



Neighborhood Economic Development Advocacy Project

73 Spring Street, Suite 506, New York, NY 10012

Tel: (212) 680-5100 Fax: (212) 680-5104

www.nedap.org

The ASSEMBLY STANDING COMMITTEE ON INSURANCE and ASSEMBLY SUBCOMMITTEE ON INSURER INVESTMENTS AND MARKET PRACTICES IN UNDERSERVED AREAS

Public Hearing on Guarding Against Inequities in the Residential Insurance Market and Insurance Company Investments in Underserved Areas of New York State

**October 20, 2006
New York, New York**

Comments of Saara Nafici, Neighborhood Economic Development Advocacy Project

Thank you for the opportunity to present testimony today. My name is Saara Nafici and I am the Financial Justice Organizer at the Neighborhood Economic Development Advocacy Project (NEDAP). NEDAP is a non-profit resource and advocacy center that provides legal, technical, and policy support to community groups in New York City's low-income neighborhoods and communities of color. NEDAP's mission is to promote community economic justice.

NEDAP is also a founding member of New Yorkers for Responsible Lending (NYRL), a statewide coalition of 123 organizations that promotes access to fair and affordable financial services and preservation of assets for all New Yorkers and their communities. Among NYRL's top priorities in 2006 is to underscore the need in New York State for community development investments by insurance companies in low and moderate income communities throughout the state as well as for data disclosure requirements on residential property insurance underwriting.

NEDAP was invited to testify today to bring a community perspective to the issues of insurance investments and data disclosure. NEDAP strongly supports the underlying principles of Assembly Bill 7537A, which calls for the creation of an insurance investment fund to leverage investments by insurance companies in underserved communities in New York State. We believe such a fund has great potential to provide substantial benefits to low and moderate income communities, neighborhoods of color, rural areas, and other underserved communities by helping to capitalize new community development projects. We believe the fund would also benefit insurers, who will reap direct profits and tax benefits from these new investments, in addition to long-term benefits such as enhanced public image and access to new markets throughout New York.

NEDAP has worked extensively with community groups in New York City's low-income neighborhoods and communities of color to document and develop strategies that address access to fair lending, insurance, and other financial services patterns and practices. Tools like the federal Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA) have established a public policy basis for requiring the banking and mortgage lending industries to provide information and benefits to the public, in return for the considerable public benefits that these sectors receive in the form of tax benefits, federal insurance, and more.

As a result of these laws, important partnerships have been formed between lenders and community groups throughout the country to increase lending and investments in historically underserved communities. Such partnerships have provided vital capital for community development projects, including affordable housing and small business development, community development financial institutions, and job creation programs. Banks, in turn, have consistently profited from CRA investments and learned how to do business in new, previously untapped markets. The Federal Reserve estimates that nationally, CRA has led to trillions of dollars in loans and investments in historically underserved communities. These hard-won successes would not have been possible without the CRA legislative-backing for community-organized reinvestment campaigns.

Like banks, insurance companies also control vast amounts of public capital. Also like banks, insurance companies reap substantial public benefits, including exemption from federal anti-trust laws; tax exemption from the proceeds of life insurance policies; and the state regulation and guaranty system, which builds consumer confidence in the safety and soundness of the insurance industry. Proposed Assembly Bill 7537A would provide additional benefits to insurers by changing certain accounting standards, which would effectively increase insurers' admitted assets by billions of dollars.

Unlike banks, insurance companies have virtually no obligations systematically to disclose data on their business practices – data which would help regulators and the public to assess whether consumers and communities are being treated fairly; to meet the insurance needs of all communities in which they do business; or to invest in community development initiatives in underserved communities. Not surprisingly, insurers' voluntary investment in New York communities to date has been negligent. NEDAP strongly supports the spirit of Assembly Bill 7537A, to seek benefits for the public in return for the enormous public support the insurance industry would receive for the accounting provision in the bill.

There is ample justification for requiring insurance companies – and particularly life and property and casualty insurers – to invest in underserved communities through a fund such as described in 7537A. We highlight the following points:

- Insurance companies receive a host of public benefits, including those named above, and yet are not held to the same standards as other financial services industries receiving similar benefits. Numerous precedents exist for legislatures to require investments or other social benefits from industries seeking tax cuts or obtaining other public benefits, with CRA for banks being the most obvious example. Insurers would be held to the same standards as banks.

- The insurance industry has a long history of requesting – and receiving – state and federal financial support. For instance, insurers have requested that the federal government assume responsibility for potentially billions of dollars in future terrorist claims. If insurers are willing to ask taxpayers to protect their interests, they should be willing pledge investments in communities in return.
- There are good investments to be made. Banks, through CRA, have earned profits while providing much-needed capital to stimulate low and moderate income communities. Numerous community groups around the state have expertise in working closely with banks to help them assess local needs and identify safe and profitable investment activities. Groups will work with insurers in the same way.
- Insurance investment programs have worked. Most notably, insurers in Massachusetts have pledged to invest \$200 million for CRA-type investments in exchange for tax reductions through the Life and Property & Casualty Initiatives established in 1998. Insurers have earned profits while providing capital at below-market rates for meaningful projects, including housing preservation and development, job creation, health programs, and more.

In reviewing Assembly Bill 7537A, NEDAP is encouraged by and strongly supports the inclusion of the following items:

1. A careful and well-crafted definition of “qualified investments,” in order to channel funding to meaningful projects and generate new investment activity, rather than supporting those initiatives which are already popular or well-capitalized.
2. Specific annual investment goals, with a minimum investments goals set each year.
3. A publicly-available annual report to the Insurance Commissioner.
4. The inclusion of 5 community members on the board – individuals who can represent diverse geographic areas of New York State and provide crucial community input.
5. The provision of staff persons responsible for working with community groups to identify meaningful local investment opportunities.
6. The convening of annual local meetings with communities.
7. Mandatory, rather than voluntary, participation in the fund.

Also on today’s agenda is discussion of Assembly Bill 11512, or the New York residential insurance providers disclosure act. NEDAP supports passage of a law that would achieve the goals expressed in A.11512. We believe that the lack of data on property insurance underwriting significantly hampers the public’s ability to gauge whether people are receiving fair access to insurance. We believe that reporting of data by census tract, along the lines of the Home Mortgage Disclosure Act, is overdue for insurance companies, and we laud the Assembly

for addressing this major problem.

Today, we would like to focus on just one aspect of A.11512, which NEDAP considers vitally important. The bill also needs to require reporting of data by the FAIR plan, New York's insurer of last resort. NEDAP has found it extremely difficult to obtain FAIR plan data. We initially sought the FAIR plan data, as part of our anti-predatory lending research efforts, when it came to our attention that a disproportionately high number of low income seniors with predatory loans had FAIR plan policies. These homeowners – all people of color – had received FAIR plan policies many years before, and had never moved into the private residential insurance market, generally paying more for their insurance policies and receiving inferior coverage.

Our difficulty in obtaining FAIR plan data stemmed from the question of whether FAIR plan data was subject to New York's Freedom of Information Law. We were sent back and forth between the NYS Insurance Department and NY Property Insurance Underwriting Association (NYPIUA); we ultimately obtained the data from NYPIUA, which provided data at county and city levels only. The NYPIUA data showed that in 2001, *more than one out of every four (27.5%) "habitational" policies underwritten in New York State was in Brooklyn alone.* There was no way to ascertain patterns at the neighborhood level, which is key to understanding the data's implications, especially for a county like Brooklyn that has more than 2.4 million inhabitants.

With access to FAIR plan data, community groups can not only determine what geographic areas are not being adequately served by insurers, but also use the data to gauge the effectiveness of the disclosure bill itself. As the data is collected and mapped over time, we can see whether the FAIR plan marketshare has increased or decreased in particular neighborhoods. As such, NEDAP strongly recommends the inclusion of FAIR plan data in the disclosure act.

Thank you very much for the opportunity to present this testimony at today's hearing; we would be happy to discuss these topics with you in further detail.