

## **Proposed Recommendation from FACI to FIO from the Availability Subcommittee**

### **Study Impact of Systemic Racism and Inherent Bias in Insurance Markets**

**September 29, 2020**

***Recommendation:*** FACI recommends that the Federal Insurance Office conduct analyses of the presence of disparate impact or proxy discrimination against protected classes in the sale of private passenger auto and residential property to consumers and business owners insurance to small businesses.

***Discussion:***

The United States of America is grappling with the legacy of structural racism and systemic bias and the recognition that their effects are persistent and widespread in contemporary America. Such structural racism has sweeping impacts on communities of color including on health, welfare, and quality of life.

Proxy discrimination or disparate impact refers to facially neutral practices in employment, housing, lending, insurance, and other areas that have the effect of discriminating on the basis of a protected class characteristic.

Insurance companies use a variety of data sources, including personal consumer and business information and information about the natural and built environment, in algorithms for every aspect of insurer operations, including marketing, sales, claim settlement and antifraud. These data sources and the related algorithms are the gatekeepers for access to insurance and insurance claims, impacting the availability and cost of the essential financial and economic development insurance tools.

The types of personal consumer information used includes occupation, level of education, marital status, homeownership status, credit history, and prior coverage and these, as well as other data and consumer characteristics may result in a disparate impact on consumers and small business owners according to race and ethnicity. Such disparate impact harms those customers by decreasing the availability of affordable insurance products and may be avoided or minimized.

The Federal Insurance Office is charged with monitoring the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products. It would be consistent with FIO's mandate as well as with concerns raised numerous stakeholders about insurers' use of big data analytics for FIO to conduct analyses of the presence of disparate impact or proxy discrimination against protected classes in the sale of private passenger auto and residential property to consumers and business owners insurance to small businesses.