Consumer Federation of America

September 20, 2022

Chairwoman Joyce Beatty
House Subcommittee on Diversity and Inclusion
2303 Rayburn House Office Building
Washington, DC 20515

Representative Ann Wagner
House Subcommittee on Diversity and Inclusion
2350 Rayburn House Office Building
Washington, DC 20515

Chairwoman Beatty, Representative Wagner:

The Consumer Federation of America (CFA) appreciates the opportunity to provide comments related to the Subcommittee's hearing on diversity and inclusion (D&I) at America's largest insurance companies. CFA is an association of over 250 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. While the Subcommittee's hearing focuses on diversity and inclusion, we urge you to expand your investigation to further address inequities in the insurance marketplace.

Increasing the diversity at insurance companies is important and may improve the way in which this sector serves consumers. Increased diversity in the underwriting department may trigger efforts to expand the coverage footprint in historically underserved communities. More diverse special investigation units may help counter discriminatory assumptions about who is likely to commit insurance fraud, and greater diversity in the executive suite could help carriers see the potential of previously ignored markets. A more diverse insurance industry will likely be more effective at serving the whole marketplace compared to past industry practices.

However, diversity itself is not a sufficient endpoint. The ideas, perspectives, and experiences of diverse stakeholders – including people of color on staff and company boards, and consumers of color – must be included in the decision-making of insurance companies. Companies must ensure people of diverse backgrounds and experiences are in positions of influence and decision-making authority. It is not enough to meet quotas or hold listening sessions; there must be a change in the management dynamics that leads to changes in the ways in which the insurance industry conducts its business from top to bottom and from sales to claims.

But diversity and inclusion are not enough by themselves to address the historic and deep failure of the insurance industry to adequately and fairly serve communities of color. Congress must also investigate the inequities and discrimination that plague the insurance industry. As CFA discusses below, we cannot wait and hope that examining diversity and inclusion will change the patterns and outcomes of decades of industry practices and biases. A hearing on diversity and inclusion at large insurance companies is not enough to address the inequities that are a chief target of this subcommittee. Therefore, we urge the subcommittee to follow this D&I hearing with a subsequent hearing on the biases, discrimination, and inequities faced by consumers.

While diversity, equity, and inclusion deserve attention across financial services and other industries, the insurance market is uniquely in need of intensive oversight. This is because purchasing insurance is required by law for nearly all of the hundreds of millions of drivers in the nation and required by lenders for most of the nation's 50 million households with mortgages.

When it comes to the impact of insurance practices on consumers of color, the results are not good. In March 2022, for example, a whistleblower at State Farm, the nation's largest insurer, told the *New York Times* that she was witness to discriminatory practices aimed at Black policyholders and claimants that resulted in disproportionately large numbers of claims denials and anti-fraud investigations for Black customers. The whistleblower alleges that the company's practices were "simply a means of denying payment of millions of dollars to African Americans and other minority policyholders."[1]

In response to this article, CFA and its member organization, the Center for Economic Justice (CEJ), wrote to state Insurance Commissioners urging them to investigate racial bias in insurance claims handling and anti-fraud efforts.[2] Prior to that, in June 2020, CFA and CEJ called on regulators, lawmakers, and the insurance industry to take action to address the impacts of systemic racism in auto insurance markets.[3]

Indeed, all parts of consumer-facing aspects of the insurance business – including marketing, underwriting, rating, claims handling, and antifraud investigations – demand thorough investigation. Unfortunately, with some exceptions, most departments of insurance and the NAIC have done little to address inequities in the market, even as they have emphasized the need for more diversity and inclusion in the industry and regulatory settings. At every level of industry oversight, there has been comfort with discussions, hearings, and goal setting with respect to diversity and inclusion. This is not insignificant but American consumers need public officials who are willing to do what most state-based actors have not: scrutinize the behavior of insurance companies when it comes to equity in the market. For these reasons, we consider it

[1] "Where State Farm Sees 'a Lot of Fraud,' Black Customers See Discrimination." By Emily Flitter. The New York Times, March 18, 2022. Available at https://www.nytimes.com/2022/03/18/business/state-farm-fraud-black-customers.html.

[2] "Groups Urge State Insurance Departments to Investigate Racial Bias in Insurance Claims Handling." Consumer Federation of America. March 24, 2022. Available at https://consumerfed.org/testimonial/groups-urge-state-insurance-departments-to-investigate-racial-bias-in-insurance-claim-handling/.

[3] "Systemic Racism in Auto Insurance Exists and Must Be Addressed By Insurance Commissioners and Lawmakers." Consumer Federation of America. June 17, 2020. Available at https://consumerfed.org/press_release/systemic-racism-in-auto-insurance-exists-and-must-be-addressed-by-insurance-commissioners-and-lawmakers/.

very important that the subcommittee expand the parameters of its investigation from "D&I" to "DEI," Diversity, *Equity*, and Inclusion.

The legacy and persistence of systemic biases affect consumers in many ways, and our discussion below of some of the ways this occurs in auto insurance pricing only scratches the surface. We share it as an illustrative tool to emphasize how deeply the problem impacts insurance markets and the consumers required to participate in them.

Auto insurers use numerous socioeconomic factors to underwrite and rate their prospective customers. These socioeconomic factors have little or no connection to consumers' driving behavior but often serve as proxies for income and race. The factors include consumers' credit history, education level, occupation, homeownership status, marital status, and ZIP code (and sometimes census tract). Over the years, CFA has conducted numerous studies of these factors and found overwhelming evidence that these industry practices consistently lead to higher rates for safe drivers who are also disproportionately people of color and lower-income.[4] Some of our findings are as follows:

- In communities where over 75% of residents are Black, premiums are on average 71% higher than premiums in areas where under 25% of residents are Black.[5]
- Auto insurers charge consumers considerably higher premiums based on their ZIP code, even if the consumers live in adjacent ZIP codes. Residents of ZIP codes with lower median incomes and more people of color pay higher premiums.[6]
- Consumers who rent their homes are charged 7%, or $112 more, on average by auto insurers than consumers who own their homes.[7] Black and Latino residents are less likely to be homeowners than white residents.
- The nationwide average auto insurance premium for consumers with a perfect driving record and excellent credit is $516.25. But if those consumers have fair credit, their average cost rises to $763.77. And if they have poor credit, their average premium climbs further to $1,108.36—even though their driving record remains spotless. Auto insurers are charging consumers 115% more for auto insurance solely because of their credit history. For reasons of historic and structural racism, Black, Latino and Indigenous consumers have lower average credit scores than their white peers.

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[4] "CFA Studies on the Plight of Low-and Moderate-Income Good Drivers in Affording Auto Insurance." Consumer Federation of America. Accessed on September 12th, 2020. Available at https://consumerfed.org/cfa-studies-on-the-plight-of-low-and-moderate-income-good-drivers-in-affording-state-required-auto-insurance/.

[5] "High Price of Mandatory Auto Insurance in Predominantly African American Communities." By Tom Felton and Douglas Heller. November 2015. Available at https://consumerfed.org/wp-content/uploads/2015/11/151118_insuranceinpredominantlyafricanamericancommunities_CFA.pdf.

[6] "Auto Insurers Often Charge Identical Drivers Considerably Higher Premiums Because of ZIP Code Differences." Consumer Federation of America. October 15, 2018. Available at https://consumerfed.org/press_release/auto-insurers-often-charge-identical-neighbors-considerably-higher-premiums-because-of-zip-code-differences/.

[7] "Good Drivers Pay More for Basic Auto Insurance If They Rent Rather Than Own Their Home." Consumer Federation of America. February 8, 2016. Available at https://consumerfed.org/press_release/good-drivers-pay-more-for-basic-auto-insurance-if-they-rent-rather-than-own-their-home/.

- When considering a series of socioeconomic factors used by major insurers for price setting that also align with race and ethnicity, we find that lower-income (and disproportionately Black and Latino) drivers with clean records pay staggeringly higher premiums. In fact, we found that four of the nation's five largest auto insurers routinely charged lower income drivers 40-92% for auto insurance, or about $600 to $900 more per year, excluding the impact of credit history.[8]

Equity and unfair discrimination in homeowners insurance is especially important although it has received relatively little attention. Past reports indicate that insurers frequently impose different terms and conditions based on neighborhoods, refuse to underwrite buildings based on their age, require inspections in certain neighborhoods but not others, and discourage applicants from certain neighborhoods. A recent analysis also found that homeowners with excellent credit pay an average annual homeowners insurance premium of $1,232 while homeowners with poor credit pay an average annual premium of $2,180.[9]

There are deep-seated reasons that the underwriting and pricing strategies – as well as the marketing, claims-handling and antifraud strategies – create serious inequities in America's insurance markets. The failure of the insurance market to address these problems cannot be addressed by diversity and inclusion in the industry alone, because the problems stem from a long history of systemic biases in banking, housing, policing, and infrastructure investments, in addition to biases within insurance companies. All consumers are harmed when the market is inaccessible, unaffordable, and unfair. It is essential that more be done to understand and address inequity in insurance markets.

Please contact us at mdelong@consumerfed.org if you have any questions.

Sincerely,

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[8] "Major Auto Insurers Raise Rates Based on Economic Factors." By Douglas Heller and Michelle Styczynski. June 2016. Available at https://consumerfed.org/wp-content/uploads/2016/06/6-27-16-Auto-Insurance-and-Economic-Status_Report.pdf.

[9] "Homeowners Insurance for People With Bad Credit." By Cate Deventer. Bankrate. May 9, 2022. Available at https://www.bankrate.com/insurance/homeowners-insurance/bad-credit/.