DEI Initiatives Are Great, Inclusive Business Development is Better.

By Angela Grant, *Chief Legal Officer*

Over the past year, many insurance companies have publicly shared their commitment to Diversity, Equity and Inclusion (DEI) initiatives. This is a great step forward for our industry and should be applauded. However, to evolve the insurance marketplace into one that truly serves all communities, it is important to look deeper at our business development practices.

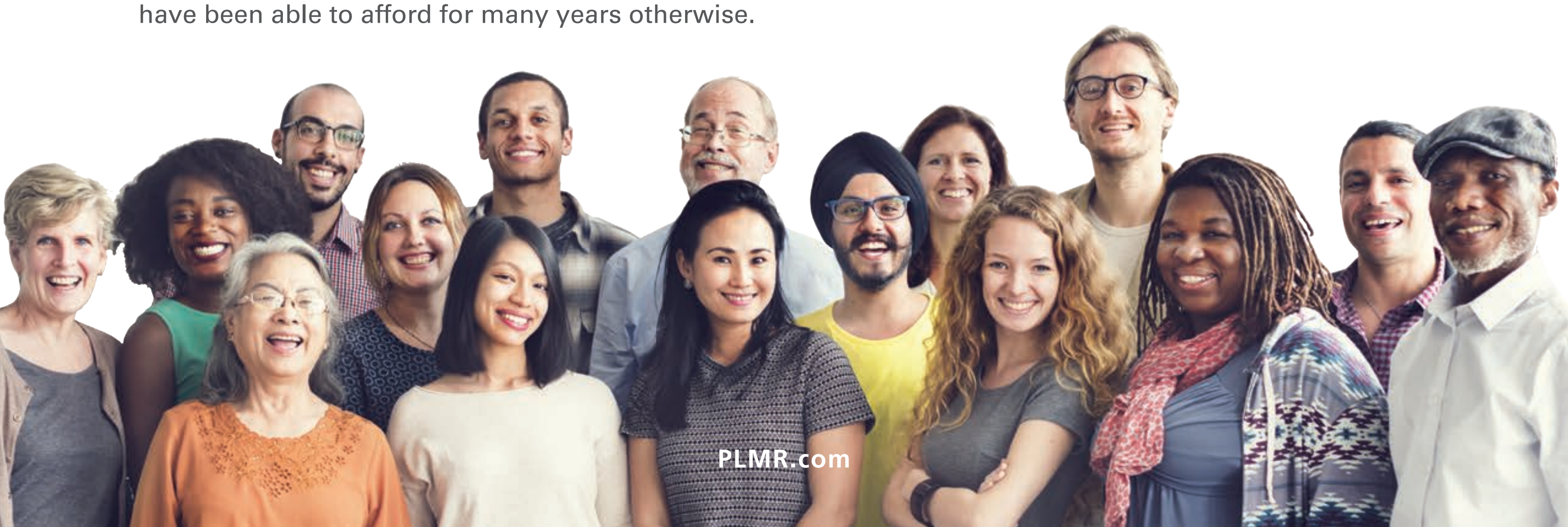
Who makes the decisions about which products we sell, and what informs our attitudes about risk? Have we been conditioned to make assumptions about certain groups, and unconsciously not market to certain customers?

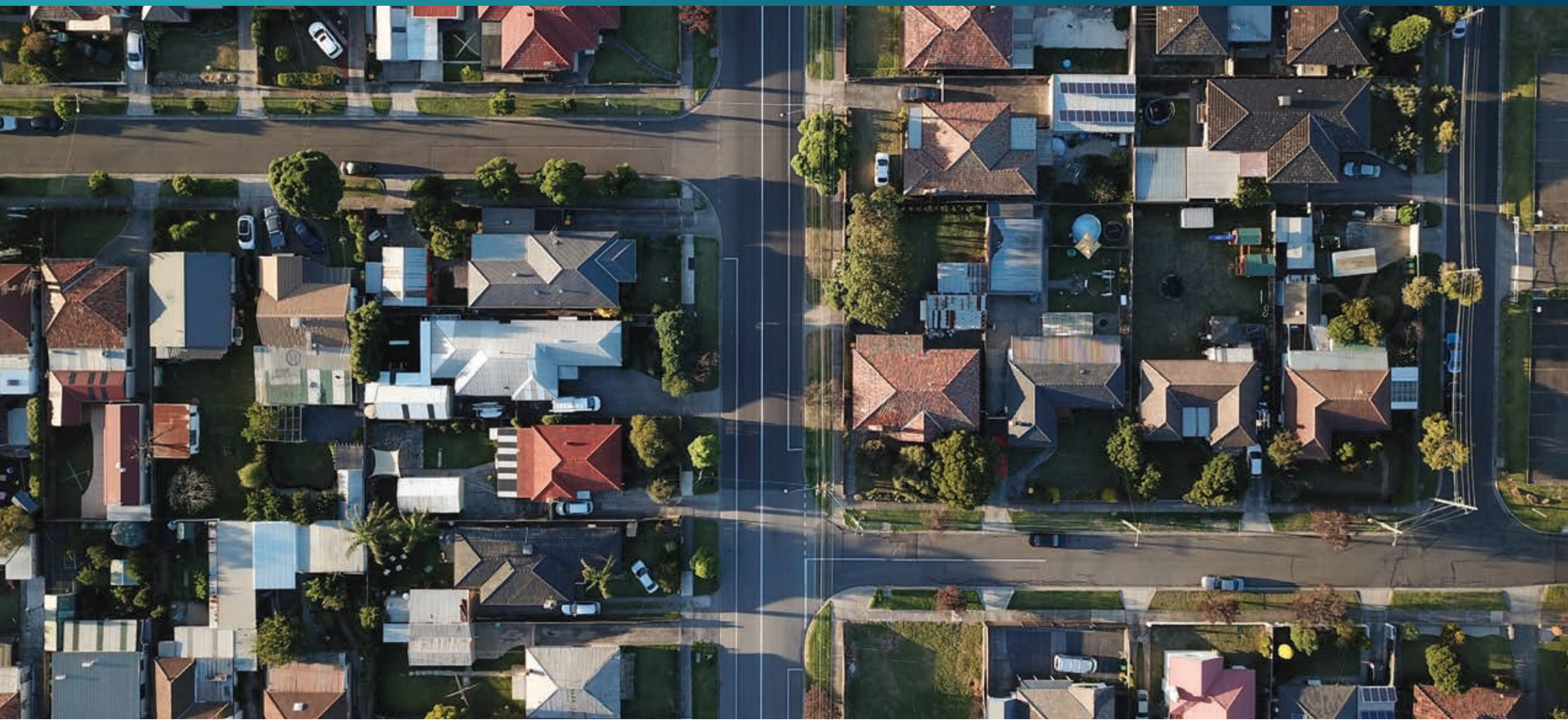
I have dedicated my career to the insurance industry because I believe it can be a force for good, strengthening communities and helping people build better futures. I also believe that changing our thinking about how we develop insurance products, and who we market to, will have immediate, tangible benefits to our bottom lines. This is why in addition to building a diverse workforce, we must also examine who is in the room when business decisions are being made and new product offerings are being created.

Insurance as a Force for Good

Insurance has played a huge role in my life. Like many other U.S. institutions, the insurance industry also has a complicated history. However, I know from personal experience that insurance is a lifeline for financial protection and security, particularly for families in underrepresented communities—and this safety net is increasingly necessary, since a recent survey found that **just 39 percent** of Americans could pay for a surprise emergency expense of $1,000 from their savings.

When I was four years old, my father went to our insurance agent's office to renew our auto insurance policy. While he was there, they asked if he wanted to add a renter's insurance policy to his package. This was a relatively new concept for people where I grew up in Dallas,Texas in the 1970s. After some thought, he said yes—a decision that turned out to be pivotal for my family's future. Six weeks later, a fire that started in our next-door neighbor's apartment burned down our entire building. We were the only family that was able to immediately recover and restart, because my father chose to purchase renter's insurance. The payout from that policy enabled my parents to put a down payment on our first house, a milestone they would not have been able to afford for many years otherwise.





Where Do Our Biases Come From?

A series of unfortunate events throughout our country's history have collectively created systems and beliefs that fuel all aspects of our society, including insurance. The National Association of Insurance Commissioners (NAIC) recently published a white paper examining **racial discrimination within the insurance sector**, and what historical actions, events and laws have shaped the way we think about risk today. The NAIC paper is worth a read in its entirety, but here are some key points:

- In 1881, a major U.S. insurance carrier announced that life insurance policies held by African-American customers would be worth just one-third of those held by white customers. They used statistics to claim that Black mortality rates were higher than those for whites, and justified charging the same premiums for both groups.
- In 1935, the Federal Home Loan Bank Board (FHLBB) asked the Home Owners' Loan Corporation (HOLC) to create "residential security maps" to assess the security of real estate investments. These HOLC maps created four, color-coded "desirability" categories, which went from Type A/Green (typically affluent suburbs) to Type D/Red, which were generally older inner-city neighborhoods considered most risky for mortgage support. That same year, the Federal Housing Administration (FHA) published their underwriting manual for lenders to use if they wished to secure federal backing for loans. This FHA manual instructed banks to steer clear of "inharmonious racial groups" and recommended that municipalities enact racially restrictive zoning ordinances. This began the practice of redlining which, while outlawed under the Fair Housing Act in 1968, still impacts communities today.

The examples above highlight how **data is only as good as the input**, and flawed assumptions about data before it is even assessed will lead to flawed conclusions. An even more recent example, which had not come to light by the time the NAIC white paper was published, is the NFL's use of **"race-norming"** in an algorithm that determined payouts to former players suffering from brain disorders stemming from traumatic brain injuries (TBIs) sustained during their football careers. This controversial practice, which was recently discontinued, is based on a dementia testing standard that assumes Black men start with a lower baseline of cognitive skills and are therefore "less impacted" by TBIs. These findings were based on data, but that data was based on biased assumptions.

What Does Inclusive Business Strategy Look Like?

First, it is important for companies to consider product development from different customers' needs and perspectives. This helps executives create a culture of asking, "how can our products become more inclusive?" To do this effectively, of course, you need more than a diverse staff—you also need a diverse group of people making business decisions. It is one thing to say your staff is a certain percentage ethnically and gender diverse, but it does not make much of an impact on the business strategy if they are not part of the leadership team.

This will help your company learn what different customers of all backgrounds, educational attainment and income levels want to protect. What is important to them from a financial perspective? It is critical to get granular here and gather data that is not based on broad assumptions. For example, not all customers in the same city who identify as the same ethnicity or gender prioritize the same things or have the same needs.

At Palomar, we approach our business with a spirit of collaboration and partnership, because we believe this grows our customer base and helps us further our mission to protect and strengthen communities. One of the core areas of focus for our employee-led Diversity, Inclusion, Community, and Equality (D.I.C.E.) Council is ensuring our business decisions can be informed by a more diverse array of perspectives, and that our corporate culture is truly inclusive.

Additionally, we believe that financially investing in the communities we serve only benefits everyone—and Black-owned banks have a long history of providing services that create wealth and economic opportunity for underrepresented communities, including Black home and business owners. That is why we have invested $10 million of company assets with the historically Black-owned **Broadway Federal Bank** in Los Angeles. More detail about these actions, and other examples of our commitment to inclusive business strategies, can be found in our inaugural **Sustainability & Citizenship Report**.

Inclusive business strategy is not just another HR box to check. It takes work, but for insurance companies, ensuring that a diverse array of voices inform your decision-making; rethinking your approach to diversity in leadership; and operating with a spirit of collaboration and partnership with the communities you serve is not only the right thing to do, but it will positively impact the bottom line. That, to me, is good business.

P.S.: If you are interested in learning how to make a more meaningful contribution to social justice and inclusion in our industry, I strongly recommend you read ***Crossing Meridians*** by Cynthia Hardy. Chapter Five does an amazing job of illustrating how leaders can become catalysts and create impactful change within their organizations.