Financial Security for Life

ACLI Economic Empowerment and Racial Equity Initiative

December 2020

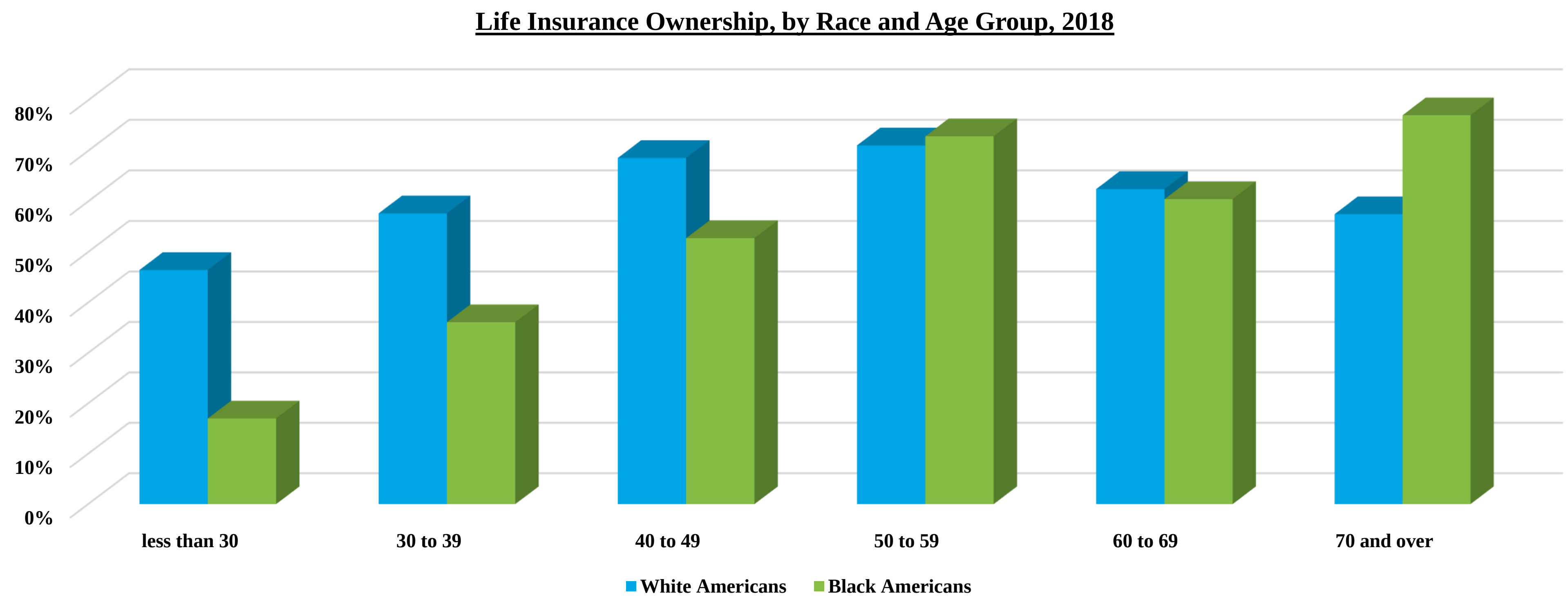
History of Race in Life Insurance: Recognizing the Past

- **1881:** A life insurance company reduces death benefits for Black American policyholders to one-third the value.
  - Most other companies followed and instituted practices such as denying commissions for any policy sold to Black Americans.
- **1940:** Survey: 40 percent of companies did not sell policies to Black Americans.
- **1948:** Post-WWII, civil rights movement prompts leading company to adopt race-merged tables.
- **1980s**: Last race-based policy sold.
- **Early 2000s:** 90 life insurance companies settle suits addressing systemic discriminatory policies (14.8 million policies sold between 1900 and the 1980s).

Race and Life Insurance: Where Are We Today?

- According to ACLI Analysis of Strategic Business Insights 2018 MacroMonitor Household Survey:
  - 56.8% of all U.S. households own life insurance, while 55.9% of Black American households own life insurance.
  - The coverage ratio, defined as median in-force face amount divided by median income, is nearly identical for Black American households (160%) as White American households (162%).
  - Black American households are more likely to own whole life insurance (22%) than White American households (19%).
  - Black American households are less likely to own group insurance (34.2%) than White American households (40.7%).
  - Black American households are much more likely to have utilized the policy loan features (7.2%) than White American households (1.9%).
  - Black American households trust their life insurance agents in the event of their death. More than 80% agreed or strongly agreed to the statement "I am confident that, should I die, my life insurance agent will act in the best interest of my beneficiaries". Only 70% of White American households agreed or strongly agreed with that statement.

Race and Life Insurance: Where Are We Today?



Based on ACLI Analysis of Strategic Business Insights 2018 MacroMonitor Household Survey

ACLI

Race and Life Insurance: We Can Do Better

ACLI's Economic Empowerment and Racial Equity Initiative Supports:

- Expanding Access to Affordable Financial Security in Underserved Communities
- Advancing Diversity and Inclusion Within Companies and on Corporate Boards
- Achieving Economic Empowerment Through Financial Education
- Expanding Investments in Underserved Communities

Expanding Access to Affordable Financial Security in Underserved Communities

- ACLI supports innovation and technologies that are part of the solution by driving expanded consumer access and consumer affordability in the middle market and underserved communities.
- ACLI supports a regulatory framework that eliminates potential proxy discrimination in the delivery of life insurance to the consumer.
- ACLI supports removing unnecessary barriers that may impede the ability of people of color to become licensed by or employed with the insurance industry.

Driving Expanded Consumer Access

- The life insurance industry believes accelerated underwriting programs using algorithms, artificial intelligence and big data increases accessibility to financial products and can help close the gap between the amount of coverage people need and the amount of the coverage they have today.
- These programs can help do that by making accurate underwriting decisions faster and simpler, which today's consumers demand.
- To keep pace with consumer demands, life insurers cannot be discouraged from employing new tools like artificial intelligence.
- Indeed, it is benefitting consumers today, as these processes have allowed for "touchless" underwriting during the ongoing pandemic.

Underwriting in Life Insurance

- Guarantees of long-term financial protection can only result when life insurers can obtain a clear picture of people's health and other factors relevant to the mortality and morbidity risk.
- Fairness in life insurance pricing requires that coverage amounts and premiums be based on sound mortality and morbidity expectations of each individual.
- Underwriting has historically been based on factors correlated to mortality and morbidity rather than causative.
  - e.g., Smoking, Diabetes, and Hypertension don't cause death, but lung cancer, kidney failure, and stroke do.
- It is incorrect to focus on eliminating underwriting variables that are not causative, as that would eliminate almost all underwriting variables.

Eliminating Proxy Discrimination

What is proxy discrimination?

- Relatively new concept in the context of life insurance
- Different meanings in different contexts to different stakeholders
- Some generally recognized characteristics in other settings
  - Use of “facially-neutral” information as a proxy to select against individuals resulting in harm to protected classes
  - Can be intentional or unintentional
  - Concept often raised in connection with the use of AI and Big Data, but not limited to those uses
- What does it mean in the context of life insurance?
  - ACLI is working through that question

What Do We Know So Far?

- ACLI has put together a team of doctors, lawyers, actuaries and data scientists to brainstorm ideas on a regulatory framework that keeps all the advantages of accelerated underwriting programs while identifying and correcting potential misuse of the data.
- We have not found evidence that there is currently unfair discrimination or proxy discrimination in the delivery of life insurers' products to the consumer.
- Life insurers want to keep it that way and want to be transparent with our regulators as new technologies are introduced.
- One large hurdle in detecting proxy discrimination: Life Insurers do not collect racial information.
    - As a result, it is difficult to get data to study.
- Eliminating specific underwriting variables not likely effective in addressing proxy discrimination in underwriting algorithms.

Questions?