

# TRACKING SUCCESS

California's Insurance Commission uses data reporting to boost supplier diversity in the industry.



By Ryan Hamilton

Having long been known for being on the cutting edge of measures to improve supplier diversification, California is stepping up efforts to make business practices more transparent in the insurance business.

Passed in late 2012, the Golden State's Assembly Bill 53 (AB 53) requires insurers collecting more than \$100 million in premiums in the state to report their supplier diversity data to the state's insurance commission, which will then make it available to the public.

The effort behind this legislation began at the **Greenlining Institute**, a San Francisco-based nonprofit that got its start as a loose, grass-roots coalition to prevent “redlining”—the practice of denying goods, services, and jobs to residents of particular neighborhoods, usually along racial lines—in California’s banking industry. After its work in developing strategies to help banks offer equal access to capital and wealth, the Greenlining Institute developed into an incorporated nonprofit that monitors supplier diversity and other issues in California.



Kang

**Samuel Kang**, Greenlining’s general counsel, explains the genesis of AB 53. “As insurance companies became not just bread-and-butter insurance companies—they became large investment companies—during the 1990s and early 2000s, we asked them, ‘What is your investment in underserved communities?’ We did not get clear responses.”

Two years ago, the Greenlining Institute decided to approach the situation in a different way by framing the question as a supplier diversity issue: How much are California’s major insurance companies spending with California-based, minority-owned and women-owned businesses (MWBEs)? “Consumers in California see all of the State Farm, Farmers, [and] Allstate commercials during prime time,” Kang says. “Those companies are competing vigorously for California dollars. We wanted to see how much those companies spend [with MWBEs] in California.”

To gain access to that information, Greenlining turned to the legislative process. Kang drafted the initial text of AB 53 and took it to State Assemblyman **Jose Solorio**, a Democrat who was the chair of the Assembly’s Insurance Committee at the time. “It requires companies, on a biennial basis, to report how much business they do with minorities, women, and disabled veteran businesses,” says Kang. “The companies in play are those that collect \$100 million or more in [premiums] in California.”

The bill, Kang is quick to say, *only* requires companies

to report spend data—it sets no quotas for contracting or other requirements for companies to do a certain amount of business with MWBEs. California’s Proposition 209, approved by voters in 1996, forbids state government and institutions from considering race, sex, or ethnicity when making decisions regarding public employment, contracting, or education. “There are no minimum thresholds or minimum requirements,” Kang emphasizes. “What the reporting allows is transparency.”

**Melanie Shelby**, a partner at **Gray, Greer, Shelby & Vaughn**, was retained by the Personal Insurance Federation of California (PIF), which represents the state’s seven largest carriers, to handle lobbying and governmental relations on AB 53.

“There was an attempt 11 years ago to bring supplier diversity to the insurance world in California,” Shelby explains. Modeled after General Order 156 (GO 156), which mandated that utility providers operating under the California Public Utilities Commission report their diverse spend with the state, the attempt failed. Shelby notes critical differences between the two industries, though.

“The problem is that the insurance industry is highly competitive. If you live in Oakland, you know that PG&E is going to be providing

your electricity. You could go to sleep deciding you’re a State Farm customer and wake up in the middle of the night and decide you want Farmers. You couldn’t bring the cookie-cutter model from the utility industry to the insurance industry.”

Initially, PIF opposed AB 53. “In Sacramento, you have a bunch of government affairs people who work at the capital,” Shelby says. “They are there to support, neutralize, or oppose a bill.”



Shelby

Shelby’s firm was faced with two initial challenges: getting the people in Sacramento to understand that GO 156 couldn’t be cross-applied to the insurance industry without modifications, and educating PIF on supplier diversity issues. “Initially, there was a disconnect,” Shelby says. “We took the trade association through their homework. They were likely doing business with diverse firms through

*“Politics is a sausage-making process. You can’t be a game-changer unless you have something you can set your eyes on,” Shelby says, and the data yielded from AB 53 will help materialize something onto which political players can gaze.*

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their supply chain; they just didn't know it." Shelby and PIF worked to identify existing diverse firms in its supply chain. "After the program, many realized that there were a number [of insurance companies] with strong supplier diversity programs. There were some who did not [have them]," admits Shelby.

Kang accepts that there are differences between the utility and insurance industries. "What works with one may not work for the other because they're different businesses. Yes, we know that. But they're both doing business in California," he says. "[This] is a majority-minority state, and increasingly so. We had no information about the insurance industry as a whole, and very little information from individual companies about how they were working to reinvest into the market base that generates so much profit for them."

Even though AB 53 doesn't mandate that any firms actually do business with diverse suppliers, Shelby and Kang believe that the data it helps collect may prove to be just as good. "Transparency allows us to measure results; the ability to measure allows us to move and influence the results," Kang says. To him, the parallel with GO 156 couldn't be clearer. "Every year, we publish a report on the utility industry's supplier diversity efforts. We put out a report card with how all these companies are doing [with respect to supplier diversity]. Nothing in that legislation requires a utility to meet any goals, and they're not penalized if they don't," he says.

Even without the law encouraging them to do so, Kang says, the fact that the data is reported and graded means that companies have started to compete with one another to spend more with diverse suppliers. "Even though we're dealing with monopolies, they actually compete with one another here," he says. "At the very least, no one wants to be at the bottom. But they compete because they want to be the Number One utility for supplier diversity in the state. AB 53 seeks to replicate that process."

California Insurance Commissioner **Dave Jones** explains that part of the bill's aims was to task the Department of Insurance with surveying insurance

companies with regard to supplier diversity efforts every two years. "We administer the survey and make sure that insurers complete and submit the survey," he says. "The results of the survey are made public on the department's website."

Greenlining has and will synthesize and summarize the data for public consumption, just as they do for the utility industry. "We take all of the data, compile it, then analyze it to create a report that will say, 'Here is the state of the insurance industry, aggregated but also disaggregated in many ways, about who firms are contracting with, who has supplier diversity programs, who doesn't, and who has plans to start one,'" says Kang. So far,

Greenlining has processed 127 submissions; 70 of which had formal supplier diversity policy statements, and 57 did not. Of those 57, 17 indicated that they would launch a supplier diversity program within the next year, and 38 had no stated plans to do so. *Editors report:* You may view the report at <http://greenlining.org/issues/2013/greenlining-insurance-supplier-diversity-report-2013/>.

Jones' office also issued a report on the 2013 results. "[We] have prepared and posted a number of documents that aggregate and organize the data so that diverse businesses and stakeholders alike can easily access and understand the information submitted from insurers," he says.

"Politics is a sausage-making process. You can't be a game-changer unless you have something you can set your eyes on," she says, and the data yielded from AB 53 will help materialize something onto which political players can gaze. When the measure was first proposed, it was difficult to track because some firms didn't know how they were doing. "There are no goals inside of the bill." AB 53 will "create a baseline," she argues. "The potential for diverse firms to be infused in the supply chain is huge."

One of the earliest supporters of the measure was Commissioner Jones. "He actually saw the social good and how it made business sense, especially given how diverse California is," Kang says. "He didn't even wait for AB 53 to be passed by the state legislature to start collecting data. He issued his own data call," asking insurance

*"We believe that minority-, women- and veteran-owned businesses are an important part of California's economy and that they deserve the opportunity to compete for business from California's insurance industry, which collects \$123 billion a year in premiums."*

—Commissioner Dave Jones



companies if they have supplier diversity statements,” Kang says. “It showed people how serious he was about getting that information into his hands. He has been building out his own staff to make sure they collect the data and do it right.” Only a handful reported their data, however.

“We launched the Insurance Diversity Initiative in 2011, a year before AB 53 was introduced,” Jones says. “[It] included a first-of-its-kind survey of insurance companies’ supplier diversity and governance-diversity efforts. I also appointed an Insurance Diversity Task Force to advise and make recommenda-

tions on ways to improve insurance company supplier diversity and governance diversity.”

While Jones was ahead of the pack in advocating for supplier diversity initiatives in the California insurance industry, his office supported the measure, in part, to inoculate it against future political change. “We strongly supported AB 53 in 2012 as a component of our Insurance Diversity Initiative,” Jones explains, “and as a way of ensuring that regardless of who the Insurance Commissioner is, supplier diversity would continue to be encouraged by the Department of Insurance, and [that] the survey [be] institutionalized.”

Supporters accept that the bill isn’t perfect. “We got the best bill passed in the environment that [we had],” states Shelby. “There are several things that need to change in 2014. The bill is set to sunset in 2019. It shouldn’t. It should go on in perpetuity, but the sunset was the only way people could embrace it and vote on the bill.

“Another piece that needs to change is the definition of ‘certification’—it is a loose one. It says that if you have a firm that is 51 percent woman-, minority-, or service-disabled veteran-owned, you are a certified business.”

Shelby believes that getting national certifying organizations such as the National Minority Supplier Development Council or the Women’s Business Enterprise National Council will help alleviate those issues. “National certifiers have to play a role in this process because they bring people together,” she says.

“You pass a bill, you realize its deficiencies. You go back and clean it up.” ♦

*Ryan Hamilton is managing editor of MBE magazine.*

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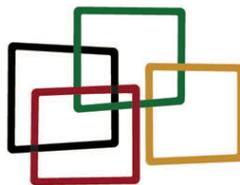


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