Auto Insurance Redlining in Texas: Availability Worsens

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Texas auto insurers continue to redline drivers who live in low-income and minority communities, according to data provided by the Texas Department of Insurance.

This new analysis of urban drivers placed in sub-standard companies (usually county mutual companies) or assigned to the Texas Auto Insurance Plan Association (TAIPA) shows that drivers in poor and minority communities were disproportionately rejected by standard insurers and forced into the higher cost non-standard and assigned risk markets.

Despite several studies, acknowledgement of the problem and "commitments" by insurers to make affordable insurance more available in low-income and minority communities, the overall rejection rate increased and insurance availability worsened over the past five years.

The new analysis confirms several earlier studies of insurance availability in Texas cities, including 1993 studies by the Office of Public Insurance Counsel (OPIC) and the Texas Department of Insurance (TDI), 1994 studies by TDI and the *Austin American-Statesman*, and a new study by the *Fort Worth Star-Telegram*.

While redlining continues, consumers no longer have an affordable alternative to non-standard coverage. In 1992, the TAIPA offered coverage at reasonable rates to those rejected by the standard market. In the past two years, however, TAIPA rates increased to unaffordable levels—almost twice the state benchmark rate. Because of the excessive rates, TAIPA is no longer a safety valve for consumers in redlined communities. Instead, many consumers who want to buy insurance and comply with financial responsibility laws simply cannot afford to and become criminals.

In essence, county mutuals and the TAIPA have become a high priced dumping ground for low income and minority drivers who do not pose a higher risk for auto collisions but who have fewer option when they shop for a better deal. These practices undermine the financial responsibility laws, criminalize poverty and deny low-income and minority communities equal opportunity in the insurance market.

Recommendations

In light of these and previous similar findings, the Center for Economic Justice recommends the following:

- Implement regulations to ensure that insurers offer drivers with no moving violations or at-fault accidents a policy in their standard or preferred company;
- Cap the cost of a policy offered through the TAIPA at 145 percent of the standard market benchmark rate;
- Enforce existing anti-redlining statutes and regulations;
- Prohibit the use of unfair underwriting and rating factors, including credit history and prior insurance carriers.

A Divided Market : State Farm, Farmers, Allstate and many other large auto insurers sell coverage through a group of subsidiary companies that each sell the standardized Texas auto policy at a different price. Coverage through the county mutual costs two to four times more than coverage through a preferred or standard company. Independent county mutual insurers also market expensive policies to Texas drivers.

Consumers qualify for coverage in either a preferred, standard or county mutual company depending on each company's underwriting practices.

Preferred consumers are those perceived by insurers as the least risky. They meet the most restrictive underwriting guidelines and qualify for the lowest rates. Preferred rates are about 10 percent to 15 percent above the benchmark rate.

Standard consumers are those insurers believe to be a little, but not much, more risky. They qualify for coverage by the company with slightly less restrictive underwriting guidelines and somewhat higher rates-generally about 25 percent to 30 percent above benchmark rates.

Rates for standard and preferred customers are regulated under Texas Insurance Code 5.101—benchmark rating with flexibility bands. The standard/preferred market represents about 75 to 80 percent of the total private passenger automobile insurance market in Texas.

Drivers who do not qualify for standard or preferred coverage are written in the non-standard market by companies with the least restrictive underwriting guidelines and the highest prices—mostly non-rate regulated county mutual companies. County mutuals are not subject to Article 5.101 and are not governed by the rating rules of the Texas Automobile Rules and Rating Manual. In the second quarter of 1996, about 20 county mutual insurers wrote private passenger automobile policies.

When an auto insurer does not want to insure a particular consumer in its standard or preferred company, the insurer's agent may assign the applicant to the Texas Automobile Insurance Plan Association (TAIPA). In recent years, rates for TAIPA have risen dramatically to levels at or above county mutual rate levels.

Study Method : This study of private passenger insurance availability is based upon data supplied by the Texas Department of Insurance (TDI). The measure of insurance availability used is the share of vehicles insured by non-standard insurers and the TAIPA(assigned risk) as a percentage of all vehicles insured. Because people insured by non-standard insurers and TAIPA have been rejected by the standard market, we call this measure the auto insurance rejection rate.

This ratio of TAIPA plus nonstandard to total exposures is an excellent measure of private passenger automobile insurance availability because the measure identifies the share of all consumers who sought automobile insurance, could afford it, paid for it, and yet, were rejected by standard and preferred companies. Because substandard company rates are typically very high and consumers are not eligible for coverage through TAIPA unless they are unable to obtain standard coverage, the class of consumers insured through TAIPA or by substandard companies constitutes a class of consumers for whom coverage in the standard and preferred market was not available.

Statewide Results : Table I groups Zip Codes by the auto insurance rejection rate. As the rejection rate increases, and availability decreases, the share of minority population increases and the median household income decreases. Between 1992 and 1996, little has changed for low-income and minority consumers. Both income and race are statistically significant predictors of availability.

On a statewide basis in 1996, 22.5 percent of insured drivers had non-standard or TAIPA coverage. But, in ZIP Codes with high minority populations and low median household income, the percentage of drivers who had non-standard or TAIPA coverage was substantially higher than the statewide average.

For instance, there were 38 Zip Codes with an average non-anglo population of 83.7 percent and an average median household income of $16,441. The automobile insurance rejection rate in these Zip Codes was 46.8 percent to 51.9 percent, meaning that drivers in these poor and minority communities received non-standard or TAIPA coverage twice as often as the statewide average. But drivers in Zip Codes with low non-Anglo populations and high income levels did much better. In 317 Zip Codes with an average non-Anglo population of 13.6 percent and an average median household income of $30,565 the automobile rejection rate was only 10.5 percent to 15.6 percent, substantially less than the statewide average.

CEJ utilized a regression analysis to determine the impact of race alone on insurance availability. The analysis shows that, even holding income constant, consumers in Zip Codes with high minority population (at least 80%) were two to three times more likely to be insured in non-standard insurers or TAIPA than consumers in low (no more than 10%) minority communities.

Major Metropolitan Area Results : Maps for several urban counties in Texas present the 1996 Zip Code level data more graphically. The final pages of this report display these maps for Harris, Bexar, Travis, Dallas and Tarrant counties. For each county the maps show insurance availability by ZIP Code followed by the average percentage of non-Anglo population. Those ZIP Codes with poor insurance availability are, in most cases, the same ZIP Codes with high minority populations.

The Commissioner of Insurance sets the benchmark rate for standard and preferred companies by "rating territory." Because a rating territory represents an area of relatively homogeneous geographic risk, we would not expect dramatic differences in the writings of insurers by smaller geographic areas within the rating territory. Yet, the evidence shows that ZIP Codes with poor and minority consumers are much less likely to obtain insurance through standard and preferred insurers. Put another way, standard and preferred insurers do not make their insurance equally available throughout the rating territory. The practice of denying a consumer insurance because of where they live is called redlining.

The Poor Pay More : The consequences of redlining on consumers from poor and minority areas are profound. From the start, the requirement to purchase automobile insurance places a significantly higher financial gurden on poor consumers than on middle-and upper-income consumers because the cost of automobile insurance represents a greater share of the poor family's income – an income that has much less available after purchase of basic food, shelter, transportation and medical care.

When consumers are denied coverage in the standard/preferred market, the costs of insurance skyrocket. Currently, minimum liability insurance through the TAIPA may cost nearly twice as much as the same policy purchased through a standard or preferred company. Premiums for county mutuals range from twice to four times the current benchmark rate set by the Commissioner of Insurance for standard and preferred companies.

In addition to significantly higher rates, county mutuals generally charge policy fees, ranging from $60 to $125 for an annual policy. The policy fee is fully earned, meaning that the insurer gets to keep the full policy fee even if the consumer or the insurer cancels the policy in the first month. There are no policy fees in the standard/preferred market.

Finally, county mutuals frequently direct consumers to take out a high interest loan (called a premium finance loan) in lieu of a monthly payment plan if the consumer wants to pay for an auto policy over time. The typical interest rate for a premium finance loan is over 30 percent APR.

The Price is Not Related to Risk : Although insurers claim that the higher rates charged to consumers in county mutuals are based on risk, insurance department data shows that non-standard business at current rates is now more profitable than standard/preferred business in Texas. While rate regulated companies pay out about 73 cents in claims for every premium dollar, county mutuals pay out only 63 cents in claims. The investment guide Retire with Money recommends investing in Allstate stock because of the company's expanding sales of "extremely profitable policies to high risk drivers."

While minority consumers are disproportionately rejected by the standard market and placed in "high risk" insurance, 1994 data from the Teas Department of Public Safety showed that minorities are no more likely than whites to have been involved in traffic accidents.

Many consumers are denied coverage in the standard market for reasons unrelated to their driving record. Insurer underwriting practices are shrouded in secrecy, but state law allows the Office of Public Insurance Counsel to review and report on these guidelines as long as no individual companies are named.

According to a 1994 OPIC study of auto underwriting guidelines, insurers writing 56 percent of the auto market have occupation restrictions, and insurers writing 51 percent of the market have employment stability restrictions. Other automobile insurance guidelines include home ownership and length at residence requirements. One Texas automobile insurer's underwriting guideline discriminates against persons with disabilities, regardless of the disability or whether it affects driving skills: "Risks which show no apparent means of support or show disability as the occupation."

The more recent data from July, 1993 to June, 1994 show that over 75 percent of drivers insured through the TAIPA have no at-fault accidents or violations. At the same time, drivers insured through TAIPA are disproportionately from poor and minority neighborhoods. Yet, because of the high TAIPA rates, these good drivers without at-fault accidents or violations pay as much for insurance as high-risk drivers.

High Rates Drive Up the Number of Uninsured Motorists: The high costs of insurance through county mutuals and TAIPA force many consumers who are denied coverage in the standard/preferred market to go without insurance because they simply cannot afford it. According to data from the Houston and Austin municipal courts, police issue hundreds of thousands of drivers citations annually for "failure to maintain financial responsibility" – driving without insurance. If we extrapolate the 220,000 citations a year in Houston and the 40,000 citations a year in Austin statewide, over 1,000,000 drivers a year receive citations for driving without insurance.

The number of citations issued for no insurance is increasing faster than the rate of population growth. This may be an indication of an increase in the number of uninsured drivers.

The costs of unaffordable insurance for poor people are far greater than a ticket and fine for no insurance. Officer David Powe, a police officer from Richardson, Texas, testified before the House Insurance Committee in 1994 that fully one-third of the 5,000 prisoners in the Richardson jail facility were there because they couldn't pay the fines for driving without insurance. The combination of mandatory insurance and insurer redlining has criminalized poverty and created modern day debtor's prisons.

Redlining, combined with high rates for minimum liability coverage, creates an environment where illegal activities, such as counterfeit proof of insurance cards, can flourish because the cost of illegal activity – including the potential for fines and other punishment – is less than the cost of purchasing insurance. In addition, there are some areas in the state where, because strict enforcement of financial responsibility would put half the driving population in jail, the laws can simply not be enforced.

Recommendations

Implement regulations to ensure that insurers offer drivers with no moving violations or at-fault accidents a policy in their standard or preferred company and give all consumers equal opportunities to purchase affordable insurance.

No evidence exits that low income or minority drivers are involved in more accidents than affluent or white drivers. Yet, insurance companies use factors like a person's occupation or credit history to determine the cost of insurance. Good drivers should pay the lowest rates for liability insurance, regardless of their occupation, credit history or other factors not related to their likelihood of causing an accident. Good Driver regulations give people with clean accident and ticket histories the right to purchase insurance at the lowest priced from the company they choose.

Cap the cost of a policy offered through the TAIPA at 145 percent of the standard market benchmark rate.

Rapid TAIPA rate increases over the past three year caused a dramatic reduction in applications to the plan. Moreover, since the large rate increase effective July 1, 1995, the number of vehicles insured through TAIPA plummeted. From June 30, 1995 to September 30, 1996 the number of vehicles insured through the TAIPA dropped by 480,000, or 60 percent. Even worse, the number of drivers applying to TAIPA dropped by over 80 percent. As TAIPA rates increase, many drivers were priced out the market and simply went without insurance. Setting TAIPA rates below county mutual rates will allow more drivers to be able to afford to purchase insurance.

Enforce existing anti-redlining statutes and regulations by taking action against insurers who violate thelaw.

The Commissioner of Insurance has promulgated 55 rating territories. Each represents a grouping of similar geographic risks. By definition, insurers should make insurance equally available within rating territories. The study shows clearly that insurers do not make insurance equally available. For example, Harris County is all one rating territory. TDI should investigate unequal insurance availability and enforce Texas Insurance Code Art. 21.21-6, which prohibits discrimination on the basis of geographic location.

The Department of Insurance should also vigorously enforce existing regulations designed to end other unfair insurance practices. For example, 28 TAC Sec. 5.401(b) prohibits insurers from using an applicant's historical lack of prior insurance in determining a rate if the applicant has been continuously insured for the past 12 months. Further, 28 TAC Sec. 5.6016 (the not-at-fault rule) prohibits auto insurers from no-renewing an auto policy for weather-related claims regardless of the number of such claims, or for other comprehensive claims (theft, vandalism, etc.,) which do not exceed one in any 12 month period.

In 1996 one insurer began to required consumers to show two or three years of continuous insurance before admitting them to the standard or preferred company—making it much more difficult for those who were once uninsured to remain in compliance. Another insurer adopted new underwriting guidelines which indicate that the company will not insure drivers who have any "incidents" within three years. Incidents include one theft claim in a three year period and more than two hail claims in a three year period.

Prohibit the use of unfair underwriting and rating factors including credit history ad prior insurance carriers.

Insurers that use credit history to reject consumers for coverage at standard rates unfairly penalize lower income individuals who may be unable to pay a bill from time to time, but are not more likely to get into an auto accident than any other consumer. Insurers who penalize those who were formally uninsured by charging them substantially higher rates discourage compliance with financial responsibility laws and promote the criminalization of poverty.