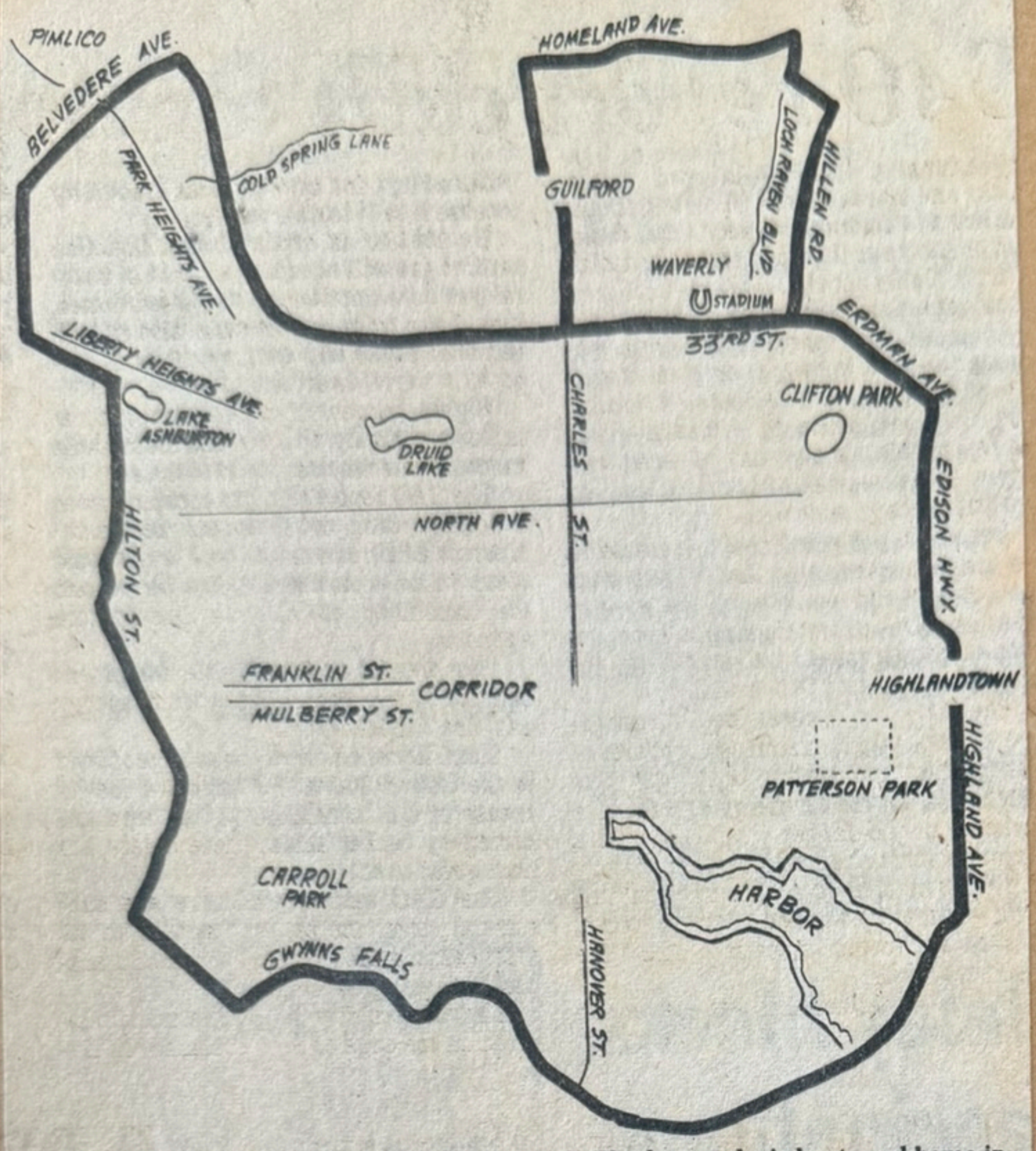

Most areas inside bold line, including affluent Guilford, were denied auto and home insurance by American Mutual, Insurance Commissioner Edward Birrane found.

Insurance Firm Appealing $150,000 'Redline' Fines

American Mutual Insurance Co. has filed an appeal asking the Baltimore City Court to overturn $150,000 in civil fines imposed by Edward J. Birrane Jr., state insurance commissioner, for alleged "redlining" by refusing to sell automobile and homeowners policies in large areas of Baltimore.

Judge J. Harold Grady signed an order staying payment of the penalty until the court has heard and decided the insurer's petition to reverse Mr. Birrane's findings, which resulted in what the commissioner said was the largest fine ever imposed on an insurance company in Maryland.

The appeal claims that Commissioner Birrane's order was "arbitrary, capricious, unreasonable, incorrect, discriminatory and inequitable" and was "unsupported by competent material and substantial evidence in view of the entire record."

It also charged that the ruling "totally disregarded that portion of the appellant's underwriting guidelines, which were introduced in evidence, testified to and were uncontradicted."

In announcing the penalty Monday, Mr. Birrane said his division's investigation showed that the Boston-based insurance company has systematically violated the state law against "redlining," the practice of refusing to sell insurance in certain areas.

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Companies are permitted to charge higher rates in areas where experience has shown greater-than-normal losses, but are not permitted to exclude such areas from coverage.

Eve. Sun

City areas found to be redlined, the commissioner said, included sections of Pimlico, Park Circle, North avenue, Clifton Park, Highlandtown, South Baltimore, Carroll Park, the Franklin-Mulberry corridor, downtown and the Orleans street corridor.

Insurance firm fined in redlining

Company must pay $150,000, Birrane says

Sun 8/1/78

By TIMOTHY M. PHELPS

Insurance Commissioner Edward J. Birrane, Jr., announced yesterday the imposition of a $150,000 fine on a Boston-based company for illegally refusing to sell automobile and homeowner's insurance in most of Baltimore city.

American Mutual Insurance Company "redlined" most of the poor, densely populated areas of the city, refusing in most cases to sell insurance there regardless of individual merits and the higher rates allowed in those areas, Mr. Birrane said.

"I will not tolerate this cruel procedure whereby an insurer asks for high rates in an area and then carves out certain pieces of that area as 'undesirable' anyhow," Mr. Birrane said.

He said that his office was currently investigating hundreds of complaints against other companies in Baltimore and in densely populated poor areas of Prince Georges county.

The $150,000, composed of three $50,000 fines for violations of three separate redlining laws, is the largest ever imposed on an insurance company in the state's history, Mr. Birrane said.

It is also the first use of laws passed in the early 1970's that strengthened regulations against redlining. The only other redlining fine was $25,000 levied against Allstate in 1968.

Asked at a press conference if the redlining was widespread in the city, Mr. Birrane said: "I don't know yet. I suspect it's a lot more widespread than we believed."

The practice has attracted increasing national attention. Both the federal Department of Housing and Urban Development and the state insurance examiners' organization have announced investigations.

Richard Awalt, the company's former local sales manager, said yesterday he had just been questioned by officials of the Federal Trade Commission. He said he thought that most insurance companies had been redlining in Baltimore over the past 10 years but that it would be very difficult to prove.

"I warned them from the day they said 'map,'" he noted, referring to his own company. It was Mr. Awalt and four local agents—all fired for "non-production" after the company started restricting coverage in the city—who initiated the Insurance Division's investigation.

Most of the redlined areas were of mixed racial content or black—with some exceptions—including Highlandtown and portions of South Baltimore, Mr. Birrane said.

Redlining also occurred in the southern portion of Pimlico and all or portions of Park Circle, North Avenue, Clifton Park, Carroll Park, the Franklin-Mulberry corridor, downtown and the Orleans street corridor, the commissioner said.

The company apparently used zip codes to delineate the prohibited areas, causing some ironic inconsistencies in the map, prepared in Pennsylvania. Guilford, an upper-income area, was included in a section where redlining was sometimes practiced. Some poor neighborhoods were left out.

Mr. Birrane asked Maryland residents who feel they have been discriminated against because of where they live to call the state Insurance Division offices and complain.

The laws do not permit a company to refuse to sell insurance to people because of where they live. Insurance companies are, however, allowed to charge more in areas where past experience has shown losses to be high.

For this reason, auto insurance rates in the city are generally about two-thirds higher than in Baltimore county for persons with good driving records. For example, a Travelers Insurance Company automobile policy available in Baltimore county for $314 a year costs $525 in Baltimore city.

A lawyer for American Mutual, which has local offices in Boston, said the company would appeal the fines in court. He would not comment on Mr. Birrane's findings.

Mr. Birrane specifically rejected the company's defenses that it did not completely curtail underwriting policies in the area, that losses justified restrictive measures, that maps were drawn only where there was no off-street parking, and that restrictions were necessary because rate increases made it impossible to compete in "desirable" areas.

The company is not one of the major insurance underwriters in the state. It sells about $4.5 million in automobile and homeowner's insurance in Maryland, Mr. Birrane said.

Mr. Awalt, the former sales manager, testified in a hearing that his superiors in a regional office in Pennsylvania had told him in mid-1976 that the company should "get out of the city."

He said he was told to join one of the regional officials in an attempt to "map" the undesirable portions of the city. Mr. Awalt said he initially refused, saying such mapping was illegal, but finally did so in August, 1976, after the company threatened to replace him.

After the tour, during which the regional official, identified only as "Mr. Melhorn," would sometimes get part way out of the car to take pictures, Mr. Awalt received a map with the prohibited areas outlined in red.

He was told not to issue any insurance "binders" in this area, he said, meaning that agents could not carry on the usual practice of putting an insurance policy into effect immediately after an application pending its review by the company.

Nine out of 10 actual policies were turned down in the area, one of the agents testified, using what Mr. Birrane called one of several "ruses" as an excuse, such as inadequate parking in the neighborhood.

A few policies were accepted even in the redlined area, according to the insurance commissioner, "to avoid arousing the attention of regulatory authorities."

The "blatant" redlining in Baltimore was particulary heinous in light of the higher rates there for automobile coverage, Mr. Birrane said. The company "carved out" a small area in the city to do business, discarding most of the risk that the higher rates are based on, he said..

American Mutual had even received a large overall rate increase that included the redlined area early in 1976, he said.

While automobile insurance was the most important part of the American Mutual case, the commissioner said, "we could be about to find that that the availability of property insurance in urban areas is a greater problem than automobiles."