al., p. 6-7.
14 Information from: Breines and New York State Insurance Dept.

- **Market Value Policy or Homeowners-8 (HO-8) or Repair Cost Policy:** Insures the homeowner for the actual cash value or sale value of the home, <u>even if less than the cost of replacement</u>. In no event will the company's settlement figure exceed the amount necessary to repair or replace the building. This policy type generally does not cover the contents of the home, except as an endorsement offered by the agent at an additional cost.

- **FAIR Plan Policy or New York Property Insurance Underwriting Association (NYPIUA) Policy:** For homeowners who are unable to purchase homeowners insurance in the voluntary market (the above policies). Sold at a higher premium than coverage offered in the voluntary market (approximately 20 percent higher). The FAIR Plan policy covers fewer risks than most voluntary market policies, and it does not cover the contents of the home.

Studies and court cases have found a variety of disparities in policy types when comparing the race/ethnicity of the applicant and/or the location of the dwelling:

- Minority homeowners are often offered inferior policies (or no policies) compared to white homeowners.[15]
- Homeowners in minority neighborhoods are more likely to be refused (or not be offered) replacement-cost or guaranteed replacement cost policies than those in other neighborhoods.[16]
- Homeowners in low-income or minority neighborhoods are less likely to have insurance through the voluntary market and are more likely to have FAIR Plan policies than homeowners in other neighborhoods.[17]

Replacement-cost policies also typically cover replacement of personal property. Therefore, white homeowners often have greater access to replacement-cost coverage personal property coverage than minority homeowners. With market-value policies, it is often up to the agent whether to offer replacement cost coverage for personal property as an endorsement at an additional charge.[18]

Agent Responsiveness

Studies have found agents or adjusters are less likely to be responsive to minority homeowners or homeowners in minority neighborhoods than white homeowners or homeowners in low-minority neighborhoods with respect to returning calls for quotes, making follow-up calls, and/or providing written quotes.[19]

In their study of insurance claims discrimination in South Florida following Hurricane Andrew, Tom Baker and Karen McElrath found that Hispanics were significantly less likely than other homeowners to receive a timely insurance payment.[20]

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15 Smith and Cloud, p. 109, Fair Housing Council of Suburban Philadelphia, p. 5, Lynch, pp. 160-161.
16 Lynch, pp. 166-167.
17 Klein, p.66, MAHA, p. 5, Squires, et.al., pp. 356-359, Breines, pp. 20-21.
18 Smith and Cloud, p. 110.
19 Smith and Cloud, pp. 110-111; Lynch, pp. 160-161; Fair Housing Council of Suburban Philadelphia, p. 6.
20 Baker and McElrath, pp. 144-145.

Level of Service

Agents are found to differ, as well, in the quality of service provided to applicants and policy holders.

NHFA found that agents would provide better service to white testers than to minority testers with respect to explanations of policies, offering a range of policy options, providing information on how to obtain discounts, following up to make sure that applicants received quotes.[21]

Application of Company Policies and Standards

Insurance agents are found to often apply stated company policies differently to minority and white homeowners or for homes in minority and non-minority neighborhoods. In the NHFA study, minority testers or testers with homes in minority neighborhoods were told of policies that would make it more difficult for them to obtain insurance or that prevented them from getting insurance, such as no quotes without inspection of property, maximum age-of-home limits, minimum insurance (market value) limits, while white testers were not told of these policies. In fact, they found that agents often told white testers how to circumvent stated company policies so they could get insurance or a better policy.[22]

Moreover, even if company policies or underwriting guidelines are applied equally to all homeowners, they can have a disparate impact, adversely affecting minority homeowners or those living in minority or low-income neighborhoods. For example, the most pervasive underwriting guideline in Texas, minimum value of home, negatively affects African-Americans at almost twice the rate as the total population of homeowners. Other underwriting guidelines that negatively affect underserved communities concern maximum age of home or improvement requirements, location restrictions, lifestyle prohibitions, credit history limitations, employment stability, marital status restrictions, foreign nationals limitations. Moreover, many of these specific guidelines are subjective and could be used to hide intentional discrimination.[23]

General Discouragement

Testing indicates that some agents or companies use questions or requirements to discourage minority applicants from obtaining insurance.[24] These may include asking whether the homeowner's previous company had cancelled them, whether they have good credit, are employed, or the name of their mortgage company.

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21 Smith and Cloud, p. 111.
22 Smith and Cloud, pp. 111-112; Fair Housing Council of Suburban Philadelphia, p. 6.
23 Powers, pp. 125-132.
24 Smith and Cloud, p. 112

Additional Information About This Study

The lack of homeowners insurance data means that anyone conducting a study on the pricing and availability of insurance in the Rochester area has to collect the raw data themselves. Which led PILOR to conduct a survey of homeowners in the city of Rochester and the surrounding towns in Monroe County.

It is important that studies of insurance redlining attempt to account for other factors that may explain the availability of and pricing differences in homeowners insurance. Therefore, PILOR used additional information from the homeowner surveys to control for certain factors that might affect the availability and cost of homeowners insurance. These factors included the type of structure, the age of the structure, the value of the property, the amount of deductible, and the type of coverage.

Why is homeowners insurance such a critical issue right now?

There are several reasons why examining possible discrimination in access to homeowners insurance is important for New Yorkers and Rochestarians:

- Since its inception in 1968, the New York State FAIR Plan or New York Property Insurance Underwriting Association (NYPIUA) Plan has existed by temporary statutory authorization, which needs to be renewed by the NYS Legislature upon sunset. When the Legislature fails to pass extensions before the sunset date, homeowners cannot get coverage through NYPIUA. In addition, policies coming up for renewal after the sunset date are not renewed. (See Appendix I for the 2004 announcement.)

- The increased use of credit scores by insurance companies to determine pricing, renewal and/or cancellation of insurance, including property and casualty insurance[25] limits access to affordable insurance on the voluntary market.

- As of April 2005, House Financial Services Chairman Michael Oxley and Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee Chairman Richard Baker are planning to review and mark-up the "State Modernization and Regulatory Transparency Act" (SMART), which sets a ceiling for state insurance regulations while making insurance regulations more uniform across states.[26] Such legislation would restrict the ability of states to effectively regulate insurance companies and protect consumers.
- The loss of homeowners insurance coverage by in-home child care providers even when they have a separate liability policy to cover their home-based business.[27]

Moreover, this study was conducted during a time when insurers are making much less money on their investments and trying to recover from 9/11. These actions are some of the ways that companies may be attempting to reduce losses and expenses.

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[25] For example, see Cruise.
[26] See Crenshaw. See also "NAIC President Koken Criticizes SMART in Letter to Oxley, Baker" at: http://www.pianet.com/IssuesOfFocus/HotIssues/modernization/3-29-05-5.htm
[27] Hahn, pp. 2-3.