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Governing Floods and Riots: Insurance, Risk, and Racism in the Postwar United States

Uwe Lübken *

Abstract: *»Zur 'Beherrschung' von Überschwemmungen und 'Riots': Versicherung, Risiko und Rassismus in den USA«*. In the late 1960s, the United States Federal Government resorted to publically funded insurance systems to deal with two quite different problems: floods and riots. Both programs were administered by the same agency, both relied heavily on the spatial mapping of risk, and both were haunted by problems of moral hazard. Curiously, and most importantly, however, riots as well as floods were viewed as "environmental hazards" by the insurance industry and the government agencies involved. The underlying assumption was that social problems could be treated as quasi-natural hazards, i.e. as a homogeneous and unpredictable force that could be contained by actuarial means. Yet uprisings, civil commotions, and riots are not "acts of god" that are located outside of society (and neither are floods). This article discloses the origins of both programs, it describes their communalities and differences, and it reveals the views of those who were subject to racist steering practices.

Keywords: Insurance, Risk, floods, riots, Redlining; racism, USA.

> *Mr. Jones.*
>
> *Our companies could not insure the same properties under the same underwriting conditions and at the same rates. Now, if it's insurable property and there are no environmental conditions, it would be insured under the FAIR plan.*
>
> *Ms. Gear.*
>
> *What does 'environmental condition' mean? […] I've heard that so much. You know, what is 'environmental condition'? What do you classify as 'environmental condition'? Maybe then I could give you a reply, because I need to know what that is.* [1]

On February 28, 1980, the Subcommittee on Insurance of the Committee on Banking, Housing, and Urban Affairs, United States Senate, gathered to review "the progress of the flood, crime, and riot reinsurance program and to consider new authorization". During congressional hearings a year before, questions had been raised as to the continued need for these programs and about whether they

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[1] U.S. Senate "Flood Insurance and Crime and Riot Reinsurance" 1980, 324.

"were operating in full accordance with congressional intent".[2] Invited to give statements before the committee and to submit reports were, amongst others, State insurance commissioners, representatives of the insurance industry, the Administrator of the Federal Insurance Administration, and "other knowledgeable persons concerned about hazard litigation, protection of the environment, and revitalization of the Nation's neighborhoods".[3]

What at first glance appears to have been (and most likely was) a long and exhausting congressional hearing unworthy of further scholarly research, raises a couple of interesting questions if we take a closer look. Why, one might ask, were such highly diverse topics such as floods and riots dealt with in the same hearing in the first place? Secondly, why was insurance the chosen means to cope with these problems? Finally, if insurance was the preferred tool to solve these problems, why was the Federal government involved at all and why wasn't the whole matter left to the private insurance industry, as was the case with the actuarial management of so many other hazards such as theft, fire, car accidents, or death? Ultimately, the question is why the United States government decided to use publically funded insurance systems to deal with both social and natural problems.

The Problem: Floods

In the United States, as in almost every other industrialized country, flooding became more and more of a problem over the course of the nineteenth and twentieth centuries. With the increasing utilization of the floodplains for agricultural, urban, infrastructural and industrial purposes, riverine and coastal settlements grew ever more vulnerable to high water levels of rivers and oceans. Several devastating river floods in the first three decades of the twentieth century along the Mississippi River, the Ohio River, and in New England had clearly disclosed this vulnerability. The main response to this challenge, however, had remained the same ever since the Army Corps of Engineers had firmly established its so-called "levee-only doctrine" in the late nineteenth century: physical protection from flooding by dams, levees, and, later on, also reservoirs. With total flood damages steadily rising despite these earthen and concrete devices,[4] it became increasingly clear, however, that structural measures were insufficient to relieve the financial burden of the state and the suffering of the people.[5] Disaster relief – a Federal task since 1950 – only added to

[2] U.S. Senate "Flood Insurance and Crime and Riot Reinsurance" 1980, 1.
[3] U.S. Senate "Flood Insurance and Crime and Riot Reinsurance" 1980.
[4] See Pielke et al. 2002, 56.
[5] "Insurance and other Programs for Financial Assistance to Flood Victims", A Report from the Secretary of the Department of Housing and Urban Development to the President, as required by the Southeast Hurricane Disaster Relief Act of 1965, 8 August 1966, 40, United

the costs of flooding and, in addition, diminished the awareness of personal risk: "Whenever a major disaster strikes anywhere in the United States today," the Department of Housing and Urban Development (HUD) noted in 1966, "substantial public help and relief are available."[6] Together, these developments were not sustainable and called for new approaches to the flood problem.

For several reasons, insurance seemed to be an ideal solution for this problem. Not only did it offer financial help to flood victims after a disaster (provided they had signed a policy), it also transferred risk and financial liability from the state (in the form of a moral or legal obligation to provide relief payments) to those potentially affected by floods. Furthermore, insurance schemes applied different premium rates to different regions of risk and thus encouraged a prudent utilization of the floodplain. The only problem was: flood insurance was not provided by the insurance industry.

Unlike other hazards, extreme natural events such as earthquakes or volcanic eruptions are in most cases confined to a more or less demarcated geographical space which limits the number of potential customers who demand protection by insurance. It would be next to impossible, for example, to sell avalanche insurance to people in the Baltic region or, for that matter, insurance against tidal inundations to someone living in Switzerland. As a consequence, insurance companies specializing in natural hazards attract a large number of "bad risks", which makes these companies extremely vulnerable to extreme events because too many insured persons might be affected at the same time. But it is not only the distribution of natural risks over space that creates problems for insurers; their distribution over time can be equally problematic because of the "highly unfavourable, if only temporary, ratio of claims to premiums" immediately after a devastating event.[7] In California, for example, earthquake premiums in 1994, the year of the Northridge disaster, amounted to $500 million while $11.4 billion had to be paid out for property damages.[8] Flood insurance suffers from the same structural problem.[9] The demand for financial protection from floods is extremely volatile. As a rule, it rises tremendously after a major flood event while people lose interest in signing policies after a couple of years without floods. Thus, private flood insurance companies have been made bankrupt again and again by severe inundations. In one extreme case in 1899 even the office buildings of one insurance company were washed away by a flood in Cairo, Illinois.[10] Even if a company survives, the

States National Archives, College Park, MD, Record Group 311, Entry 2, Box 44, 40. See also Rozario 1999, 70.

[6] U.S. Department of Housing and Urban Development, "Insurance and other Programs" 1966, 54. See also Platt 1999.

[7] Smith 1996, 91. See also Lübken 2008.

[8] Smith 1996, 91.

[9] See Langbein 1953.

[10] Grutzner 1955.

"pattern of large claims following years with few losses makes premium-setting difficult and the funding of claims unpredictable".[11] With the damage potential in the floodplains (both coastal and riverine) growing at tremendous rates after World War II, the burden on the federal budget was increasing correspondingly and new methods of dealing with this problem were sought.

The Problem: Riots

The lack of insurance coverage by private companies was also a key component of another, quite different post-war problem in the United States: the decline of American inner cities and the resulting uprising of impoverished people living in dilapidated housing conditions. After the end of World War II, millions of African-Americans left behind a legacy of poverty and racism in the South and migrated to the urban centers in the North, Northeast, Midwest and far West.[12] This process was accompanied by "white flight" to the suburbs. The suburban population, which was and continues to be mostly Euro-American, jumped from roughly 35 to 75 million between 1950 and 1970.[13] Suburbanization, officially supported by the Federal Government, allowed white Americans to leave "what deteriorated into inner-city reservations of racialized poverty".[14] Thus, these processes established a unique form of post-war urban segregation and fostered the equation of being black with being poor and with living in a pathological ghetto space.

One important but often overlooked fact in the history of inner-city ghettoization in the post-war United States is the role that racial steering practices of lending institutions and insurance companies played. For decades, as Gregory D. Squires has pointed out, "U.S. central city residents, particularly in minority areas, have often been unable to obtain property insurance at affordable rates".[15] The National Inspection Company, for example, a consulting firm which catered mostly to insurers, bore witness in a 1958 report on Chicago to the "encroachment of Negroes" and held that the "Puerto Ricans, Mexicans, Japanese and 'Hillbillies' have worked into some colored areas, particularly on the fringe of the cheaper or poorer districts and, in some cases, are in the same category with the lower-class Negroes". As a consequence, the report, heavily resorting to racial and class stereotypes, demanded that any "liability in the areas described should be carefully scrutinized and in case of Negro dwellings,

[11] Smith 1996, 91.
[12] Wilson 2005, 21.
[13] Avila 2004, 4.
[14] Avila 2004, 5.
[15] Squires 1979, 80-81.

usually only the better maintained, owner-occupied risks are considered acceptable for profitable underwriting."[16]

The availability of property insurance, however, is a key component of the status of housing conditions and of a community's overall situation. "Insurance is essential to revitalize our cities," a 1968 report to President Lyndon B. Johnson stated. "It is a cornerstone of credit. Without insurance, banks and other financial institutions will not – and cannot make loans." Thus, the renovation and improvement of property became more difficult and mortgages were hard to obtain. The report gloomily continued that

> new housing cannot be constructed, and existing housing cannot be repaired. New businesses cannot expand, or even survive. Without insurance, buildings are left to deteriorate; services, goods and jobs diminish. Efforts to rebuild our nation's inner cities cannot move forward. Communities without insurance are communities without hope.[17]

The availability of reinsurance, on the other hand, "influences the capacity of the primary insurers to underwrite" and "permits underwriters to assume a larger volume of risk than would otherwise be possible." Furthermore, "it enables the insured to accept a larger amount of exposure in a particular area or kind of area."[18] After the violent clashes between residents of urban ghettos and national security forces in the 1960s, a direct result not only of dilapidated housing and ridiculously high rents, but also of unmet demands by the Civil Rights Movement and the assassination of key figures within the movement, an already bad situation took a turn for the worse. The economic damages resulting from these riots were staggering. In Watts, Los Angeles, for example, the 1965 riots resulted in insured losses of $38 million; the 1967 Detroit riot caused $41.5 million and the 1967 Newark riot $11 million.[19] These huge (insured) losses led many insurance companies to give up property insurance in these areas altogether.

Flood and Riot Insurance

Thus, at first glance, floods and riots seemed to create similar problems in the postwar United States: The amount of financial damages they caused was increasing tremendously and demanded special solutions; in both cases, the private insurance market failed to deliver the protection deemed necessary and, as a result, the Federal government took the initiative and created state-sponsored systems of risk management.

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[16] Quoted after Squires 1996.
[17] President's Advisory Panel, "Meeting the Insurance Crisis of Our Cities" 1968, 1.
[18] Statement submitted by James E. Jones, Jr., Alliance of American Insurers, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 283.
[19] "The Central City Insurance Crisis" 1971.

First attempts of the United States government to intervene in the flood insurance business date back to the early 1950s when record floods in Kansas and Missouri induced the Truman administration to take a more active course. In 1956, the *Federal Flood Insurance Act* was enacted, which envisioned a system in which the Federal government acted as a kind of reinsurer for flood insurance companies, but Congress refused to appropriate substantial amounts of money.[20] Ten years later, however, Hurricane Betsy, which devastated large parts of New Orleans, triggered the *Southeast Hurricane Disaster Relief Act* which, besides authorizing relief payments to the flood victims, also mandated a feasibility report on a national flood insurance program. In 1968, the *National Flood Insurance Act* was finally passed, which, at least theoretically, made flood insurance available to all potential flood victims.[21]

The 1968 *Urban Property Protection and Reinsurance Act*, too, was more or less a direct result of a series of catastrophes.[22] It originated in the urban riots of the 1960s and was

> enacted to keep essential property insurance available in urban areas where the insurance industry had grown fearful that the riot and civil commotion hazards made even reasonably well-maintained buildings uninsurable."[23]

In 1968, the Hughes Report by the National Advisory Commission on Civil Disorders warned that if nothing was done about this problem, it might grow worse and affect even more cities in the future.[24] Thus, under the *Urban Property Protection and Reinsurance Act*, federal riot reinsurance was made available to insurance companies in states that established a Fair Access to Insurance Requirements (FAIR) Plan. The National Flood Insurance Program (NFIP) worked in a similar way. Municipalities could participate in the NFIP (and hence their citizens could benefit from federally funded flood insurance) if, in turn, they agreed to establish zoning laws and building codes in order to guarantee a thoughtful utilization of the floodplain.[25]

The two programs were institutionally joined in their first year of existence when in 1968 the Federal Insurance Administration (FIA) was established within the Department of Housing and Urban Development (HUD) on August 1, 1968, to administer federal flood, riot, and crime insurance programs. The

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[20] U.S. Department of Housing and Urban Development, "Insurance and other Programs" 1966, 65; King 2005, 6-7.

[21] See U.S. Department of Housing and Urban Development, "Insurance and other Programs" 1966.

[22] Statement submitted by James E. Jones, Jr., Alliance of American Insurers, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance", 283.

[23] Statement by Gloria Jimenez, Administrator, FIA, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 21-22.

[24] Statement submitted by James E. Jones, Jr., Alliance of American Insurers, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 283.

[25] Cf. Bernstein 1971.

FIA was later transferred to the Federal Emergency Management Agency (FEMA) but has retained autonomous status under its new umbrella organization. Besides being administered by the same agency, the two programs also had a lot in common in a functional sense. Both were based on mapping regions of risk. This is, of course, a standard procedure for almost every branch of the insurance business, but the geographical containment of hazards acquires special importance where the spatial distance between (real or imagined) "good" and "bad" risks is often only a few feet up the hill to higher ground (as in the case of floodplains) or one or two blocks (as in the case of redlining practices). The NFIP mapped the flood risk by publishing *Flood Insurance Rate Maps* (FIRM), while the riot reinsurance program had to identify hazardous urban areas.[26]

Furthermore, both programs were haunted by moral hazard and fraud. With the Federal government acting as an insurer of last resort and as such assuming the entire (floods) or at least large parts (riots) of the financial risk, there was a high incentive for property owners, the private insurance industry, and sometimes even city officials to actively create or redefine the very events they were supposed to be protected from, i.e. fires and floods. The riot reinsurance program, for example, triggered arson. In 1973, the Ohio FAIR Plan Underwriting Association ascribed eighty percent of its losses to arson or "suspicious circumstances".[27] Cleveland, Ohio, accounted for no less than 1,593 arson incidents in 1974 and 1,976 incidents in 1975. Paid claims by the fire insurance underwriters in that city from November 1970 through September 1973 amounted to $2,386,457.[28] The American Insurance Association complained that the 1978 amendment to the *Urban Property Protection and Reinsurance Act* (the so-called Holtzman amendment), which requested rate parity between conventional insurance policies and those created under the FAIR Plans, had made the latter "a dumping ground for high risks," that "would provide a disincentive for sound housing management and would encourage arson."[29]

With regard to the National Flood Insurance Program, the AIA warned that "the program will prove counterproductive because the premium subsidies and loss payments will actually encourage irresponsible construction and result in added loss of life and property."[30] Indeed, one of the most important problems

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[26] Monmonier 1997. See also Cornel Zwierlein's article in this volume.

[27] Kerr, "Who Burned Cleveland" [forthcoming].

[28] Cleveland *Plain Dealer*, April 7, 1975, quoted after Kerr, "Who Burned Cleveland" [forthcoming].

[29] Testimony of George K. Bernstein on behalf of the American Insurance Association, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 269. See also Senate Committee, "Arson in America" 1979; General Accounting Office, "Arson *for* Profit" 1978.

[30] Testimony of George K. Bernstein on behalf of the American Insurance Association, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 268.

of the NFIP were "Repetitive Loss Properties" (RLPs), i.e. properties that had been damaged twice or even more often. Contrary to the practices in the private insurance industry, the NFIP decided to continue insuring such bad risks. Consequently a huge percentage of all NFIP claims were made by property owners who had been affected by flooding before (more than 25 percent, for example, in 1998).[31]

Riots as "Environmental" Hazards

The most striking similarity, however, is that floods as well as riots were treated as "environmental hazards" by the insurance industry and the government agencies involved. While this is not so surprising as far as floods are concerned (although the more recent literature on the history of natural hazards and catastrophes convincingly contests the view that such events are entirely "natural"), it is remarkable in a policy debate about riots.[32] The February 1980 hearing before the Senate Subcommittee on Insurance on the progress of the flood, crime, and riot reinsurance program is especially interesting insofar as it not only illustrates the insurance industry's view on the "nature" of riots (as well as floods); it also displays the citizens' criticism and resistance against this naturalization of social problems.

The American insurance business had originally supported the 1968 *Urban Property Protection and Reinsurance Act*. George K. Bernstein pointed out in 1968 that the organization he directed, the American Insurance Association, "was among the leading proponents of both the National Flood Insurance Program and the Urban Property Protection and Reinsurance Program".[33] After nearly 12 years of operation, however, the industry's perspective had changed. James E. Jones, Jr., the AIA's government affairs representative, now called for a termination of the Federal program since it had outlived its existence. Jones acknowledged that the program had been successful in providing "coverage in urban centers for essential property insurance".[34] However, he also told Senator Stewart, who was presiding over the hearings, that "our companies believe that the potential for riots and exposure to riot losses have greatly diminished. Private reinsurance is, today, available. We urge you to finalize the liquidation of the Federal riot reinsurance program."[35] In a statement prepared for the January

[31] Platt 1999, 73.
[32] See Oliver-Smith 1999; Mauch and Pfister 2009.
[33] Testimony of George K. Bernstein on Behalf of the American Insurance Association, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 265.
[34] James E. Jones, Jr., government affairs representative of the Alliance of American Insurers in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 277-278.
[35] U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 281.

1980 hearing, Jones explained that almost four million new and renewal policies had been issued by FAIR Plans over the last five years.

Yet, a more substantial reason why the AIA demanded the termination of the program – besides the decreasing threat of riots and the growing availability of private property insurance in the inner cities – was very likely the fact that the losses encountered exceeded the premiums earned by more than $11 million. "When one considers that companies have also incurred substantial expenses to pay for state premium taxes, agents' commissions, administrative costs, etc.," Jones continued, "state FAIR plans have been an utter disaster for private insurers, and the losses generated by those plans have prevented the companies from expanding their voluntary operations."[36]

"Back of the Bus" Insurance

The image that representatives of the insurance industry painted of their role in the riot reinsurance program was one of generous companies who had more or less sacrificed themselves in order to offer financial protection to inner-city residents. Despite the fact that they encountered huge losses, the homeowner policies they offered under the FAIR umbrella were allegedly equal in both rate and content to conventional policies. This view, however, was challenged by those for whom the lack of inner-city insurance coverage was a first-hand experience and not just the result of a technical report. Juanita Gear, for example, who represented the South Austin Coalition Community Council, a Chicago neighborhood organization, questioned the equality of insurance coverage under the FAIR Plans and conventional policies respectively, and demonstrated that parity existed in theory only. In practice, FAIR Plans were either more expansive or they provided less protection than conventional policies.[37]

Gear pointed out that clients of FAIR Plan policies often paid two to five times more than those who were able to insure their property conventionally. Also, FAIR Plans in most cases did not include theft or liability coverage. And even after Congress had passed the Holtzman Act demanding rate parity, 11 of

[36] Statement submitted by James E. Jones, Jr., Alliance of American Insurers in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 285. Jones claimed that in Rhode Island, $147 of losses were paid to FAIR Plan policyholders for every $100 of premiums earned. See James E. Jones, Jr., Alliance of American Insurers, to Donald L. Stewart, Chairman, Senate Subcommittee on Insurance, 26 March 1980 in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 296.

[37] Statement of Juanita Gear before the Senate Subcommittee on Insurance, ibid., 300. Gear was also a member of the National People's Action, a national coalition of grassroots organizations which had, "for a number of years, been involved in a variety of efforts, both legislatively and through direct negotiation with insurance companies, to increase the availability of essential property insurance in urban neighborhoods." in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 296.

the 28 FAIR Plans did not comply with this mandate. Insurance companies did not hesitate, however, to broaden the categories of risk that could be insured under the new program so that the FAIR Plans, once designed for only those risks in specifically defined riot affected areas, are now the major insurer of good risks in neighborhoods that were not then and never have been subject to extreme environmental hazards.

As a result, in 1980, more than 1,000,000 homeowners and businessmen were "relegated" to the state FAIR Plans. In Illinois alone, the number of FAIR insured homes and businesses rose from 44,600 in 1975 to over 76,000 in 1979.[38]

The most insulting aspect of the FAIR Plan system, however, was the spatial segregation it produced. An insurance map of Chicago, for example, showed a considerable overlapping of areas with high FAIR Plan coverage with predominantly African-American neighborhoods. "If you notice where the blackout is, the red, which we indicate as redlining," Gear pointed out, "is the area which is predominantly black. OK? To the north, which is predominantly white […] the insurance companies write without any problem whatsoever." When asked by Senator Stewart whether one could purchase homeowner's insurance under the FAIR Plan in those areas, Juanita Gear replied:

> Yes, but why should you get FAIR plan homeowner's [insurance] when you could have conventional insurance? Why are you segregating us differently from the conventional world? Why can't you have complete conventional insurance if it's available and there is nothing wrong with your policy?[39]

AIA director George K. Bernstein finally acknowledged the existence of differences between FAIR and conventional plans but tried to explain them with different loss situations. The separation of different regions of risk was a prerequisite for a successful operation of the FAIR program, he argued: "And that's exactly what FAIR plans are for: to recognize the fact that in key urban areas you must make a separate market".[40] Gear did not oppose the creation of a separate market; she questioned, however, the criteria on the basis of which a specific property was categorized as a FAIR Plan property. For insurance companies, she held, the most important factor was not the individual risk of a building, but its location inside an allegedly hazardous area. "I know for a fact that insurance companies took zip codes – okay? and placed them on the FAIR plan because of geographical location or because of the age of the dwelling,"

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[38] U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 316.

[39] U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 301.

[40] U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 302. See also Bernstein's Testimony on behalf of the American Insurance Association in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 268: "The [Riot Reinsurance] Act did not require that all risks be written voluntarily, but it provided that in return for federal riot reinsurance, private reinsurers would create a separate market in the form of FAIR Plans."

Juanita Gear explained. [41] Nine out of ten of Chicago's 76,000 FAIR Plan policyholders lived in the city's South and Westside neighborhoods, she continued: the same neighborhoods that housed, "by no small coincidence," almost 90 percent of the city's minority population.[42]

Thus, by its segregative effects, the FAIR Plan reintroduced and legalized to a certain extent the decades-old and prohibited practice of redlining.[43] Even worse, it had "a definite racial component", and reminded many African-Americans of the "separate but equal" doctrine which basically held that segregation was not discrimination as long as the facilities for different parts of the population were "equal".[44] "Perhaps the best way to demonstrate the serious implications of adopting so naïve a policy as 'separate but equal' insurance availability," Gear reminded her audience during the hearing in 1980, "is to point out that residents of my neighborhood now commonly refer to the Illinois FAIR Plan as 'back of the bus' insurance."[45]

Conclusion

The somewhat strange parallels between flood and riot (re)insurance are based on the assumption that both are "catastrophal" risks, i.e. events with a low probability of occurrence but a very high damage potential.[46] Unlike car accidents or theft, these risks are difficult if not impossible to contain by probabilistic methods and hence extremely hard to model and to translate into actuarial terms.[47] One of the main problems in dealing with both floods and riots is that

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[41] U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 302.

[42] Gear Statement, U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 316.

[43] "Insurance Redliners Fined $100,000", *Chicago Tribune*, 3 June 1979: "The largest fines ever imposed by the Illinois Department of Insurance for redlining violations have been levied against the Insurance Company of Illinois (ICI), and its manager, W. W. Vincent and Co. Inc., the Tribune has learned. […] The action climaxes a seven-month investigation of W.W. Vincent and ICI which established what one source called 'a clear pattern of geographic discrimination' in the writing of homeowner insurance. Redlining is the commonly used phrase for the denial of homeowners' insurance to people living in certain designated geographic areas, particularly those characterized as black, Hispanic, 'changing', or decaying. The practice has been prohibited by the Illinois Insurance Code since September, 1977".

[44] Gear Statement, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 316-317. This view was confirmed by the infamous Supreme Court decision in *Plessy vs. Ferguson* in 1896, and only overruled in 1954 in *Brown vs. Board of Education.*

[45] Gear Statement, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 317.

[46] This view was already expressed in the Advisory (Hughes) Report to President Johnson in 1968. See also Statement submitted by James E. Jones, Jr., Alliance of American Insurers, in U.S. Senate, "Flood Insurance and Crime and Riot Reinsurance" 1980, 283-284.

[47] See Lockett 1980; Greene 1976; Moss 2002.

years with huge (insured) losses are followed or preceded by years with hardly any damage at all. "Civil Disorder Losses", for example, amounted to $38 million in 1965 and to $67 million in 1967, but to only one million dollars in 1966.[48] Thus, in order to provide insurance coverage for those affected by these events, the Federal government in both cases stepped in as an insurer of last resort.[49]

Here, however, the commonalities end. Both programs rely heavily on the geographical mapping of risk but while this is a sound (and indeed indispensable) policy as far as flood insurance is concerned, it represents a racist strategy when applied to allegedly "riot-prone" areas. By characterizing whole blocks, neighborhoods, or even zip code areas as "hazardous", rather than looking at individual buildings or businesses, the FAIR Plans and the companies involved fostered racial stereotypes and severely limited both the quality and quantity of insurance protection available in those inner-city areas. The underlying assumption was that social problems could be treated as quasi-natural hazards, i.e. as a homogeneous, yet unpredictable force that could (literally) be contained by actuarial ghettoization. From this perspective, every citizen who was living in one of these specified areas became a potential rioter. Uprisings, civil commotions, riots, etc., however, are not "acts of God" that are located outside of society (nor are floods, by the way[50]) and hence they require other solutions than racist steering practices.

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[48] See Lewis 1971, 29.
[49] See Moss 2002.
[50] See Steinberg 2000.

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