

Oklahoma earthquake: Racial discrimination in adjudication

23 September 2024

Insurance premiums are supposed to reflect the expected risk of loss, with insurers relying on statistical methods to sort and price risk fairly. However, a recent study in America has shown the existence of racial bias in claims settlements.

The study by Xiao (Joyce) Lin and Mark Browne from St. John's University, and Annette Hofmann, PhD from the University of Cincinnati, examined data from earthquake losses in Oklahoma. The researchers specifically looked into whether racial discrimination played a role in how claims are processed and settled.

The study revealed that claims from areas with higher black populations are less likely to be approved. Additionally, when these claims are accepted, they tended to be settled for lower amounts compared to those from less diverse neighbourhoods.

Since insurers don't collect race data during the claims process, the researchers had to use proxies. While these results are specific to earthquake claims in Oklahoma and may not apply universally, they highlight a vital issue that has not been studied before - racial discrimination in insurance claim settlements.

What does this mean for insurers?

For insurers, these findings are a wake-up call. If such biases persist, insurers could face serious consequences, including regulatory intervention, damage to reputation and loss of customer confidence.

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Author



Mark Hickson

Head of Business Development

onlineteaminbox@brownejacobson.com

+44 (0)370 270 6000



Tim Johnson

Partner

tim.johnson@brownejacobson.com

+44 (0)115 976 6557

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