**Draft Pending Adoption**

Draft: 8/25/22

Special (EX) Committee on Race and Insurance
Portland, Oregon
August 11, 2022

The Special (EX) Committee on Race and Insurance met in Portland, OR, Aug. 11, 2022. The following Special Committee members participated: Dean L. Cameron, Co-Chair (ID); Chlora Lindley-Myers, Co-Chair (MO); Andrew N. Mais, Co-Vice Chair (CT); Jon Godfread, Co-Vice Chair (ND); Lori K. Wing-Heier (AK); Mark Fowler (AL); Alan McClain (AR); Peni Itula Sapini Teo (AS); Evan G. Daniels (AZ); Ricardo Lara (CA); Michael Conway (CO); Karima M. Woods (DC); Trinidad Navarro (DE); David Altmaier (FL); Colin M. Hayashida (HI); Doug Ommen (IA); Dana Popish Severinghaus (IL); Vicki Schmidt (KS); Sharon P. Clark (KY); James J. Donelon (LA); Gary D. Anderson (MA); Kathleen A. Birrane (MD); Timothy N. Schott (ME); Anita G. Fox (MI); Grace Arnold (MN); Edward M. Deleon Guerrero (MP); Troy Downing (MT); Mike Causey (NC); Eric Dunning (NE); Marlene Caride (NJ); Barbara D. Richardson (NV); Adrienne A. Harris (NY); Judith L. French (OH); Glen Mulready (OK); Andrew R. Stolfi (OR); Michael Humphreys (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Larry D. Deiter (SD); Carter Lawrence (TN); Cassie Brown (TX); Jon Pike (UT); Scott A. White (VA); Tregenza A. Roach (VI); Kevin Gaffney (VT); Mike Kreidler (WA); Nathan Houdek (WI); Allan L. McVey (WV); and Jeff Rude (WY). Also participating was: Philip Barlow (DC).

1. Adopted its Spring National Meeting Minutes

Director Wing-Heier made a motion, seconded by Commissioner Mais, to adopt the Special Committee's April 6 minutes (*see NAIC Proceedings – Spring 2022, Special (EX) Committee on Race and Insurance*). The motion passed unanimously.

2. Received a Status Report on Workstream One

Director Lindley-Myers began by highlighting the continued work being done to identify barriers to access to insurance careers and insurance products and the challenging efforts towards identifying and removing any unfair discrimination.

Commissioner Ommen welcomed Commissioner Woods as the new Workstream One co-chair. He reported that the Workstream has been researching the level of diversity and inclusion within the industry and developing recommendations on action steps state insurance regulators and companies can take.

The Workstream met in May in regulator-to-regulator session to begin discussing draft recommendations that reflect discussions with stakeholders and state insurance regulators over the past two years. The Workstream's focus is on producing recommendations that reflect a broad consensus among its members.

The Workstream also acknowledges and supports the commitment and initiatives by industry to increase diversity, equity, and inclusion (DE&I) in their organizations, and looks forward to continued engagement as it finalizes its recommendations.

The Workstream is planning to meet after the Summer National Meeting to work on completing these recommendations to fulfill its mission of providing some deliverables and action items to be taken.

 

**Draft Pending Adoption**

3. Received a Status Report on Workstream Two

Commissioner Mulready reported that Workstream Two is focused on DE&I within the NAIC and state insurance departments. During the Commissioners' Mid-Year Roundtable, the zone level best practices survey was distributed to NAIC members and made available to state insurance regulators through the Member Diversity Leaders Forum. The Forum is facilitated by Evelyn Boswell (NAIC), Director of Diversity, Equity, and Inclusion.

Ms. Boswell reported that the Member Diversity Leaders Forum designed by the recommendations of the Workstream has a mission to create a communication forum for best practices in DE&I in which each state insurance department: 1) has access to education, guidance, and collaboration with stakeholders; 2) can share and learn ideas to incorporate in their organizations; 3) offer feedback for regulatory training coursework that will be provided by the NAIC; and 4) enable the NAIC and its regulated entities to fulfill their missions to the fullest extent.

Ms. Boswell reported that the Member Diversity Leaders Forum meets quarterly where members can share best practices from their insurance departments with the group. The NAIC launched the Member Diversity Leaders SharePoint site in the second quarter, and the member diversity leaders are reviewing DE&I coursework designed for state insurance regulators to be ready to share by the fourth quarter. Member diversity leaders were invited to the N.A.I.C.U. Exchange in February in recognition of Black History Month to model how the NAIC does lunch and learns. Member diversity leaders were invited to come to Kansas City for the NAIC's 2nd DE&I Conference held in June 2022. Twenty-three state insurance regulators and five commissioners attended for a full day of DE&I training.

Ms. Boswell also noted that a member diversity leader is selected each quarter to share accomplishments from their department. In April, Ron Henderson (LA) shared the duties of the Division of Diversity & Opportunity and their assistance to minority groups in obtaining opportunities in the insurance industry, the development of programs that seek to address the needs and concerns of women and minority producers, and the establishment in cooperation with insurance companies of educational and informational services to foster greater awareness and preparation for opportunities available in the insurance industry. He shared how the InVest Program was implemented at Southern University, and every semester, there is a Careers in Insurance Seminar where Commissioner Donelon has been the speaker on several occasions.

Ms. Boswell reported that the District of Columbia's Department of Insurance, Securities, and Banking presented to the Member Diversity Leaders Forum on July 25. Mr. Barlow shared about the District of Columbia Department's Gallaudet University Department of Risk Management & Insurance internship program, the Financial Services Academy, and Mayor Marion S. Barry Summer Youth Employment Program Insurance Cohort. Starting in 2016, there have been a total of nine Gallaudet interns accepted through the program. Each year when Gallaudet interns are brought on, the Department hosts a deaf awareness workshop for staff to learn about realistic attitudes toward and expectations of deaf and hard of hearing people, learn about accommodations for deaf and hard of hearing individuals, and discuss communication strategies and skills for integrating deaf and hard of hearing employees into the workplace. Interns shadow Department staff and develop an insurance-related project that involves research and presentation. The Department will expand the program by offering internships to Gallaudet students through the Financial Services Academy.

Mr. Barlow talked more about the Department's Financial Services Academy, which is a broad program consisting of five programs, including the Summer Youth Employment Program. The Financial Services Academy is a public-private partnership designed as a year-round program for underrepresented students in high school, college, and

post-graduate programs to train for careers in the financial services industry. Commissioner Woods added that several staff employed by the Department started through the Mayor Marion S. Barry Summer Youth Employment Program.

Commissioner Woods reported on the Department's efforts looking into the use of certain underwriting factors, such as credit scores, education, and occupation in personal lines. The Department engaged O'Neil Risk Consulting & Algorithmic Auditing (ORCAA) to assist with the Department's review. A public hearing was held on June 29 followed by a commissioner's request for comment on the proposed areas of review for unintentional bias with a deadline of Aug. 22. The work is ongoing; therefore, the Department, along with ORCAA, is working on a data call to collect information to be analyzed by ORCAA with the results to be presented to the Department for their determination if there is, in fact, unintentional bias.

4. Received a Status Report on Workstream Three

Director Wing-Heier reported that Workstream Three is focused on property/casualty (P/C) issues. Though the Workstream has not met since the Spring National Meeting, the Workstream has decided to focus its time and resources on being actively involved with the work of the Collaboration Forum on Algorithmic Bias. The Workstream believes this work will be critical to meeting a couple of the Special Committee's most important charges: 1) "coordinating with other groups in looking at predictive modeling, price algorithms, and artificial intelligence" (Charge B of the Special Committee); and 2) "researching and analyzing insurance, legal and regulatory approaches to addressing unfair discrimination, disparate treatment, proxy discrimination and disparate impact" (Charge F of the Special Committee).

In leading the Workstream, state insurance regulators have struggled to understand artificial intelligence (AI)/machine learning (ML) and how it has been used to possibly create bias in algorithms. State insurance regulators need the education and expertise to understand these issues before policies can be implemented that protect consumers. The Collaboration Forum will help provide the education and framework needed for the Workstream to look more deeply at issues of unfair discrimination, particularly as it relates to algorithms and AI/ML. The Workstream will take this foundation and use it to look at potential algorithmic bias in marketing, underwriting, rating, and claims processing. The Workstream will look at marketing first as the Special Committee looks at how to evaluate complex models and identify and mitigate bias. To begin that work, the Workstream is planning a session at the NAIC Insurance Summit in September, where a panel of insurance experts and state insurance regulators will discuss the use of marketing and advertising in personal lines insurance and how it relates to access for diverse populations.

5. Received a Status Report on Workstream Four

Commissioner Caride reported that Workstream Four, which focuses on life insurance, held an open meeting on June 10. The Workstream heard a presentation from the Financial Alliance for Racial Equity (FARE). The Workstream will hold another open meeting sometime in September or early October to hear additional presentations focusing on life insurance access and affordability issues in minority communities.

The Workstream hopes to hear more from the agent community, and it is interested in learning more about their experiences and steps they may be taking around the issues of access and affordability in minority communities. The Workstream members would like to hear of other organizations they should be talking to and any success stories or progress being made.

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6. Received a Status Report on Workstream Five

Commissioner Arnold provided the report for Workstream Five, which focused on health insurance, and highlighted the Workstream's work to date and plans for the next few months.

The Workstream has held the first two meetings in a series of four meetings it plans to hold this year. The first meeting on June 30 focused on provider network composition and the following questions: 1) what are the most common deficiencies in provider networks for plan enrollees of color; and 2) what can state insurance regulators do to improve that.

The Workstream heard from two NAIC consumer representatives who discussed cultural competency in provider networks. Their presentations focused on what it means for a network to have sufficient cultural competency, why it matters, common provider network deficiencies, and the implications of not having sufficient cultural competency in a network.

During this meeting, the Workstream also heard from the Colorado Department of Insurance (DOI) on its work through the Colorado Option to improve racial health equity for consumers purchasing health insurance in the individual and small group markets. The presentation addressed three key questions: 1) why did Colorado pursue regulations on culturally responsive provider networks; 2) what information did Colorado consider in the development of its regulations; and 3) what additional state agencies or entities should state insurance regulators partner with to coordinate and develop this work.

The presentation also described how Colorado plans to achieve its goal of improving racial health equity by establishing standardized health benefit plans; designing these plans to improve racial health equity; and requiring these plans to have a provider network that is culturally responsive and, to the extent possible, reflects the diversity of the community that it serves in terms of race, ethnicity, gender identity, and sexual orientation. The presentation discussed next steps Colorado plans to take to assess its progress towards achieving its goal, including: 1) robust data analysis to determine carrier compliance and opportunities for improvements; and 2) exploring existing structures that could be leveraged such as the National Committee for Quality Assurance's (NCQA's) Health Equity Accreditation.

The Workstream's second meeting on July 26 focused on barriers to care with respect to providers and the following questions: 1) what problems do plan enrollees encounter in attempting to access in-network benefits; and 2) what can state insurance regulators do to correct that.

The Workstream heard a presentation from Quest Analytics on emerging ideas and approaches state insurance regulators might consider to close the health equity gap when developing plan network adequacy requirements. Instead of a more traditional approach to determining network adequacy, such as time and distance standards based on population density and county type, the presenter suggested that states might want to look at time and distance standards based on provider characteristic types critical to meet health equity needs. As another way to close the health equity gap, the presenter suggested that state insurance regulators consider requiring plans to demonstrate that the network is not unduly burdensome to consumers in terms of travel time and distance based on provider characteristic types and not provider types, which is the current approach.

The Workstream also heard a presentation from an NAIC consumer representative discussing barriers people of color and other historically underrepresented populations encounter when trying to obtain treatment from network providers, particularly for those who have plans with narrow networks. The American Medical

**Draft Pending Adoption**

Association (AMA) presented on the work it is doing with respect to provider directories and the associated challenges, including the accuracy of such directories. The AMA also discussed the collaborative work it is doing around the collection, maintenance, and use of race and ethnicity data. Lastly, the AMA talked about issues and challenges associated with the inclusion of race and ethnicity information in provider directories. The Blue Cross and Blue Shield Association (BCBSA) and one of its member plans discussed challenges and efforts to mitigate race-based barriers to insurance. The AMA also discussed ways state insurance regulators can increase access to culturally competent care.

The Workstream's next meeting is Aug. 23. It will focus on barriers to care related to benefit design. Speakers have been asked to discuss in what ways the structure of available benefits sometimes uniquely disadvantages communities of color and what actions state insurance regulators can take to remedy such benefit designs.

Mila Kofman (DC Health Link) will discuss how the DC Health Link has identified barriers to care for communities of color and how state insurance regulators can promote the use of benefit plan design to reduce such barriers to high-value care. A representative from the American Academy of Actuaries' (Academy's) Health Equity Work Group plans to update the Workstream on its work examining how benefit design features that control access to providers disproportionally disadvantage communities of color and how state insurance regulators can take action.

The Workstream's last meeting focusing on benefit design is Sept. 20. During this meeting, the Workstream will focus on innovations in benefit design and hear from speakers on what new benefits could be added to health plans or modifications made to existing benefits that could improve access to care and health outcomes for communities of color and what state insurance regulators can do to promote them.

Following these meetings, the Workstream plans to hold a series of meetings focusing on effective consumer education and engagement, as well as mechanisms to understand barriers at the community level. The Workstream is currently in the process of finalizing those meeting agendas.

Having no further business, the Special (EX) Committee on Race and Insurance adjourned.

 

## SPECIAL (EX) COMMITTEE ON RACE AND INSURANCE

The mission of the Special (EX) Committee on Race and Insurance is to serve as the NAIC's coordinating body on identifying issues related to: 1) race, diversity, and inclusion within the insurance sector; 2) race, diversity, and inclusion in access to the insurance sector and insurance products; and 3) practices within the insurance sector that potentially disadvantage people of color and/or historically underrepresented groups.

**Ongoing Support of NAIC Programs, Products or Services**

The **Special (EX) Committee on Race and Insurance** will:

1. Serve as the NAIC's coordinating body on identifying issues related to: 1) race, diversity, and inclusion within the insurance sector; 2) race, diversity, and inclusion in access to the insurance sector and insurance products; and 3) practices within the insurance sector that potentially disadvantage people of color and/or historically underrepresented groups.
2. Coordinate with existing groups such as the H Committee, Big Data and Artificial Intelligence (H~~EX~~) Working Group and the Casualty Actuarial and Statistical (C) Task Force and encourage those groups to continue their work on issues affecting people of color and/or historically underrepresented groups, particularly in predictive modeling, price algorithms, and artificial intelligence (AI).
3. ~~(Workstream One) Continue research and analysis to identify issues and develop~~ Receive updates on ~~specific~~ recommendations on action steps state insurance regulators and companies can take to improve the level of diversity and inclusion in the industry. ~~, including:~~
   ~~1. Seek additional engagement from stakeholders to understand the efficacy of diversity-related programs, how companies measure their progress, and what state insurance regulators can do to support these efforts.~~
   ~~2. Collect input on any existing gaps in available industry diversity-related data.~~
4. ~~(Workstream Two)~~ In coordination with the Executive (EX) Committee, receive reports on NAIC diversity, equity, and inclusion (DE&I) efforts. Serve as the coordinating body for state requests for assistance from the NAIC related to DE&I efforts.
5. ~~(Workstream Two)~~ Receive reports from the Member Diversity Leaders Forum concerning~~Research~~ best practices among state insurance departments on DE&I efforts ~~and develop forums for sharing relevant information among states and with stakeholders, as appropriate~~.
6. Continue research and analysis of insurance, legal, and regulatory approaches to addressing unfair discrimination, disparate treatment, proxy discrimination, and disparate impact. Make recommendations for statutory or regulatory changes and additional steps, including:
   1. (Life Workstream ~~Four~~) The impact of traditional life insurance underwriting on traditionally underserved populations, considering the relationship between mortality risk and disparate impact.
   2. (Property/Casualty Workstream ~~Three~~) Developing analytical and regulatory tools to assist state insurance regulators in defining, identifying, and addressing unfair discrimination in property/casualty (P/C) insurance, including issues related to:
      a. Rating and underwriting variables, such as socioeconomic variables and criminal history, including:
         1. Identifying proxy variables for race.
         2. Correlation versus causation, including discussion of spurious correlation and rational explanation.
         3. Potential bias in underlying data.
         4. Proper use of third-party data.
      b. Disparate impact considerations.

 

**SPECIAL (EX) COMMITTEE ON RACE AND INSURANCE** *(Continued)*

7. (Life, Property/Casualty and Health Workstreams~~ Three, Four, and Five~~) Consider enhanced data reporting and record-keeping requirements across product lines to identify race and other sociodemographic factors of insureds, including consideration of legal and privacy concerns. Consider a data call to identify insurance producer resources available and products sold in specific ZIP codes to identify barriers to access.
8. Continue research and analysis related to insurance access and affordability issues, including:
    1. (Life Workstream Four) The marketing, distribution, and access to life insurance products in minority communities, including the role that financial literacy plays.
    2. (Life Workstream~~ Four~~) Disparities in the number of cancellations/rescissions among minority policyholders.
    3. (Health Workstream~~ Five~~) Measures to advance equity through lowering the cost of health care and promoting access to care and coverage, with a specific focus on measures to remedy impacts on people of color, low income and rural
    populations, and historically marginalized groups, such as the LGBTQ+ community, individuals with disabilities, and Alaska Native and other Native and Indigenous people.
    4. (Health Workstream~~ Five~~) Examination of the use of network adequacy and provider directory measures (e.g., provider diversity, language, and cultural competence) to promote equitable access to culturally competent care.
    5. (Health Workstream~~ Five~~) Conduct additional outreach to educate consumers and collect information on health and health care complaints related to discrimination and inequities in accessing care.
    6. (Property/Casualty Workstream ~~Three)~~ Whether steps need to be taken to mitigate the impact of residual markets, premium financing, and nonstandard markets on historically underrepresented groups.
    7. Make referrals for the development of consumer education and outreach materials, as appropriate.

NAIC Support Staff: Andrew J. Beal/Michael F. Consedine

 

*Adopted by Workstream #1 on October 28, 2022*

## Workstream One Proposed Recommendations

Given the industry's aging workforce and other challenges and opportunities facing the industry, Workstream #1 recognizes the critical importance of recruiting, retaining and promoting talent, at all levels of organizations, that is representative of insurers' customers and communities.

Workstream #1 also acknowledges, and fully supports, the existing commitment and initiatives by industry trade associations, CEOs and many insurers to increase diversity, equity and inclusion (DEI) in their organizations.

Workstream #1 embraces a broad definition of diversity, which includes differences of thought, education, background and experiences, in addition to differences based on race, gender, national origin, religion, age, disability, veteran status, sexual orientation, etc. Workstream #1 also recognizes legal, personal, and practical limitations on identifying members of those various groups. These recommendations are not intended to require the collection or reporting of any data or to change the legal and privacy issues surrounding any demographic data collection.

Workstream #1 appreciates that not all insurers are starting from the same place when it comes to DEI efforts and that change takes time but urges all insurers to develop and implement a strategy adapted to their circumstances to recruit and retain talent that is representative of their customers and communities.

Accordingly, Workstream #1 recommends the following actions:

- The NAIC in collaboration with insurance trade associations (including producer groups) should make available resources and develop materials for members of industry, insurance trade associations and state regulators to use to host programs that introduce students from local colleges and graduate schools to careers in insurance.
- Insurance trade associations should work together, where appropriate, to share DEI resources and best practices and make them widely available to their members, including blueprints to be used by companies for student internships, grants or similar programs and for recruiting talent from non-traditional networks and channels.
- The insurance industry should assess DEI and DEI efforts at all levels of its organizations as well as among producers and third-party suppliers to identify opportunities for improvement and to measure changes in diversity over time.
    - As part of this assessment, insurance trade associations are encouraged to share information they collect from their members in a manner that facilitates evaluation across business lines (including distribution channels) and to make such information publicly available on a regular basis.
- State regulators should use the opportunity of appropriate regulatory interactions to ask about, and regulated entities should be prepared to discuss, their efforts relating to talent recruitment and retention, including DEI initiatives and their impact.
- The NAIC should provide regular updates on the foregoing initiatives to our federal counterparts and the International Association of Insurance Supervisors (IAIS).

 

- Workstream #1 should evaluate periodically whether revisions to the foregoing actions are appropriate.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

October 3, 2022

**To:** Members of the Special (EX) Committee on Race and Insurance
**From:** Health Innovations (B) Working Group
**RE:** Mechanisms to resolve disparities through improved access to care

With this memo, NAIC's Health Innovations (B) Working Group conveys a summary of its findings on certain mechanisms to resolve disparities by improving access to care. In 2021, the Special (EX) Committee on Race and Insurance assigned charges to the Working Group requesting an evaluation of these mechanisms. The charges are as follows:

*The **Health Innovations (B) Working Group** will evaluate mechanisms to resolve disparities through improving access to care, including the efficacy of telehealth as a mechanism for addressing access issues; the use of alternative payment models and value-based payments and their impact on exacerbating or ameliorating disparities and social determinants of health; and programs to improve access to historically underserved communities.*

This memo focuses on the first two mechanisms referenced in the charges, telehealth services and alternative payment models. The Working Group has met several times since 2021 and heard numerous presentations on these topics. In March 2021, the Working Group heard from a telehealth expert with the Center for Connected Health Policy, a provider viewpoint from the American Psychiatric Association, and about health plan experiences from Regence and Asuris Health Plans. In December 2021, it gathered further input from health plans from Blue Cross Blue Shield-North Carolina and Anthem. NAIC's Center for Insurance Policy and Research (CIPR) also presented to the Working Group in December 2021 on its detailed research on telehealth and updated its findings with additional information on alternative payment models in April 2022. To supplement these presentations, CIPR further developed written reports for the Working Group on the impact on health disparities of telehealth services and alternative payment models.

- Trends in Telehealth and Its Implications for Health Disparities
- Alternative Payment Models and Health Disparities

This memo provides a summary of the overall evaluations of telehealth services' and alternative payment models' impacts on health disparities based on the assessments in the CIPR reports and presentations to the Working Group. The Working Group does not provide explicit recommendations to the Special Committee. Rather, it seeks to inform the Special Committee and allow the committee to determine next steps. The evaluations contained here could be used in a report of the committee, recommendations for NAIC action, to charge another NAIC group with further investigation, or for other purposes as the Special Committee finds appropriate.

Key findings include:

Telehealth

- While there are many barriers to health equity, we find physical access to care to be the most substantial and pervasive obstacle that could be alleviated with the increased use of telehealth.

 

- Telehealth has great potential to bridge the gap in access to care by connecting isolated people with culturally competent health practitioners and reducing the need for transportation to receive such care.
- Insurance regulators may choose to support increased access to telehealth services with regulations that require it to be covered or offered with favorable cost sharing.
- To help assure that greater use of telehealth does not exacerbate disparities, regulators should be aware of the limitations and consider steps to increase digital literacy and access to the technology needed by the patient to support the delivery of telehealth services, such as hardware, software, and broadband access. Regulators should also recognize the patient's need for privacy for such a visit.

Alternative Payment Methods/Value Based Payments

- Alternative payment models (APMs) and value based payments (VBPs) have incentives that could either ameliorate or exacerbate health disparities.
- While designed to create value rather than to eliminate or mitigate disparities, APMs and VBPs have *potential* to reduce disparities because these same patients present the greatest opportunities to realize savings.
- A provider could seek to better manage high-cost conditions and capture a share of the savings, which can reduce health disparities. Or it could seek to avoid treating such populations, leading to continued disparities.
- Populations with a high cost to treat and a low likelihood of producing savings or improving quality can challenge provider finances under APMs or VBPs. Risk adjustment programs seek to ameliorate these concerns, but to date have done so incompletely.
- As they seek to reduce the racial and ethnic disparities that stem from health insurance, state regulators may choose to:
    - more closely monitor health insurers' use of APMs and VBPs;
    - seek to better understand how their regulatory tools can be used to encourage models that promote greater provider engagement with disadvantaged populations and reform models that can lead to providers avoiding high-need populations; and
    - seek ways to promote the testing and implementation of more effective risk adjustment mechanisms for alternative payment models.

This memo does not address the final portion of the charge, "programs to improve access to historically underserved communities." Many programs result in improved access for historically underserved communities, from government-supported health care financing efforts like Medicare, Medicaid, and premium tax credits under the Affordable Care Act to local efforts like community health workers and mobile clinics. The Working Group continues to work to define the scope of the charge and gather information from stakeholders. The Working Group plans to follow up with additional assessments once this work advances.

 

## Health Disparities

Health disparities are *avoidable* differences among demographic and socioeconomic groups or geographical areas in health status and health outcomes such as disease, disability, or mortality. Health disparities in the United States are well-documented. Health disparities have narrowed over time, but significant disparities remain. For example, the most recently available data show life expectancy at birth is 3.5 years shorter for Black individuals than for Whites, and Native Americans have a lower life expectancy than Black individuals. Disparities evident during the COVID-19 pandemic have served to amplify the issue in the last two years. Recent research projects that the decline in life expectancy at birth due to COVID-19 would be 0.68 years for the White population but 2.10 years for the Black population and 3.05 years for the Latino population.

There are also disparities in *health care*. While these have declined over time, they persist across numerous domains within the health care system. For about 40 percent of 250 health care quality measures tracked by the U.S. Agency for Healthcare Research and Quality (AHRQ), Black patients receive "worse care" than White patients. Latinos receive worse care than Whites for more than one-third of quality measures and Asians for nearly 30 percent. The quality differential in health care across race and ethnicity is pervasive. A voluminous research literature shows that hospitalized Black patients and other racial and ethnic minorities receive less intensive care across numerous procedures and have been reported to receive less aggressive treatment, for example, for cancer and HIV. There are also marked disparities in health care *utilization* by racial and ethnic minorities, which leads to worse health outcomes.

## Telehealth and Health Disparities

In general terms, "telehealth" refers to "the use of medical information exchanged via electronic communications to support and provide health care." Broadly defined, examples include direct provider-to-patient interactions via videoconferencing (virtual visits), chat-based interactions, remote patient monitoring, physician-to-physician consultations, patient education, data transmission and interpretation, and digital diagnostics (algorithm-based support), whether alone or in combination with conventional modalities.

The pace of expansion in telehealth accelerated rapidly with the onset of the COVID-19 pandemic. While utilization of telehealth has since moderated, it remains exceptionally high compared with pre-pandemic levels (about 17 percent of physician visits, much of which is for mental or behavioral health). We find that telehealth has great *potential* as a mechanism for ameliorating disparities and the social determinants of health, but the benefits telehealth could bring are limited by disproportionately inadequate broadband access at home for disadvantaged and marginalized populations and insufficient levels of digital literacy.

**Prospects for Reducing Disparities**. The accelerated development and substantial increase in the utilization of telehealth during the COVID-19 pandemic has sparked considerable interest in telehealth, and along with that interest, questions about the implications of increased telehealth utilization for socioeconomic and demographic health disparities.

While there are many barriers to health equity, we find physical access to care to be the most substantial and pervasive obstacle that could be alleviated with the increased use of telehealth. A critical problem facing rural areas is an insufficient supply of physicians and other healthcare professionals. Large areas with sparse populations lack the capacity to support many health care services. In particular, the overall distribution of physicians in the United States is exceedingly uneven. We also find substantially lower concentrations of physicians in areas with high Black and Hispanic populations.

The problem of a dearth of physicians and other health care professionals in rural and high-minority-concentrated areas is exacerbated by transportation deficits in these same areas, particularly *access* (not ownership) to private vehicles. Lack of vehicle access corresponds closely with race and ethnicity. Arguably, telehealth has great potential to bridge the gap in access to care by connecting isolated people with health practitioners and reducing the need for transportation to receive care. Existing research shows that

lessening the necessity of physical transportation to access medical care improves access and mitigates disparate health outcomes.

While access to any kind of care often is problematic for vulnerable populations, for some, what is lacking is not access to health care *per se*, but rather, access to *culturally competent* health care; that is, "the ability of systems to provide care to patients with diverse values, beliefs and behaviors, including the tailoring of health care delivery to meet patients' social, cultural and linguistic needs." Telehealth has great potential to bridge the gap in access to care by connecting isolated people with culturally competent health practitioners and reducing the need for transportation to receive such care.

**Limitations**. One of the most pressing concerns in the evolution of the digital economy, which has persisted throughout the internet's history, is that of a digital divide, or a gap in internet access and digital literacy, across economic, demographic, and social lines. More advantaged individuals historically have been the first to adopt and benefit the most from the introduction of new technologies. Lack of broadband access, particularly at home—and privacy is a significant concern with telehealth—is considerably more pronounced among vulnerable populations, including racial and ethnic minorities, lower-income individuals, and seniors. The communities likely to benefit the most from telehealth—these groups as well as those in rural areas—also are the least likely to have access to broadband internet.

A lack of digital literacy for vulnerable populations also stands in the way of more universal access to care through telehealth. To have successful telehealth appointments, patients need to understand digital technology generally and how telehealth platforms work. Research finds disproportionately low digital literacy in the health context among the less educated and those who are members of racial or ethnic minority groups. Research also suggests those with lower levels of digital literacy are less engaged and receive fewer psychological benefits from telehealth interactions even when they participate.

Insurance regulators may choose to support increased access to telehealth services with regulations that require it to be covered or offered with favorable cost sharing. To help assure that greater use of telehealth does not exacerbate disparities, regulators should be aware of the limitations noted above and consider steps to increase digital literacy and expand broadband access.

## Alternative Payment Models, Value-Based Payments, and Health Disparities

**Payment Models and Value Based Payments Described**. A payment model is the process in which physicians, hospitals, and other health care providers are compensated for the care they provide. We define an alternative payment model (APM) as any model that deviates from the fee-for-service (FFS) model, under which providers are paid for each service delivered. Although FFS is the prevailing payment model, a consensus has developed among patients and third-party payers, as well as many health care practitioners, that a transition away from the FFS model to APMs is necessary to "bend the cost curve" and improve treatment outcomes.

**Incentives for Quality Improvement and Cost-Efficiency**. Our focus in this memo and the associated report is the implications of APMs and value-based payments (VBPs) for ameliorating or exacerbating racial and ethnic health disparities. First, we briefly describe basic payment models.

From a broad perspective, there are three types of payment models: fee-for-service (FFS), case-based, and capitation. All of these payment models are *volume-based*. That is, there are financial rewards for increasing the *quantity* of care provided. Each payment model also has implicit (dis)incentives for reducing costs or improving quality of care.

Under FFS systems, provider compensation is determined by the quantity of specific services they provide. Outside of Medicare, the FFS model is the standard payment model in the United States. Most fees per service are pre-negotiated through networks such as preferred provider organizations (PPOs). FFS models

incentivize providers to deliver more services, which increases the cost of health care. There is little, if any, incentive to control costs.

With case-based models, providers are compensated for the quantity of care *episodes* encountered and their diagnoses. An episode of care includes all health care related to a single health care "event." The provider receives a standardized "bundled payment" that compensates them for usual cost of care. If actual costs are lower than the bundled payment, the provider profits. Likewise, if costs exceed the bundled payment, the provider takes a loss on the case. Case-based models incentivize providers to undertreat, a phenomenon that is supported by empirical research.

Capitation models compensate providers for the quantity of individuals under the provider's care, regardless of the amount of care the individuals require. The most common capitation system is the HMO. Providers reimbursed on a capitation basis are incentivized to increase the number of individuals in their organization, not only to increase the volume of capitation payments, but also to spread risk across a larger pool. The model incentivizes providers to minimize the provision of services to participants. Further, capitation models may incentivize providers to keep costs below a fixed capitation level through favorable risk selection rather than through cost-efficient provision of services. That is, they may be encouraged to attract people who are least likely to use medical care while devising ways to avoid enrolling people most in need of services.

Provider compensation can also be salary-based. Over 60 percent of physicians receive salaries, but most physicians report being paid by multiple methods. Strictly salaried providers do not have incentives to increase the volume of patients or services, but they also have little incentive to create value through cost reduction or enhanced quality of care. Research suggests some salaried physicians use resources other than their own time and effort to meet their customers' needs, such as excess referrals to specialists. These alternatives likely would increase costs.

Accountable Care Organizations (ACOs) and Patient-Centered Medical Homes (PCMHs) are additional innovations designed to promote improved quality of care and cost-efficiency, although compensation typically follows one of the payment models described above. An ACO is a group of physicians, hospitals, and other providers who voluntarily join as a legal entity and contract with insurers to coordinate care for a defined patient population. An ACO that keeps spending below a financial benchmark while meeting quality standards shares the savings with a payer. But they also bear the risk of sharing losses with the payer. Although the ACO resembles capitation, most make volume-based payments (such as FFS) to providers. A PCMH is similar in many ways to an ACO in that both are characterized by multidisciplinary, coordinated care and a focus on primary care. But rather than sharing gains or losses, financial incentives in the PCMH generally come in the form of "enhanced" payments.

Value-Based Payments (VBPs) reward providers financially for achieving quality goals and delivering more cost-efficient care, and providers can be penalized for failing to do so. A VBP can be an adjunct to any payment model, including FFS. Because APMs and VBPs are conceptually similar, we do not differentiate them in our discussion of implications for racial and ethnic health disparities, as the issues are the same.

**Potential for Ameliorating or Exacerbating Health Disparities**. Each of the payment models and VBPs have incentives that could either ameliorate or exacerbate health disparities. We organize the discussion around the mechanisms for affecting disparities rather than type of model. Often multiple models have the same incentives with similar consequences. We have little reason to suspect differential treatment of disadvantaged or marginalized patients in salary-based models (notwithstanding individual prejudices).

APMs and VBPs were designed to create value rather than to eliminate or mitigate disparities. In some sense, the focus on value is a drawback of these programs when considering health disparities. This is because the incentives to surpass quality metrics or cut costs lead some providers to avoid delivering health care services to disadvantaged and marginalized populations, who are more likely to have poor treatment outcomes and

socioeconomic circumstances that make them more expensive to treat. Still, APMs and VBPs have *potential* to reduce disparities because these same patients present the greatest opportunities to realize savings.

Consider the cases of chronic diabetes and hypertension. Members of racial and ethnic minority groups are disproportionally affected by these conditions compared with non-Hispanic Whites. The incidence of diabetes is 11.8% in the Hispanic population, 12.1% in the non-Hispanic Black population, and 14.5% in the American Indian population, compared with 7.4% for non-Hispanic Whites. The Black population in the United States has the highest rate of hypertension worldwide, approaching 60% of adults.

Both emergency department visits and hospitalizations are more common with among individuals with diabetes. Non-Hispanic Blacks and Hispanics also have the highest rates of hospitalization for diabetes. Moreover, both diabetes and hypertension often complicate other illnesses and injuries, therefore raising the cost of treatment for those cases. But lower-cost treatments are available for these conditions. Diabetes and hypertension usually can be controlled well with comparatively much lower-cost pharmaceutical and lifestyle regimens. Providers offering more intense monitoring and aggressive management of these chronic conditions could reduce emergency department visits and hospitalizations, which would reduce the costs associated with these conditions dramatically and generate savings. One study suggests that an increase of 10% in the medication possession ratio (total usage over a year/requirement for a year with strict adherence) for diabetics could halve the cost.

Providers operating under APMs or VBPs can respond to populations with higher costs in different ways depending on how the payment model is structured and the provider's strategy. A provider could seek to better manage high-cost conditions and capture a share of the savings, which can reduce health disparities. Or it could seek to avoid treating such populations, leading to continued disparities.

Moving away from FFS to APMs/VBPs can reduce a provider incentive to provide the services that are most valuable to the provider rather than the patient. The FFS model rewards the provision of high-margin services and large turnover. The margin is a measure of the efficiency with which a provider can turn services into profits. For FFS providers, there may be a financial disincentive to treat disadvantaged and marginalized populations because these populations often need low-margin services such as primary care, monitoring of chronic diseases like hypertension and diabetes, and behavioral health care.

However, APMs and VBPs can introduce their own disincentives that discourage providers from serving disadvantaged and marginalized populations. Populations with a high cost to treat and a low likelihood of producing savings or improving quality can challenge provider finances under APMs or VBPs. Risk adjustment programs seek to ameliorate these concerns, but to date have done so incompletely.

The proximate cause of health disparities is, in large part, disparities in socioeconomic conditions, although disparities also appear within socioeconomic groups. The incidence of specific diseases varies significantly across races and research suggests that traditionally disadvantaged and marginalized groups tend to have worse health outcomes even with the same treatment.

Because of disparities in health status and the socioeconomic environment in which they often live, traditionally disadvantaged and marginalized groups have higher-than-average medical needs and incur disproportionately high health costs. Research shows, for example, that health care for people who are dually enrolled in Medicare and Medicaid costs more than those who are beneficiaries of Medicare only, even after accounting for coexisting conditions.

APMs and VBP systems make adjustments for patient risk in an effort to account for socioeconomic determinants of health that are outside the provider's control. Risk adjustment systems assign patients a risk score based on demographic factors and health status. But current risk-adjustment methods are not sufficiently sophisticated to reliably distinguish poor-quality care or cost inefficiencies from high medical and/or social risk. The American Medical Association reports that most risk adjustment systems only predict about 20% to 30% of the variation in services and spending across patients. Moreover, AMA argues that

these risk-adjustment methods are designed to predict spending on a large insured patient population, not to adjust for differences in patient needs. Reports to Congress in 2016 and 2020 both emphasized a "consistent finding that social risk adjustment in current programs would be unlikely to substantially improve financial circumstances for safety-net providers."

As a consequence of inadequate risk controls, health care providers with high proportions of disadvantaged patients are likely to *lose* money under APMs and VBP systems without improved risk adjustment. Indeed, VBPs have been shown to disproportionately penalize providers that serve the poor. Consider Medicare's Physician VBP Modifier. One in four physicians who care for the most dual-eligible enrollees would be penalized under the VBP system, compared with 1 in 12 for all other physicians. As APM and VBP design currently stand, health care providers have incentives to avoid treating disadvantaged and marginalized populations, including racial and ethnic minorities.

Providers can avoid disadvantaged populations both in their choice of where to participate in APMs (provider selection) and who to serve under such models (patient selection). Research evidence seems to validate both types of avoidance. For example, ACOs are less likely to form in high poverty areas than in more affluent areas. This evidence is consistent with provider selection. ACO-attributed patients are less likely than other patients to be Black, disabled, or socioeconomically vulnerable, and patients with higher clinical risk scores are more likely to exit an ACO than those with lower clinical risk scores, which is suggestive of patient selection. Evidence abounds of the effects of the unintended incentive of APMs and VBPs to avoid treating vulnerable populations. Thus, APMs and VBPs will be more likely to avoid exacerbating existing health inequities if their risk adjustment practices are reformed.

As they seek to reduce the racial and ethnic disparities that stem from health insurance, state regulators may choose to more closely monitor health insurers' use of APMs and VBPs. They could seek to better understand how their regulatory tools can be used to encourage models that promote greater provider engagement with disadvantaged populations and reform models that can lead to providers avoiding high-need populations. In particular, state insurance regulators may wish to seek ways to promote the testing and implementation of more effective risk adjustment mechanisms for alternative payment models.

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IAIS International Association of Insurance Supervisors

# Stocktake on diversity, equity and inclusion in the insurance sector

## December 2022

**About the IAIS**

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards, and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), a member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and a partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

For more information, please visit www.iaisweb.org and follow us on LinkedIn: IAIS – International Association of Insurance Supervisors.

International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland
Tel: +41 61 280 8090

This document was prepared by the Governance Working Group and the Market Conduct Working Group in consultation with IAIS members.

This document is available on the IAIS website (www.iaisweb.org).

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# Content Overview

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## Executive Summary

The IAIS recognises the importance of diversity, equity, and inclusion (DEI) considerations to the objectives of insurance supervision and consequently to the IAIS' mission. DEI is particularly relevant to governance, culture and conduct, but also to financial inclusion and sustainable economic development as well as innovation and social responsibility.

The IAIS has committed to deepening and strengthening its work on DEI in a number of ways. They include exploring the insurance sector's efforts and steps taken by supervisors in support of DEI, incorporating relevant DEI aspects into ongoing IAIS projects and activities, and considering opportunities for cooperation on DEI with other international organisations and partners, such as the Access to Insurance Initiative (A2ii).

This report represents the first step in this work. It aims to take stock of work on DEI already being undertaken by insurance supervisors, relevant international organisations and the insurance industry, with a view to identifying areas where the IAIS could do further work in this area, in support of its mission and strategic plan. The report is not intended to make recommendations or set out an IAIS position on best practices in supervision.

Information in this report on the perspectives and activities of insurance supervisors is drawn from an IAIS member survey conducted in March/April 2022. The survey attracted 39 responses from jurisdictions around the world, with the largest proportion of responses coming from Western European jurisdictions, followed by North American and Asian jurisdictions. The survey asked supervisors about their approaches to DEI, the approaches they observe being taken within the insurance industry in their jurisdictions, and their ideas about further work that the IAIS could undertake in this area. It included questions about their perception of their supervisory mandate for DEI, the priority they attribute to it, and the activities they are undertaking, as well as their thoughts on the challenges and opportunities that arise.

Key findings include:

- Just over half of the supervisors that responded to the survey attribute a medium or high priority to taking supervisory action to promote DEI within insurers, with the remainder viewing it as a low priority. Those that noted a high priority generally made it one of their strategic priorities, often with a focus on corporate governance and Board diversity. Some supervisors that attributed DEI a medium priority indicated that their jurisdiction already had some policies in place, while many of those that attributed a low priority considered it less relevant for their jurisdiction, outside of their remit, or that they had already made sufficient progress.
- The majority of respondents thought they had a supervisory mandate to act, while a minority believed they did not, or that they face other legal constraints. There was broad agreement that a key challenge is the absence of an agreed standard, best practice guidance, or regulatory framework for approaching DEI-related supervisory activities.
- A number of jurisdictions see insurers' governance as a key area for supervisory activity on DEI, in line with Insurance Core Principle (ICP) 7 on Corporate Governance. This could be supported by a combination of formal requirements and industry communications. The report outlines steps that a number of jurisdictions are taking on DEI in the corporate governance of insurers.
- In the area of market conduct, there is less supervisory focus specifically on the concept of DEI, although the majority of supervisors do report having conveyed to some extent their supervisory expectations that insurers conduct their business in a way that, in effect, promotes customer DEI. This is because most supervisors report having laws, regulations and/or guidelines that prohibit

discriminatory practices in insurance, and supervisors are expected to have frameworks in place requiring the fair treatment of customers in line with ICP 19 on Conduct of Business.

- A third of survey respondents have conducted analysis of the state of DEI in the insurance industry in their jurisdiction. Supervisors have observed that action is being undertaken not only by individual insurers, but also by industry associations at various levels. Industry initiatives tend to relate either to financial inclusion/access to insurance, or to the pursuit of more diversity in the people working in the insurance industry. The report outlines some examples and key themes of industry initiatives in several jurisdictions.

The IAIS also engaged with a small sample of stakeholders in the insurance industry who were asked why they saw DEI as important to insurers, the biggest challenges they face in embedding DEI, and what they think supervisors can do. Stakeholders generally agreed that DEI can lead to better outcomes for insurer governance and customers, listing a number of specific benefits. From the perspective of the stakeholders involved, one of the key challenges was the current voluntary nature of much DEI activity: more action and formal structure could help drive progress. They believe that supervisors should send a clear message to insurers about the importance of DEI, but avoid being overly prescriptive.

Research into the work of international organisations revealed growing interest in DEI from a number of influential organisations, with a few examples outlined in this report, but direct action is still largely at an early stage. The international-level landscape suggests that further work on DEI by the IAIS could make a unique and value-adding contribution.

Arising from the outcome of this stocktake, the IAIS plans to initiate work aimed at helping supervisors to further understand the benefits of DEI, the connection between promoting DEI and their supervisory mandates, and the range of available supervisory practices to promote DEI. This work will have two main focuses. One will be to examine the link between DEI within insurers' institutions and governance, risk management and corporate culture. The other will be to examine how DEI considerations in insurers' conduct of business, and their supervision, may result in fairer treatment of consumers who are vulnerable, under-served or have different needs in comparison with a normative or majority consumer profile.

The IAIS considers that DEI is relevant to, and anticipates interlinkages with, other IAIS priority work, particularly on the topics of financial inclusion, fintech, climate risk and protection gaps. DEI will continue to be a strategic theme across the IAIS' work programme.

The IAIS will continue drawing attention to the importance of DEI for the achievement of better prudential and consumer outcomes and greater inclusion, and encourages the supervisory community and industry to continue progressing activity on DEI.

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## A note on terminology

The survey of supervisors confirmed that most jurisdictions use some or all of the terms "diversity", "equity", and "inclusion". Many have adopted the term "diversity and inclusion", and a few use additional or different terms, such as "collectivity".

Although 75% of respondents reported not having an applicable official definition of DEI (or alternative relevant terminology), many reported having rules and/or regulations in place that cover the concept, and that its meaning can adapt to the unique current and historical context of the jurisdiction. One example of jurisdiction-specific terminology is South Africa where the terms "transformation of the insurance sector" and "broad-based black economic empowerment" are defined in legislation.[1]

In harmony with various definitions and interpretations reported by supervisors, this report uses the following interpretations of the terms 'diversity', 'equity', and 'inclusion':

- **Diversity**: A reflection of the differences between people within an organisation or wider society.

  This includes different perspectives, abilities, knowledge, attitudes, skills, experience and demographic characteristics. Demographic characteristics are often considered a key factor in diversity, and may include, but are not limited to, characteristics such as age, disability, ethnicity, gender, national origin, religion, sexual orientation, as well as cultural, educational and/or socio-economic background. The notion that the differences between people can lead them to think differently from one another and therefore have varying perspectives to contribute to an organisation is sometimes called 'diversity of thought' or 'cognitive diversity'.

- **Equity:** Seeking to achieve fairness and equal outcomes for all through allocating resources and opportunities in a way that recognises the different circumstances and needs of different groups of people, particularly where there is evidence of disadvantage among certain groups.

  Equity is different from equality: equality offers the same resources and opportunities to everyone, while equity helps remove the barriers that some people may face in accessing resources and opportunities.

- **Inclusion:** When all people in an organisation, regardless of their differences, feel a sense of belonging which enables them to fully participate in and contribute to the organisation.

  This includes a culture in which a mix of people, at all levels of seniority, feel empowered to speak up and express their views. Employees at an inclusive organisation feel confident that their views will be heard and that there will never be negative repercussions for challenging the prevailing views.

- **Financial inclusion:** When individuals and businesses have access to suitable financial products that meet their differing needs.

[1] In South Africa, "transformation of the insurance sector" is defined within the Insurance Act, 2017 (Act No 18 of 2017) to mean transformation as envisaged by the Financial Sector Code for Broad-Based Black Economic Empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003). "Broad-based lack economic empowerment" is defined as the economic empowerment of all black people, in particular women, workers, youth, people with disabilities and people living in rural areas through an assortment of diverse but integrated socio-economic strategies…," and then the definition proceeds to explain what these integrated socio-economic strategies will include.

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# 1 Introduction

## 1.1 The IAIS' interest in DEI

In 2021, the IAIS adopted diversity, equity, and inclusion (DEI) as one of its key strategic themes, and published a statement recognising the importance of DEI in insurance supervision. The IAIS joins with others in the growing acknowledgment that advancing DEI within insurers' organisations and in their approach to doing business supports better prudential and consumer outcomes.

In this current work, the IAIS is interested in promoting DEI at insurers in both an internal/institutional sense (ie the insurers' workforce, leadership, culture, decision-making, and risk management) and in a customer-facing sense (ie equitable and inclusive treatment of customers that recognises diversity in the customer base). Collectively, this covers ICP 7 (Corporate Governance), 8 (Risk Management and Internal Controls) and 19 (Conduct of Business).

Adopting a greater regard for DEI in the customer-facing sense may bring a different way of thinking about fair treatment of customers by requiring more consideration of consumers who are not in the majority. Vulnerable consumers are one such minority cohort, and some supervisors have already established different expectations for their fair treatment.[2]

In its Issues Paper on Insurer Culture (2021), the IAIS noted the importance of embedding an organisational culture that consistently promotes sound prudential and conduct outcomes. The Issues Paper observed that the collective set of norms, practices, decision-making and behavioural elements that make up an insurer's culture directly influence how it manages prudential and conduct risks. It also recognised that an insurer's approach to DEI issues is one element likely to influence its overall culture, and vice versa.

The IAIS considers that a focus on improving and sustaining DEI will help insurers build cultures that better support sound prudential and consumer outcomes in a number of ways:

- Diversity embedded within an organisation and reinforced by a culture of equity and inclusion positively impacts insurers' corporate governance and risk management by improving decision-making and reducing the risk of groupthink.[3] Diversity brings together individuals with different backgrounds, which means that broader perspectives can be shared, leading to a wider view of potential risks and opportunities. People with different backgrounds and experience may notice different things, and are therefore more likely to pinpoint risks that may be overlooked by a group of people who all have similar backgrounds and experiences. Equity can enable diversity by removing barriers to the recruitment, retention and promotion of individuals with a wider range of different backgrounds and perspectives. Inclusion can also help with retention, and ensure that

[2] The Financial Conduct Authority (UK) provides a definition of "vulnerable consumer": "someone who, due to their personal circumstances, is especially susceptible to harm - particularly when a firm is not acting with appropriate levels of care [..] These [characteristics] could be poor health, such as cognitive impairment, life events such as new caring responsibilities, low resilience to cope with financial or emotional shocks and low capability, such as poor literacy or numeracy skills.." Source: Guidance for firms on the fair treatment of vulnerable customers.

A definition from Québec of "person in a vulnerable situation" is "a person of full age whose ability to request or obtain assistance is temporarily or permanently limited because of factors such as a restraint, limitation, illness, disease, injury, impairment or handicap, which may be physical, cognitive or psychological in nature, such as a physical or intellectual disability or an autism spectrum disorder". Source: Act to Combat Maltreatment of Seniors and Other Persons of Full Age in Vulnerable Situations.

[3] Oxford Reference offers this definition of groupthink: In group decision making, the tendency to drift into ill-conceived policies or decisions without adequate debate. This can be a result of various pressures, including the illusion of ingroup superiority and the wish to achieve consensus and avoid painful disagreements.

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individuals can fully participate in the organisation by sharing their different views and providing robust and constructive challenge. Inclusion helps ensure that people will speak up and share their differing views, and that the rest of the group will listen, both of which are important for effective risk management. Throughout this paper, where we refer to the importance of DEI for improving governance, we are referring to how DEI brings wider perspectives to the table and can inspire more robust decision-making and risk management.

- DEI may reduce misconduct by creating a stronger culture where employees feel they are valued and they belong. Inclusion in particular supports an atmosphere where individuals are more likely to be comfortable voicing concerns, while equity helps a wider range of individuals have an opportunity to be part of the conversation. Diversity of thought may also mitigate the rationalisation of poor conduct, which otherwise can allow misconduct to become systemic or remain undetected for a long time.
- Insurers incorporating DEI considerations into the way that they operate their business (including all aspects of managing the product life-cycle and interacting with customers) can facilitate greater innovation and lead to better consumer outcomes. For example, it may prevent potentially discriminatory practices and lead to the design, distribution and servicing of insurance products that are better tailored to differing consumer needs. The IAIS also considers that DEI within an insurer will help it attract a diverse range of consumers to its customer base, and then treat those customers in a more equitable and inclusive manner, because diversity across the insurer's leadership and workforce brings a broader comprehension of the different situations and needs in a consumer population.

Throughout this paper, where improving DEI is discussed, it is in reference to achieving the outcomes listed above.

The IAIS aims to contribute to, and accelerate, the momentum of action by both insurance supervisors and the industry itself to advance DEI in the insurance sector.

## 1.2 Overview of this stocktake

In 2022, the IAIS' Governance Working Group and Market Conduct Working Group undertook a survey, and other stakeholder engagement, to examine what actions IAIS member supervisors, other international organisations and the insurance industry itself are taking to advance DEI in the insurance sector. The IAIS had not previously undertaken dedicated work specifically on the topic of DEI in insurance, but various IAIS supporting material has addressed interlinked issues (see section 4.2.1).

This stocktake was intended as a first step to inform possible further IAIS work to promote DEI in insurers' governance and conduct of business. The key findings are shared in this report, with a particular focus on providing insights into insurance supervisors' activity so far to promote DEI in insurers.

Inputs to the stocktake were:

- a survey of IAIS member supervisors conducted in March/April 2022;
- research of publicly available information supplemented by direct communication with relevant international organisations; and
- engagement with a sample of industry stakeholders.

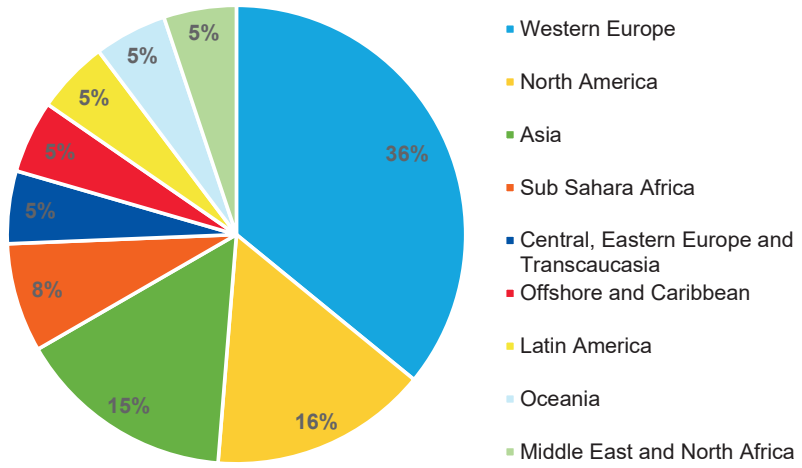
The survey asked insurance supervisors about:

- the state of DEI in the insurance sector in their jurisdiction;
- their observations of industry action(s) to embed DEI;
- their perception of their supervisory mandate/role for promoting DEI, and the priority they attribute to this;
- the supervisory activity (if any) they are taking in connection with promoting DEI in insurers' governance and conduct of business;
- challenges they face in their ability as a supervisor to promote DEI in insurers; and
- what future IAIS work they consider would meaningfully support progress on DEI in the insurance industry.

Thirty-nine survey responses were received from jurisdictions around the world, as shown in Figure 1.

Thirty-six percent of respondents were from Western Europe, 16% from North America, 15% from Asia, 8% from Sub Sahara Africa and the remaining 25% were equally spread across the other IAIS Member Regions. The amount of responses represents roughly a quarter of IAIS members, and is likely to reflect those members with the most interest in the topic. Nevertheless, we believe the responses demonstrate a growing level of interest in DEI internationally. These survey results provide a useful sample that can help inform further IAIS work in this area.

**Figure 1:**
**Respondent jurisdictions by IAIS Member Region**



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# 2 Insurance supervisors' perspectives and activities

A key part of this stocktake has been gathering information from IAIS members on their approach to DEI as a supervisory topic. This includes their views on the priority of DEI supervisory activity within the context of their jurisdiction, and the key challenges encountered in engaging in supervisory activity in this area. We consider that variance in the current priority and practice on this topic is to be expected given the diverse backgrounds of the IAIS membership (eg historical, cultural, legal, political). Having a better understanding of the breadth of approaches among a sample of IAIS members will help form a basis for further development of the IAIS' approach to deepening and strengthening its work on DEI. In particular, understanding where the challenges lie can help generate ideas on how the IAIS can best support its members.

## 2.1 Perspectives on priority and mandate

Just over half of respondents attributed a medium or high priority to taking supervisory action to promote DEI in their jurisdiction's insurance industry.

Supervisors that consider DEI to be a high priority generally have made it one of their strategic supervisory priorities or indicate its priority through other communications with the insurers they supervise and other relevant stakeholders. Many of these supervisors have a particular focus on corporate governance and Board diversity. Some supervisors also noted that DEI issues are a matter of broader social responsibility, rather than just a matter of compliance.

Supervisors that attribute a medium priority to promoting DEI explained that their jurisdiction already had some DEI strategies and policies in place. These jurisdictions already recognised DEI's importance and identified existing elements of DEI within their policy framework, or work that was currently underway.

Nearly half of respondents reported that pursuing supervisory activity to promote DEI in the insurance industry is currently a low priority for them. Some supervisors described classifying it a low priority because they consider their jurisdiction has already made sufficient progress. Others explained that due to market specificities or the nature of their country's demographics, they had not identified a need to develop DEI. Some made the point that insurers already abide by local equal opportunity legislation, or there is no authority or mandate to address DEI. Others view it as a mainly social, rather than a supervisory, task.

From a conduct of business perspective[4], most conduct supervisors are not directly promoting DEI as an explicit concept or requirement for how insurers should treat customers and serve their needs. Supervisory expectations for the fair treatment of customers pre-date the more recent attention on DEI, and the survey results suggest that most conduct supervisors have not thought of fair treatment of customers' expectations specifically through a DEI lens. In recent years however, some supervisors have adopted heightened attention on the protection of some cohorts of the population described as vulnerable customers.

## 2.2 Challenges

Supervisors reported various challenges in promoting DEI, including its subjective nature and the absence of consistent and usable data. A starting point could be for supervisors to set out some

[4] Per ICP 19 Conduct of Business.

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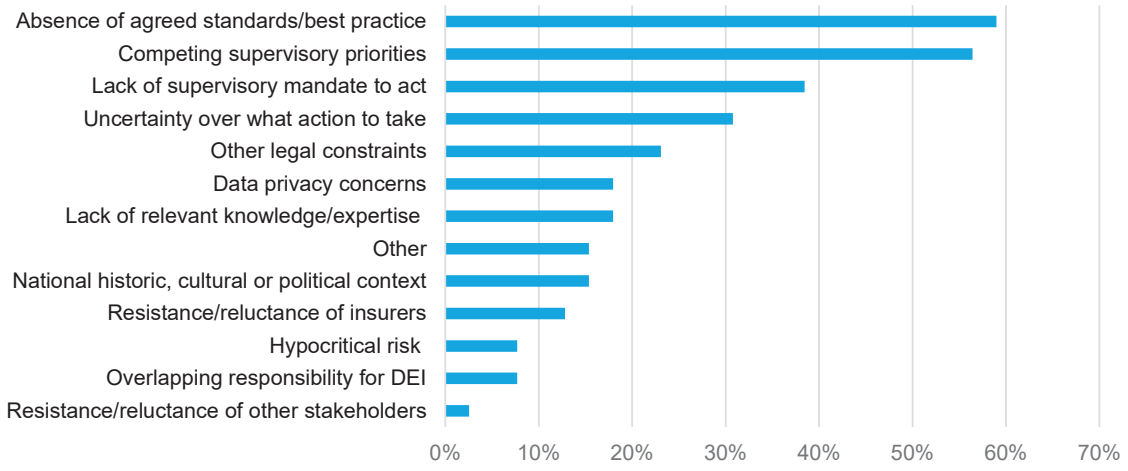
foundational principles and values they consider key to DEI, which could then inform the development of specific supervisory action.

The survey asked supervisors to choose from a list of possible challenges they might experience in addressing DEI. These included challenges such as deciding on suitable supervisory action; lack of supervisory mandate; legal, reputational or privacy concerns; competing superivosry priorities; industry or other stakeholder reluctance; or other challenges stemming from the jurisdiction's particular national context.

Figure 2 shows the distribution of responses to this question.

**Figure 2: Most common supervisory challenges**




Fifty-nine percent of respondents reported that the absence of an agreed standard or best practice guidelines was a key challenge. This was supported by 31% being uncertain over what action to take, and 18% feeling constrained by a lack of relevant knowledge or expertise. This lack of standards and proven best practices is a major impediment to setting expectations in this area and underpins policy development in some jurisdictions which aims to encourage more openness on insurers' DEI strategies. Accordingly, some respondents mentioned they would appreciate supervisory guidelines, material and support from international supervisory organisations such as the IAIS. This could help increase supervisors' confidence to make a start and develop customised approaches for different jurisdictions.

The second most prominent challenge, mentioned by 56% of respondents, is competing supervisory priorities: while DEI may well be considered important in many jurisdictions, there may be other priorities that require more urgent attention. The range of emerging issues that industry faces can make it difficult to embed DEI within current priorities. To overcome this obstacle, one respondent suggested considering the reputational and operational DEI-related risks of not taking this aspect into account in insurers' general risk assessments. Another respondent has decided to integrate DEI awareness into all of its regular supervisory activities.

Thirty-eight percent of respondents stated that they faced a lack of supervisory mandate to act. However, this was not necessarily because these jurisdictions lacked the regulatory framework to

take action in this area. Written comments from the survey instead indicated that this perception was related to the lack of existing legally enforceable and specific rules on DEI in many jurisdictions.

Most respondents advised there are no sensitivities that create any significant barriers to taking action. However, for some supervisors, considering differing cultures or issues relating to indigenous communities requires careful consideration.

On balance, the survey responses seemed to indicate a broadening of interest in DEI across many jurisdictions. Where supervisors believe they have a mandate to act on DEI, they are considering ways to do so, but can find it challenging due to an absence of existing legally enforceable rules, and the lack of agreed standards or best practice guidelines in this area. This seems to be one area where the IAIS may be able to support its members, by pooling resources gathered across jurisdictions.

## 2.3 Supervisory activities

### *2.3.1 Governance and risk management focus*

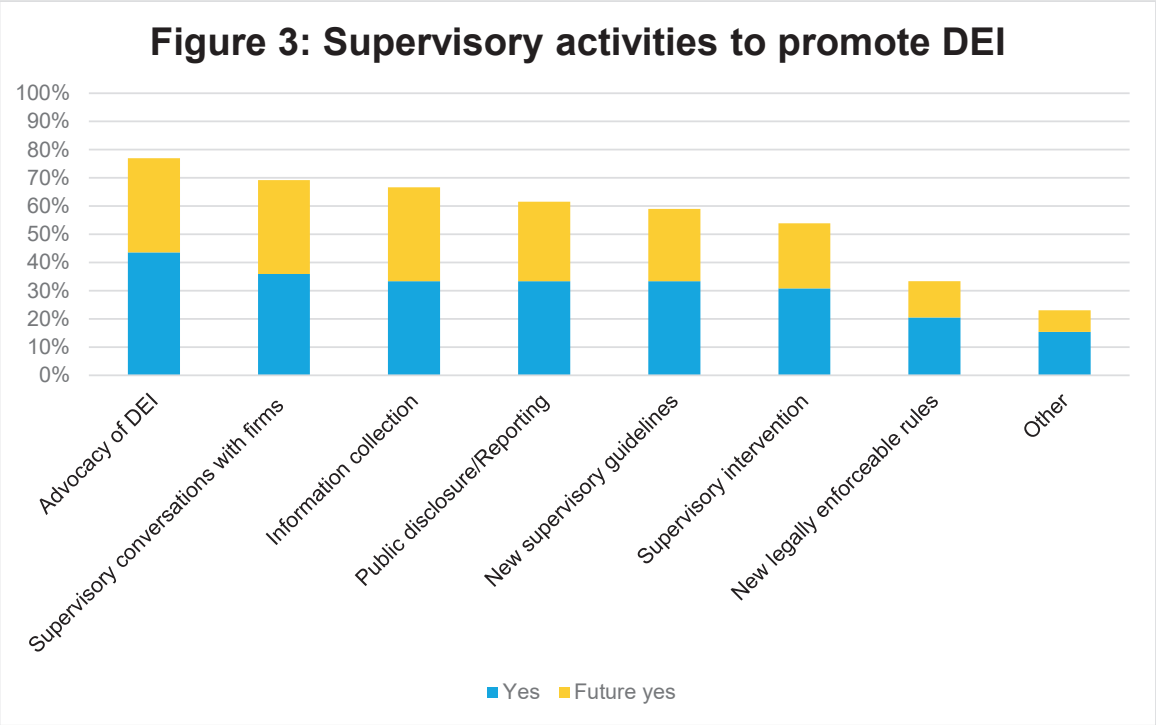
The IAIS considers that DEI within an insurer can reduce the risk of groupthink, provide the safety to speak up and improve decision-making, thereby positively impacting governance and risk management.[5] The survey asked IAIS members whether they thought they had a mandate to take action on DEI in insurers' governance, and what actions they were taking, or planning to take, in this area.

Seventy percent of supervisors report having some level of mandate or legal framework that supports them taking action to promote DEI in insurers' governance. Among those taking action in this area, many report that their work on DEI is at a fairly early stage.

There is not currently a clear picture as to which actions should be prioritised in order to embed DEI in the industry. Many supervisors suggested that a combination of different factors is key to supporting progress on DEI. For instance, formal requirements could help, but supervisors could also promote DEI through best practice examples and communicating with industry about the benefits and particular advantages. Frequent opportunities for an exchange of ideas and views between industry, supervisors and other stakeholders are also regarded as important.

The majority of respondents (76%) were currently taking some sort of supervisory action on DEI. Figure 3 shows the most common supervisory activities among those respondents that were taking, or planning to take, supervisory action on DEI.

[5] See section 1 for more explanation of the IAIS' view that DEI positively impacts governance and risk management.




The most frequently reported activity is advocating DEI through written and verbal communications. Respondents approached advocacy of DEI in a range of ways, including:

- through publications such as annual reports, corporate strategies, and supervisory priority letters addressed to industry;
- in the press or on social media;
- in speeches or blogs from senior leaders;
- through presentations to relevant stakeholders (including central banks, other supervisors, and industry representatives);
- through participation in public fora and campaigns dedicted to DEI; and
- through setting an example by prioritising DEI in their internal operations.

The second most frequently reported activity is asking insurers about DEI during supervisory examinations/interviews. Some examples of this include asking:

- about the local entity's application of group-level DEI policies or strategies;
- about DEI strategies as an indicator of an insurer's culture in this matter;
- senior leaders how DEI requirements are implemented;
- about aspects of diversity and inclusion in governance reviews related to Board effectiveness; and
- about DEI matters in ad hoc conversations around senior appointments.

Information collection and public disclosures are also amongst the more frequently reported actions. Of those who reported these activities, many collect information on DEI and release aggregated statistics for industry benchmarking. Some regulators also require insurers to publish information on the diversity and composition of their Board.

Several supervisors mentioned the importance of collecting data on DEI, focusing on several key aspects.[6] Firstly, it is important to establish whether insurers collect any DEI data, and the methods and manner in which this is collected and analysed. Types of data collected are usually with regard to demographic characteristics, often with a focus on gender.

The diversity data that insurers collect should also be considered in light of any specific DEI data collection strategy and action plan that the firm may have in place. Where these things exist, some supervisors thought it necessary to look at how this strategy is implemented as well as how the data is tracked, monitored and assessed.

Below is a selection of current supervisory actions to promote DEI in the insurance industry:

Ireland

In 2020, the Central Bank of Ireland published a Thematic assessment of Diversity & Inclusion in insurance firms. The objective was to assess the adequacy and maturity of the approach to diversity and inclusion within a sample of insurance firms. It found that all of the firms had commenced initiatives to improve diversity and inclusion but work was focused primarily on diversity, with all firms at an immature phase in their approach to inclusion. It found that the majority of firms have a significant way to go in ensuring their organisations are sufficiently diverse and inclusive.

In addition to the thematic assessment report, the Central Bank of Ireland issued a risk mitigation programme to each of the eleven firms, requiring them to submit a detailed action plan to address the firm-specific issues they identified, and to ensure these issues are appropriately resolved.

Furthermore, as part of their commitment to monitor and report on the level of diversity in the sector,[7] each year the Central Bank of Ireland reports on the demographics of the applications received for pre-approval of certain senior roles in financial firms in Ireland. This report provides data on gender statistics by reference to the regulated industry sector, role type, age and nationality. This analysis helps to monitor relevant activity each year as well as progress and trends over time.

Over the years, the Central Bank of Ireland has spoken publicly on the topic of DEI. Some of the more recent speeches include:

- Citizenship, participation and diversity - Deputy Governor Sharon Donnery; and
- Culture, diversity and the way forward - Deputy Governor Ed Sibley.

The Central Bank of Ireland is also introducing a supervisory practice to ask questions about diversity and inclusion during meetings with financial firms (including insurers), and is developing question banks to assist supervisors to effectively do this.

[6] In some jurisidctions, collecting data on some characteristics is prohibited for both supervisors and insurers under national legislation. In some cases these prohibtions are intended to prevent discrimination and arise from specific historical backgrounds.

[7] 'Diversity and Inclusion in Regulated Firms'.

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Italy

The Istituto Per La Vigilanza Sulle Assicurazioni (IVASS – the Italian institute for insurance supervision) published a working paper in January 2022: "Women, board and insurance companies". It concluded that "it is pivotal that regulators and supervisors […] take a proactive role in supporting diversity and inclusion in the insurance sector through measures such as the introduction of mandatory thresholds of women's representation and the publication of benchmark analyses".

Malaysia

The Bank Negara Malaysia monitors insurer culture, governance structure (e.g. diversity in Board composition) and conduct risk (especially conduct that could compromise the fair treatment of consumers). In a 2017 report, 'Better Boards – The Path Towards Stronger Corporate Governance in Financial Institutions', they noted how diversity in skills and background can enhance Boards' ability to meet the challenges inherent in uncertain and complex economic environments.

Singapore

The Monetary Authority of Singapore's 'Guidelines on Corporate Governance' expect financial institutions (including insurers) to disclose their Board diversity policies and progress made towards implementing these, including objectives.

United Kingdom

There has been a high degree of regulatory engagement by the Bank of England, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) over the years with the financial sector on the importance of diversity and inclusion. Some of the more recent speeches include:

- in November 2022, Sheldon Mills (Executive Director of Consumers and Competition, FCA) spoke at the Assocation of British Insurers Diversity Equity & Inclusion Conference on "Diversity and inclusion: Driving change in our industry"; and
- in April 2021, Andrew Bailey (Governor of the Bank of England) spoke at the launch of the "Meeting Varied People" initiative, on how it is important for the Bank to engage with a more diverse range of people and institutions within the financial sector in order to better understand global financial markets and their impact on the economy, to inform the Bank's decision-making in areas such as setting interest rates and designing market operations.

United States of America

In 2020, the National Association of Insurance Commissioners' (NAIC) Executive Committee established a special committee to address issues of race and insurance. The Special (EX) Committee on Race and Insurance demonstrates the U.S. state regulators' commitment to work together to find a holistic approach to address racial disparities and promote diversity in the insurance industry. Workstream 1 of the Special Committee was charged with researching and analysing the level of diversity and inclusion in the insurance sector and determining what barriers exist in the industry that potentially disadvantage people of colour and historically underrepresented groups. The workstream worked with NAIC technical staff to research and summarise existing publicly available data, articles and studies, and also reached out to consumer

IAIS

advocates and industry representatives requesting relevant data and information. The Workstream also highlighted the 2019 labor force statistics from the U.S. Bureau of Labor Statistics.

Diversity requirements have been introduced for companies (including insurers) in a number of jurisdictions, for example to require a particular number of women in leadership positions or to impose reporting obligations such as on diversity policies and progress against diversity targets. These requirements have generally been set with the intention of building companies with more diverse boards, which are seen to be important for good corporate governance and decision-making. As these initiatives are not targeted specifically at insurers or other financial institutions, they are not discussed in more detail in this report.

Some jurisdictions are developing new legally enforceable rules directed specifically at the insurance industry, or the broader financial services industry:

California (USA)

The California Department of Insurance has sponsored legislation to codify insurance diversity reporting requirements in statute, including expanded reporting requirements on Board diversity. Their Insurance Diversity Initiative aims to advance the diversity of suppliers and governing Boards in the insurance industry.

Chinese Taipei

The Financial Supervisory Commission Republic of China (Taiwan) has stated that in 2022 they plan to revise Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises and Regulations Governing Public Disclosure of Information by Life Insurance Enterprises. This includes adding provisions to "require an insurer to adopt a diversity policy of board of directors' members and to describe the company's diversity policy in its publicly filed statements and the state of that policy's implementation".

European Union

In April 2022, the European Insurance and Occupational Pensions Authority (EIOPA) wrote to the European Parliament, the Council of the EU and the European Commission advocating for the introduction of provisions promoting diversity in the governance of insurers as well as gender-neutral remuneration policy and practices.

Separately, from January 2023 financial market participant companies (including insurers) of more than 500 employees will have to report on the ratio of female to male Board members and the unadjusted gender pay gap of the companies they invest in.[8]

Italy

The Ministry of Economic Development has issued the Ministerial Decree n. 88/2022 on fit and proper requirements of the corporate officers and persons who carry out key functions in insurers or reinsurers. It includes a provision requiring a mandatory quota for the underrepresented gender in the administrative and control bodies.

[8] Commission Delegated Regulation (EU) 2022/1288

IAIS

South Africa

In South Africa, the Conduct of Financial Institutions (COFI) Bill is under development. The aim of the COFI Bill is to consolidate the conduct requirements of financial institutions (FIs) housed in various pieces of legislation into one statute, while also strengthening the Financial Sector Conduct Authority's (FSCA)'s role in implementing the changes laid down in law. DEI is addressed in various parts of the COFI Bill. It includes principles relating to culture and governance for financial institutions, which stipulates that financial institutions (including insurers) must conduct their business in accordance with the objectives of financial inclusion and promoting, in particular, racial equality through compliance with the requirements of the Broad-Based Black Economic Empowerment Act, 2003 (in local terms referred to as "transformation of the financial sector").

The FSCA and the Prudential Authority are also developing a Joint Standard setting governance requirements for financial institutions, which includes principles related to embedding DEI.

Future activities planned or under consideration by supervisors include:

United Kingdom

In July 2021, the PRA, FCA, and the Bank of England published a discussion paper "Diversity and Inclusion in the financial sector – Working together to drive change" (DP21/2), which outlined how improving diversity and inclusion in regulated firms can help them achieve their regulatory and business objectives. It put forward a number of ideas on how this can be achieved, with a focus on embedding diversity and inclusion into firms' governance frameworks, and invited industry responses.

Key considerations from DP21/2 include:

- Leadership and culture: Leaders need to set a compelling strategy and empower their teams to develop and implement initiatives that deliver cultural change at all levels within their institutions. Boards should monitor and challenge progress on diversity and inclusion.
- Remuneration: Linking progress on diversity and inclusion to remuneration could be a key tool for driving accountability in firms and incentivising progress.
- Firm-wide policies and practices: Diversity and inclusion policy should be a central consideration for all firms, as it forms the foundation of a strategy and action plan. Clearly documented policies help set out the expectations to staff of the meaning of diversity and inclusion and their respective roles.
- Reporting and disclosure: Good data can help firms understand the current state of play, monitor progress, identify potential barriers to progress on diversity and inclusion, and select the most effective interventions. The regulators are considering implementating reporting requirements in order to help them assess individual firms' progress as well as observe trends and benchmark progress across the industry. They are also considering requiring firms to publicly disclose information on their diversity data and strategy, as disclosure sets a clear statement of intent and creates transparency for stakeholders.
- Conduct: Regulators are exploring whether adverse findings in relation to individuals' conduct with regard to diversity and inclusion issues could affect their assessment of fitness and propriety in the future.

Following DP21/2, the PRA and FCA plan to publish parallel consultation papers on diversity and inclusion in the financial sector, including for insurance firms, in the near future. These will be based on the responses received to the discussion paper, and would propose rules and expectations aimed at improving diversity and inclusion across the industry.

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Overall, IAIS research shows that many insurance supervisors across different international jurisdictions consider DEI to be relevant to insurers' governance, and are either taking, or planning to take, specific actions in this area. The IAIS will continue to monitor developments in this area, taking note of further innovative ideas and examples of good practice.

### *2.3.2 Market conduct focus*

The IAIS considers that DEI built into the way an insurer conducts its business can lead to better consumer outcomes.[9] The survey asked IAIS members with responsibility for conduct of business supervision (per ICP 19) about the extent to which they are promoting DEI considerations in the way insurers conduct their businesses.

Approximately 63% of respondents reported conveying, to at least some extent, supervisory expectations that insurers conduct their business in promotion of customer DEI. A further 16% said that they do this to a great extent. Supervisors addressing DEI in a customer-facing sense have focused their expectations on product suitability, vulnerable groups, and customers with disabilities. Some have also focused on equity, prohibiting discriminatory business conduct, design, pricing, and coverage.

Most supervisors report having high-level laws, regulations, and/or guidelines that prohibit discriminatory insurance practices that affect customers, and most consider that DEI principles can be addressed under fair treatment of customers and/or wider conduct of business standards and principles. Responses indicated that supervisors do not necessarily need to adopt DEI in conduct supervision through a new framework or set of rules, but rather could address this through making adjustments to the use of existing frameworks.

The survey also asked whether supervisors had done any work to analyse, or had encountered supervisory examples of, a correlation between the state of DEI at an insurer (ie in an internal/institutional sense) and the insurer's conduct-related outcomes. The majority answered no.

Activities by supervisors to ensure insurers are delivering good consumer outcomes among diverse consumer populations include:

Australia

The Australian Securities and Investments Commission (ASIC) administers recent law reforms in relation to Design and Distribution Obligations, which require insurers to consider the objectives, financial situation, and needs of customers, in determining their target markets. Considerations include demographic factors, language, cultural factors, physical and psychological disabilities, chronic health problems, and age. ASIC has released guidance regarding these reforms in RG 274 Product design and distribution obligations.

ASIC has also secured remediation for consumers who were sold junk consumer credit insurance, including vulnerable consumers such as aged persons, unemployed persons, and consumers residing in high indigenous populated areas, who were unlikely to have English as their first language.

Chinese Taipei

[9] See section 1 for more explanation of the IAIS' view that DEI considerations in the way insurers operate their businesses will lead to better consumer outcomes.

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The Financial Supervisory Commission Republic of China (Taiwan) has established "Financial Inclusion Indicators" to evaluate the accessibility, usability and quality of financial services (not only insurance) in their jurisdiction, with a view to encouraging financial institutions to adjust their service strategies. One stated goal of the Financial Inclusion Indicators is encouraging financial institutions to introduce financial products or services that meet the needs of all sectors of society.

European Union

The European Union implemented new Product Oversight and Governance requirements in October 2018. They require insurance product manufacturers to design and market insurance products that are compatible with the needs, objectives and characteristics of their customers – including aspects like gender, age and vulnerability. They also require that the staff designing products have the necessary skills, knowledge and expertise to understand these needs, objectives and characteristics.

Given evidence of price walking practices,[10] in July 2022 the EIOPA issued a Supervisory Statement for public consultation, which aims at strengthening consumer protection by preventing the unfair treatment of consumers and to promote greater convergence in the supervision of differential pricing practices, to ensure that detriments to consumers are prevented via adequate Product Oversight and Governance processes. This followed EIOPA's thematic review of Big Data Analytics, which found evidence of these practices, and the issuance of a report on Artificial Intelligence Principles which aimed to ensure ethical and trustworthy usage of Artificial Intelligence in the European insurance sector.

Germany

German supervisors have analysed age discrimination in auto (motor vehicle) insurance provisions, but did not find any indications of ageism.

Italy

IVASS has published a working paper on "Governance of Artificial Intelligence in the insurance sector between ethical principles, board responsibility and business culture", which considers how to use artificial intelligence to help design more inclusive insurance products and protect consumer interests.

Malaysia

Malaysian supervisors have noted the risks of financial exclusion for some customer segments due to age, socioeconomic disparities, or financial literacy gaps. They consider how to ensure the insurance industry delivers products to meet the needs of lower income consumers, to avoid deepening existing disparities and contribute to social resilience. A policy document on "Perlindungan Tenang" (a microinsurance scheme) has been issued on 2 July 2021 to clarify Bank Negara Malaysia's expectations in this regard.

[10] Practice of increasing premiums at the renewal stage based on the analysis of characteristics specific to a particular consumer to predict behaviours not related to risk or cost of services, such as how much of a premium increase an individual consumer will tolerate before shopping for coverage with other product manufacturers.

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Netherlands

Growing diversity in the population of the Netherlands as a result of the proportion of Dutch nationals with a migration background prompted the Dutch Authority of the Financial Markets (AFM) to conduct an exploratory study of the financial vulnerability of Dutch nationals with a migration background and their relationship with financial services. The AFM hopes to increase awareness and contribute to the public debate on this issue. The study (published in December 2021) found that Dutch nationals with a migration background, particularly a non-Western background, are on average more financially vulnerable and, with respect to insurance, there are factors (including language barrier, complexity of insurance and limited familiarity with the concept of insurance) that could lead to them being either over-insured or under-insured.

Québec, Canada

The Autorité des marchés financiers (AMF) carried out a cross-sectoral monitoring exercise after being alerted to potential discriminatory behaviour in First Nations Communities' access to auto and home insurance. It stated that, "the insurers covered by the cross-sectoral monitoring exercise will receive customised recommendations through a private monitoring report. A public communication of AMF's findings could probably follow".

United States of America

Workstreams 3, 4 and 5 of the NAIC's Special (EX) Committee on Race and Insurance are focused on identifying issues related to race, diversity and inclusion in access to the insurance sector and insurance products. Each of the workstreams allows for U.S. state insurance supervisors to individually highlight one of the three lines of business: Property & Casualty Insurance, Life Insurance & Annuities, and Health Insurance. These workstreams are a forum for understanding practices within the insurance sector that potentially disadvantage people of colour and/or historically underrepresented groups. One specific market conduct-related example is a focus on the marketing, distribution and access to life insurance products in minority communities, including the role that financial literacy plays. Another is an examination of the use of network adequacy and provider directory measures (eg provider diversity, language and cultural competence) to promote equitable access to culturally competent care. U.S. state insurance supervisors have given themselves solution-oriented tasks and goals to address and fix insurance access and affordability concerns that may exist in the marketplace.

With regards to future opportunities, some supervisors noted that an area of development is to connect conduct issues with some clear DEI principles. Accessibility and underserved segments of consumers are indicated as two focus areas by some authorities. About one third of the respondents are considering how other requirements interact with the insurer conducting its business in accordance with DEI considerations, such as defining a target market for insurance products, the freedom of contract, and a premium price reflecting the risk assessment.

As with governance, the IAIS will continue to seek out examples of supervisors' work in the area of DEI and market conduct, and facilitate further conversation among stakeholders.

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# 3 Insurance industry action on DEI

## 3.1 As observed by insurance supervisors

The survey asked whether supervisors had conducted any analysis of the state of DEI within the insurance industry and what trends they had observed. The survey then asked supervisors what they consider is driving any industry action taking place, and what they believe will drive further industry action. A third of the supervisors have conducted analysis of the state of DEI within insurers in their jurisdiction, and a few have not done so yet, but plan to.

Various supervisors reported a clear sense that the increase in the number of insurers pursuing greater internal DEI is gaining momentum. Supervisors reported observing insurers taking a number of actions, both voluntarily and due to government initiatives or regulatory requirements:

- incorporating DEI considerations into their corporate governance framework;
- making disclosures on Board composition;
- looking at their human resources processes in order to recruit from a more diverse talent pool;
- considering barriers to entry into the industry, and how to mitigate these, such as by introducing sponsorship and scholarship schemes; and
- focusing on ways to promote women into management positions.

Overarching observations from supervisors about the industry's DEI action include:

- Industry initiatives most commonly relate either to financial inclusion/access to insurance, or to the pursuit of more diversity in the people working in the insurance industry.
- There is more concentration on increasing diverse representation than on equity or inclusion.
- While insurers are increasingly implementing DEI initiatives, they are not as often tracking, monitoring or assessing the effectiveness of those initiatives.
- Gender diversity is the most frequent focus of industry's diversity effort. However, the diversity focus can vary from one jurisdiction to another and supervisors noted some level of focus on ethnicity/race, sexual orientation, military veterans, persons with disabilities and socio-economic diversity.
- Initiatives related to increasing diversity in the composition of insurer Boards and senior management are quite prevalent. Some respondents observed that in many cases, women are still underrepresented in those cohorts, and some also found gender pay gaps. Respondents also considered that Board compositions do not always adequately match the demographic distribution of the local jurisdiction in terms of representation of ethnic backgrounds.
- Internationally active insurers are more likely than other insurers to have DEI aspects incorporated into their organisation and approach to doing business.
- Insurers are typically not as far along in their efforts to embed DEI into their approach to customers, compared to their efforts to improve their internal DEI.
- Industry sometimes considers their investment activity as part of their DEI action, for instance by setting up initiatives to expand their investment in underserved and underprivileged communities.

Insurance supervisors observe action on DEI being undertaken not only by individual insurers, but also by industry associations at various levels including at global, regional, and national levels.

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Supervisors consider that a variety of factors combine to drive industry action in order to increase internal/institutional DEI, the more significant of which are:

- mandatory requirements;
- industry's belief that DEI is good for their business and for their reputation, including from the perspective of employee attraction and retention; and
- societal shifts that have created an expectation or pressure from key stakeholders and therefore the need to commit time and resources to it.

Respondents also observed that, in many cases, action to increase DEI within the composition of insurers' workforce and leadership is part of a broader transition occurring across the financial sector in general, and across the wider corporate/business world, rather than being insurance sector-specific.

Supervisors gave varied responses regarding what they consider would bring about more industry action on DEI, but agreement did coalesce around the point that a combination of different factors would have the greatest success. The following actions are considered by supervisors as most likely to lead to further industry action to improve insurers' internal DEI:

- Formal requirements were mentioned often as a powerful catalyst for industry action. Some supervisors proposed that requirements could be helpfully supplemented by regulatory recommendations and guidelines laying out non-binding expectations.
- Supervisors nudging and encouraging the industry, by promoting DEI initiatives, e.g. by showing and promoting best practice examples and informing the industry about not only the benefits and advantages of improving DEI, but also about the dangers and consequences of ignoring it.
- Opportunities for the exchange of ideas and views between industry, supervisors and other stakeholders.
- Education and promotion of DEI in society in general. This will then translate into more action on DEI in the insurance sector specifically.

Overall, through the eyes of insurance supervisors, there is a clear picture that the insurance industry is increasingly interested in how DEI may be relevant to their organisations. This is inspired by various factors, some of which involve supervisory actions, while others are due to wider trends in local jurisdictions and internationally. This research suggests that it may be useful for insurers and their supervisors to continue to have an open dialogue, sharing their ideas and experiences on how to develop industry and regulatory approaches to DEI.

## 3.2 As explained by the industry through stakeholder engagement

As an input to the stocktake, the IAIS undertook engagement with a sample of external stakeholders to help in an initial, exploratory way:

- understand if and why, from the industry's perspective, DEI is considered relevant and important to both governance and to conduct of business in the insurance sector;
- learn about DEI action being taken by industry and other relevant stakeholders;
- understand what the industry sees as the biggest challenges or obstacles in embedding DEI; and
- receive views on what the global supervisory community can do to further promote DEI in the insurance sector.

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The sample of stakeholders included insurers, industry bodies and a consultant, representing jurisdictions spanning Global, Asia Pacific, Middle East & Africa, South Africa, Switzerland, UK, and USA. The IAIS looks forward to continuing to discuss DEI with other interested stakeholders.

The following key insights have emerged to date:

#### *3.2.1 Why DEI is relevant and important to insurers*

Industry stakeholders support the role DEI plays both from an internal/institutional perspective and an external, customer-serving perspective. They characterised DEI as a rapidly evolving area where the conversation keeps expanding.

Industry stakeholders expressed the view that embedding DEI in governance across an organisation is a predictor of organisational success. Industry stakeholders believed the following benefits can arise from embedding DEI within an insurer:

- Better business performance. Linked to this was recognition that insurers face many new challenges and hence new, diverse skillsets are needed for success.
- Risk reduction by creating diversity of thought, which means there is less chance of groupthink and likely overall better risk management.
- A more representative/diverse workforce can support better understanding of the diverse needs of consumers, therefore allowing insurers to deliver a better service to customers and to design the right products for customers needs. Some stakeholders did note that data to provide evidence of this is limited and imperfect, which hampers insurers' ability to easily assess how they are serving diverse populations.
- There may be an immediate benefit in insurers' ability to attract more talent. In the longer term, having more diverse staff may organically grow DEI within the insurer, which could then naturally embed DEI into the culture and continue to attract talented and diverse staff.
- The psychological advantage of an inclusive culture results in happier employees, which can lead to benefits for employee retention and productivity.

Some stakeholders described seeing the merits of DEI in relation to conduct of business as linked to the fundamentals of having a successful business: DEI better positions an insurer to understand the market it is in, to meet the needs of that market and to do it in an innovative, competitive and solvent way.

Stakeholders generally recognised that DEI from a conduct/consumer perspective is not as well developed in its thinking, and that there is an opportunity to explore it more. Stakeholders noted that market conduct is heavily influenced by the respective supervisory or cultural background. This could be a reason why a variety of drivers as well as a variety of actions exist. Additionally, regulatory regimes differ in their conceptualisation of DEI, as well as their approach to the concept of fair treatment, discrimination, and unfair practices.

#### *3.2.2 The challenges faced in embedding DEI*

Some industry stakeholders thought that the voluntary nature of DEI makes it challenging to crystallise sufficient action across the sector. They described that there are many discussions around DEI, but if there is no follow-up action, not much will change. Relatedly, the challenge of inertia was cited: people may be likely to follow engrained behaviour and be unwilling to embrace change, most DEI initiatives are fuelled by a small number of advocates, and there is a need to have a larger collaborative movement to create change.

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In response to these challenges, stakeholders pointed to the need for action and formal structures to promote DEI, and also the view that supervisors have a key role to play in raising awareness and evaluating if insurers are ethically embedding DEI in their businesses in a sustainable manner.

A lack of diversity in the talent pool is another key challenge to creating a diverse and representative workforce. Given the action being taken by some insurers, stakeholders expressed hope that this will get better over time, but recognised that continued action is needed. In jurisdictions with diverse cultural and demographic populations, developing appropriate products for different consumers is a DEI challenge that insurers need to deal with together, considering how to best make insurance accessible to diverse consumers.

It was also noted that industry associations trying to drive regional or global action on DEI need to have sensitivity and awareness of cultural and legal differences across jurisdictions.

#### *3.2.3 The role for supervisors*

Industry stakeholders believed that the IAIS making DEI a priority is helpful for motivating change. Likewise, several stakeholders said that advocacy for DEI by the local supervisor was a powerful driver of industry action.

As a general message, industry stakeholders recommended that supervisors should crystallise their position regarding the necessary principles and values around DEI and send a clear message to insurers and the industry at large. Some thought it may also be beneficial to communicate supervisory expectations such as expectations around insurers having an accountability regime that supports DEI.

Some stakeholders felt that supervisors should avoid overregulation, being too prescriptive or directive, and creating unnecessary burdens. They instead expressed the view that the regulatory landscape must be agile. They thought supervisors should raise awareness at a principled level, for example, through the publication of best practice papers and case studies. Some cautioned that supervisors should avoid introducing initiatives (eg setting quotas) that may actually cap ambitions to progress DEI. Some stakeholders also expressed that supervisors need to recognise the differences between large, medium and small insurers and cautioned against expecting a ‘one size fits all’ approach to DEI.

With respect to DEI in a conduct of business consumer-facing sense, industry stakeholders acknowledged that it can be addressed through fair treatment of consumers, but suggested that discussions were required with supervisors about how to provide a DEI lens to the fair treatment of customers that would not be prescriptive and therefore difficult to implement and supervise, given differences in markets and products.

IAIS

# 4 The international-level landscape and how IAIS activity fits

## 4.1 Across key international organisations

The stocktake included examining whether DEI features in the current and planned work of international bodies with mandates linked to the international financial system. Assessing the degree of attention on DEI as a supervisory topic at the international level assists the IAIS in understanding the current landscape, and in turn, the contribution it can make on this topic.

### *4.1.1 Overview*

There is a growing recognition of the benefits of DEI to good governance, and hence a growing promotion of more DEI within financial institutions, by international organisations. However, it is not as dominant on their work programmes as other topics, nor is it currently the subject of many official publications. Instead, work linked to the umbrella term 'Environmental, Social and Governance' (or ESG) remains more often focused on the E (for environment), with much of this work linked to climate change. There is some registered recognition of the increasing prominence of DEI as an issue under the ESG umbrella.[11]

Plenty of work directed at both financial inclusion and consumer protection is being advanced by international organisations. These are well established areas of work that have been on the agenda since before DEI came to prominence. Notwithstanding this, both financial inclusion and consumer protection can be regarded as promoting DEI, given they focus on the inclusion of typically underserved segments of the population, and they seek to ensure fair treatment and suitable products and processes for all consumers, especially those who are vulnerable. An area for ongoing consideration is how a DEI focus integrates with, or necessitates something additional to, existing bodies of work directed at financial inclusion and consumer protection.

### *4.1.2 Commitments to their own DEI*

Many international organisations have published DEI statements on their internal commitment to DEI as employers.[12] In some cases, the statements particularly recognise the link between the organisation itself being more diverse and inclusive, and the enhanced suitability of its output and policies.

While adopting DEI statements of this kind is not the same as progressing DEI-focused work as part of the execution of their mandates, it does constitute leading by example. It may also be indicative of growing recognition of the importance of DEI at that organisation, which may in time lead it to its incorporation in the organisation's external-facing work.

### *4.1.3 Recognition of the link between DEI and good governance and risk management*

Across the published material of international organisations, there are some references made to the advantages resulting from DEI within a financial institution. Where they exist, the references draw

[11] For instance, in Report on Sustainability-related Issuer Disclosures (June 2021) IOSCO (International Organization of Securities Commissions) highlighted that the sustainability performance of businesses and institutional investors is increasingly in the spotlight as societal awareness of sustainability matters rise – not only in respect of climate change, but the breadth of environmental and social issues, including diversity and inclusion. The report did not go into any further focus on diversity and inclusion.

[12] Examples include: IMF, The World Bank, OECD, BIS.

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the link between DEI and better corporate performance, better decision-making, and mitigation of misconduct.

One key illustration of heightened recognition of the relevance of diversity to good governance in the financial sector is the recent revision to the European Central Bank (ECB) guide to fit and proper assessments, published in December 2021. This example goes beyond just recognition, because it also involves implementation of new policy aimed at enhancing diversity.

The ECB described its enhanced approach to fit and proper supervision with a focus on diversity within the collective suitability of the management Board as "another step in the ECB's efforts to promote diversity within the management bodies of European banks as a necessary condition for the sounder governance of credit institutions and thus a safer financial system". Other key ECB commentary in support of DEI within the guide includes:

> "The decision-making process for strategies and risk-taking within institutions can be positively affected by supporting a range of backgrounds, experience, values, opinions and views in the management bodies of institutions. Diversity in all its facets will support institutions' decision making bodies.
>
> […] Diversity can have several dimensions that are important for the better functioning of the management body. Besides gender diversity, these include a variety of education and professional backgrounds, geographical provenance and age […]"[13]

A couple of earlier examples include:

- In its 2018 Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors, the Financial Stability Board listed a lack of diversity and inclusion creating groupthink as one of 21 key cultural drivers of misconduct. The Toolkit links groupthink resulting from a lack of diversity and inclusion, with impaired decision-making processes and with the rationalising of misconduct.
- In 2017 the Toronto Centre[14] published The Business Case for Promoting Improved Gender Balance in Financial Institutions, focused on the link between gender diversity within financial institutions and better performance.

Although not confined to financial institutions, the G20/OECD Principles of Corporate Governance is another example of international-level recognition of the relevance of DEI to effective governance. The September 2022 consultation on revisions to the Principles includes inserting more references to Board and senior management diversity.

#### *4.1.4 Global coordination and knowledge sharing among financial supervisors on DEI*

Initiatives are being established at the international level to promote and sponsor work by the supervisory community on DEI within the financial system with the aims of improving understanding, sharing knowledge, and ultimately promoting change.

The G7 Central Bank Governors in December 2021 signalled their intention to accelerate progress on DEI within their central banks and financial systems. The statement recognises diversity and inclusion as key sources of strength in the workplace, helping central banks make better decisions and policies in service of their societies. As part of this, a group of G7 Supervisory Authorities has

[13] Guide to fit and proper assessments (europa.eu) page 42-3.

[14] The Toronto Centre provides capacity building programs for financial supervisors and regulators around the world—particularly in emerging markets and low-income countries—with the objective of promoting financial stability and inclusion.

IAIS

met to discuss fostering greater diversity and inclusion across the G7 financial sectors and has agreed on the importance for supervisors to consider issues of diversity and inclusion in the financial sector.

Another example of growing momentum of supervisors working together in international networks and alliances to develop their approaches to DEI in the financial sector is the 2021 establishment of a diversity and inclusion special interest subgroup as part of the Supervisors Roundtable on Governance Effectiveness, convened by the Federal Reserve Bank of New York.[15]

In May 2022, the Financial Stability Institute of the Bank for International Settlements published an FSI Insights paper Diversity and inclusion – embracing the true colours in financial supervision. This publication is indicative of DEI assuming relevance as a contemporary regulatory/supervisory policy issue. The paper examines diversity and inclusion activity and emerging regulatory approaches in the financial services sector across six different jurisdictions. It approaches the topic of diversity and inclusion both in terms of its internal manifestation within a financial institution, and in its external manifestation in dealings with customers. The report concludes with the following observations:

- While there has been progress in improving financial institutions' DEI, the pace of change must accelerate, and the scope must broaden to diversity dimensions beyond gender.
- DEI regulatory development is a marathon, not a sprint.
- Financial regulators can lead by example in demonstrating the importance of DEI.
- International standards and guidance on DEI might be helpful to prompt progress in improving the quality of corporate governance of regulated financial institutions, thus enhancing the safety and soundness of firms and the financial sector.

DEI is increasingly explored at conferences. A prominent example at the level of global coordination of supervisory authorities is the Bank of Canada, Bank of England, Board of Governors of the Federal Reserve System, and European Central Bank having collectively organised a series of four conferences (2018, 2019 , 2021 and 2022) on *Diversity and Inclusion in Economics, Finance and Central Banking.* In 2018 and 2019 the conferences focused on gender diversity, and in 2021 on issues encountered by underrepresented groups in economics, finance and central banks. In 2022, the conference continued its focus on underrepresented groups, including but not limited to gender, and its title evolved with the addition of 'Equity' to become the *Conference on Diversity, Equity and Inclusion in Economics, Finance and Central Banking.*

#### *4.1.5 International organisations supporting supervisors to enhance gender inclusion*

Two of the IAIS' implementation partners—the Toronto Centre and the A2ii—are organisations operating at the international level with an objective of supporting supervisors to promote gender inclusion in the financial system (in the case of the A2ii, their focus is insurance supervisors specifically and to promote gender inclusion in insurance).

The A2ii's mission is to build the capacity and understanding of supervisors to facilitate the promotion of inclusive and responsible insurance. The A2ii has a significant focus on enhancing women's access to insurance in its recent and ongoing work. Ongoing work involves developing tools for supervisors, such as a template for collecting gender-disaggregated data, a 'gender awareness in inclusive insurance' training module, and a 'gender maturity assessment tool'.[16] Relevant past

[15] The Roundtable is a forum of financial supervisory authorities from around the world who share supervisory approaches and develop tools and resources related to governance, culture and behaviour supervision.

[16] Refer here for more information on the A2ii's ongoing work, and here for all A2ii work on SDG 5: Gender Equality.

IAIS

publications include The Role of Insurance Supervisors in Boosting Women's Access to Insurance (2021) and Mainstreaming Gender and Targeting Women in Inclusive Insurance: Perspectives and Emerging Lessons (2017).

The Toronto Centre also has a strong focus on women's financial inclusion through its work, and targets financial supervisors (not just insurance-specific). Previous relevant publications include How Regulators Use Sex-Disaggregated Data and Regtech to Enhance Financial Inclusion (2021), Removing the Barriers to Women's Financial Inclusion (2019) and Advancing Women's Digital Financial Inclusion (2018). In collaboration with USAID, the Toronto Centre has also recently designed a Gender-Aware Supervision Toolkit. It was built in recognition that supervisors are not always clear on how gender and gender inclusion relate to their supervisory mandate and what they can tangibly do to promote greater gender inclusion. The Toolkit aims to assist financial supervisors from emerging markets with integrating gender dimensions into their supervisory practices.

## 4.2 At the IAIS

### *4.2.1 IAIS work to date*

In 2021, the IAIS adopted DEI as one of its key strategic themes, and published a Statement on The importance of DEI considerations in insurance supervision. In that Statement, the IAIS commited to deepening and strengthening its work on DEI and to supporting insurance supervisors' and the insurance sector's efforts to further consider and take actions on DEI issues. The IAIS is also committed to taking action to further build DEI into its own internal governance and processes as a global membership association.[17]

Various IAIS supporting material, published 2021 and earlier, addresses issues interlinked with aspects of DEI:

- In particular, the Application Paper on the Composition and the Role of the Board (2018) highlights that Board diversity in its broadest sense can be an essential driver of the Board's effectiveness by creating a breadth of perspectives among members and breaking down a tendency towards groupthink. While the Application Paper focuses on diversity of competencies, such as knowledge and expertise, it recognises that diversity can be considered in the context of various other characteristics, such as gender, race, and ethnicity, as well as skills, backgrounds, personalities, opinions, and experiences.
- Another recognition of the merits of diversity in IAIS material is the Application Paper on Proactive Supervision of Corporate Governance (2019), which focused on insurance supervisors rather than insurers. It recognised the necessity of creating a culture that values diversity of thought (although this term was not used), which can enable supervisors to supervise more effectively and proactively.
- In the context of customer-facing issues that risk offending DEI values, the Issues Paper on Big Data Analytics in Insurance (2020) elaborated on issues of potential discrimination, bias, and exclusion linked to the use of Artificial Intelligence and Machine Learning.
- The Issues Paper on Insurer Culture (2021) explored the role of insurer culture, which informs decisions, behaviours, and practices across an insurer's business, as a critical intersection point

[17] Refer here for more on the IAIS' commitment to DEI as a global membership association. This expression of the value the IAIS places in DEI, why it is considered essential to the IAIS being able to accomplish its mission effectively, and the IAIS' plans to keep improving was approved by the IAIS Executive Committee on 9 November 2022.

IAIS

for managing prudential and conduct risks. The Issues Paper identified that insurers' approaches to DEI issues likely influence their overall culture, and vice versa.

The IAIS also has a strong history of work, and continues to give attention to financial inclusion and inclusive insurance which, because of the aim to increase access to insurance by people typically excluded or underserved people, links to the topic of DEI in a customer-facing sense.[18]

#### *4.2.2 2023 and beyond*

The work carried out through this stocktake has highlighted several areas where the IAIS sees it could add value in progressing DEI across the sector.

The IAIS plans to initiate new projects on DEI conceptualised into two focuses—one on insurers' institutional governance and the other consumer-focused. Across both, the work aims to highlight the interconnection between DEI in the insurance sector and supervisory mandates, and provide advice and examples of the range of available supervisory practices in connection with DEI that support achievement of better prudential and consumer outcomes.

More specifically:

- With respect to insurers' institutional governance—the IAIS intends to explore how DEI benefits governance, risk management and corporate culture, including by elaborating on what DEI within an insurer's institution could involve in this context. This will inform the development of an Application Paper on how supervisors can recognise and respond to corporate governance, risk management and corporate culture implications that can arise when an insurer lacks diversity and has poor inclusion.
- With respect to the focus on consumers—the IAIS intends to explore how applying a DEI perspective to conduct of business (including the design, sales and delivery of insurance products and services) can contribute to the fair treatment of diverse customer groups. This work will inform the development of an Application Paper on how supervisors, insurers and intermediaries can use a DEI perspective to better fulfil the requirement in ICP 19 to treat customers fairly for those consumers who are vulnerable, under-served or otherwise have different needs. It will also support supervisors to evaluate whether insurers and intermediaries are treating diverse consumer groups fairly and without inappropriate discrimination.

The IAIS is mindful that the topic of DEI is one where the cultural context is particularly important and national specificities may impact supervisors' and insurers' abilities to act. For instance, there may be legislation limiting certain data collection or legislation defining prohibited discrimination or setting out required protections. It is also important to ensure that insurers' considerations of DEI do not become a mere compliance or public relations exercise. These and other considerations will inform the future work and outputs of the IAIS on this topic and suggest not adopting an overly prescriptive approach. The planned work does not propose to create new requirements, but rather to provide further advice, illustrations, recommendations and/or examples of good practice on how existing Insurance Core Principles interact with the topic of DEI. We will invite industry and other stakeholder input as we take forward the planned work.

[18] Application Paper on the Use of Digital Technology in Inclusive Insurance (2018); Application Paper on Product Oversight in Inclusive Insurance (2017); Issues Paper on Conduct of Business in Inclusive Insurance (2015).

# 5 Conclusion

The IAIS' DEI stocktake has revealed that DEI in the insurance industry is currently a topic of significant focus by industry and supervisors in several jurisdictions.

The survey of IAIS members has provided helpful insights into what insurance supervisors are doing, and plan to do, to promote DEI within the insurance sector. These insights can guide other supervisors on the steps they can take to advance DEI in their own jurisdictions. The survey also gives an understanding of the challenges faced by supervisors, which can help shape future developments to overcome those challenges.

We have found examples of the insurance industry pursuing initiatives on DEI, most often on gender diversity, and in some cases with jurisdiction-specific emphasis. Industry action is driven by a number of influences, amongst which is the view that DEI helps bring better business outcomes. While industry action quite often began unprompted by insurance supervisors, industry stakeholders expressed that insurance supervisors have a role to play to drive further action, although with the caution that supervisors should avoid being too prescriptive.

Examining the current landscape of work on DEI by other international organisations with mandates linked to the financial system reveals a growing recognition of the benefits of DEI, but points to the opportunity for the IAIS to make a valuable and leading contribution.

The IAIS plans to maintain its focus on DEI by taking forward two new projects specifically focused on DEI. One will examine the link between DEI within an insurer's institution and its governance, risk management and corporate culture. The other will examine how DEI considerations in insurers' conduct of business, and in their supervision, may result in fairer treatment of consumers who are vulnerable, under-served or have different needs in comparison with a normative or majority consumer profile. In addition, DEI will continue to be a strategic theme across the IAIS' work programme, with relevance and interlinkage anticipated on other priority IAIS work including on financial inclusion, fintech, climate risk and protection gaps.

The IAIS will continue drawing attention to the importance of DEI for the achievement of better prudential and consumer outcomes and greater inclusion, and encourages the supervisory community and industry to continue progressing activity on DEI.

NAIC

NATIONAL MEETING

FALL 2022

TAMPA

# Member Diversity, Equity, and Inclusion

**Evelyn Boswell**
**NAIC Director of Diversity, Equity, and Inclusion**

December 14, 2022

# Member Diversity Leadership Forum Mission

To create a communication forum for best practices in diversity, equity, and inclusion in which each jurisdiction's insurance department:

- has access to education, guidance, and collaboration with stakeholders,
- can share and learn ideas to incorporate in their organizations,
- offer feedback for regulatory training coursework that will be provided by NAIC, and
- enable the NAIC and its regulated entities to fully fulfill their mission.

# ACCOMPLISHMENTS

Serve as the coordinating body for member requests for assistance from the NAIC related to DE&I efforts.

- Invited NAIC members to share a DE&I leader from their jurisdiction to join NAIC on a call
- Created the Member Leadership Diversity Forum to meet quarterly
- Staged NAIC DE&I booth at national meetings
- Staged booths at National Bar Association (Memphis) and Gamma Iota Sigma Career Fair (Charlotte): sharing job opportunities in our member jurisdictions
- Created Member Leaders SharePoint site
- Presented *Women in Leadership* DE&I Breakfast at Summer National Meeting
- Designed DE&I coursework for regulators. Registration opens February 6, 2023
- Member DE&I Leaders attended NAIC's 2nd DE&I Conference
- Presented at national meeting breakfast: *Micro to Macro: 5 Ways To Respond Effectively To Microaggressions In The Workplace*
- Sharing our mission with trade associations and insurance organizations as panel presenter

# ACCOMPLISHMENTS

Research best practices among insurance departments on DE&I efforts and develop forums for sharing relevant information.

- Evelyn Boswell presented DE&I initiatives from the NAIC
- Ron Henderson, Deputy Commissioner Division of Consumer Advocacy, Diversity & SHIIP presented DE&I initiatives from Louisiana
  - Assist members of minority groups in obtaining opportunities in insurance
  - Develop programs to address the needs of women and minority producers
- Henderson shared updates with Special Committee on Race and Insurance from Louisiana at the Spring National Meeting
- Associate Commissioner Phillip Barlow presented DE&I initiatives from DC. Department of Insurance, Securities and Banking (DISB) Programs to expand diversity in the financial services industry.
  - Gallaudet University Department of Risk Management & Insurance Interns
  - Financial Services Academy
  - Mayor Marion S. Barry Summer Youth Program Insurance Cohort
- Commissioner Woods and Barlow presented to Special Committee on Race and Insurance at Summer National Meeting on diversity initiatives
- Guest consultant invited to share *How to Recruit People of Color*

# Regulator Coursework


## PILOT

- One pilot course offering
- Jan. 9–17, 2023
- 20 - 30 volunteer participants to take the course
- Immediate feedback to make revisions

## COURSE OFFERINGS

- Begin Feb. 6, 2023
- At your own pace
  - Unit 1: Understanding Diversity, Equity, & Inclusion
  - Unit 2: Cultural Proficiency: Understanding, Awareness, & Competency
  - Unit 3: Diversity, Equity, & Inclusion in the Workplace

# Next Steps

## Member Diversity Leadership Forum

WebEx meeting

January 23, 2023

## Awareness in Action

3rd Annual DE&I Conference
Loews Hotel Kansas City

June 8, 2023

Invitations will be sent 1Q2023

## Questions

Contact Evelyn Boswell – eboswell@naic.org