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CONSUMER GROUPS APPLAUD WASHINGTON DC INSURANCE COMMISSIONER TAYLOR FOR ENFORCING LAWS AGAINST UNFAIR DISCRIMINATION AND PRICE GOUGING

Commissioner Says Every Insurer Must Ensure No Current and Future Insurance Rate Use "Price Optimization"

Washington, D.C. – Washington, D.C. Insurance Commissioner Stephen Taylor notified insurance companies that so-called "price optimization" is illegal unfair discrimination in the District. Price optimization is the use by insurers of non-risk factors to set rates. Consumer advocates commended Commissioner Taylor for issuing a strong and clear rebuke of the new pricing scheme that some insurers have introduced in recent years. According to the bulletin:

> It has come to the Department's attention that some insurers are charging additional premiums to policyholders presumed likely to accept premium increases by utilizing price optimization. Insurers are analyzing data, not related to losses and expenses (e.g., how a policy holder has responded to rate increases in prior years), to project the policyholder's expected willingness to pay increases premiums. This projection may be realized directly or indirectly through tier placement, risk classification systems, underwriting, relativity factors, surcharges, fees, discounts, factors, etc. Not only does a policyholder's sensitivity to premium increases bear no relationship to the risk of loss and estimated expenses, but the potential for policyholders with like risk characteristics to receive different premiums does exist with price optimization.

and

> Adjusting rates directly or indirectly through methods including, but not limited to, tier placement, risk classifications systems, underwriting, relativity factors, surcharges, fees, without regard to risk of loss and estimated expenses, is a violation of D.C. Official Code

and

> Any insurer using price optimization to rate insurance policies in the District shall cease such practice and take the necessary steps to comply with the directives in the Bulletin. Every insurer shall ensure that no future filings utilize price optimization in any manner.

In addition to nine states, Washington, D.C. is the tenth jurisdiction to notify insurers that price optimization violates state insurance statutes that require cost-based pricing and prohibit unfair discrimination in setting insurance premiums. Maine, Indiana, Washington, Florida, Maryland, Ohio, California, Vermont and Pennsylvania have previously issued notices to insurers with the same message as the D.C. bulletin: utilizing non-risk related consumer characteristics to set insurance prices is illegal. The Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) applauded Commissioner Taylor for the action and have asked all state Insurance Commissioners to similarly enforce their state laws which prohibit so-called price optimization.

In recent years, insurance companies have begun to use factors unrelated to risk of a claim to raise customers' premiums based on individual shopping habits and the absence of competitive options for the consumer. Insurers have developed estimates of a consumer's tolerance for price changes. Price optimization aims to determine how much insurers can increase rates for each individual customer beyond what is appropriate based on his or her risk profile.

“Most Americans are required by law to buy auto insurance and by their mortgage company to buy homeowners insurance, and it is terribly unfair and entirely illegal for insurance companies to vary premiums based on whether or not they are statistically likely to shop around,” said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner. “It is the obligation of Insurance Commissioners to protect consumers from this kind of price gouging, and we applaud Commissioner Taylor for his action. We urge state insurance commissioners across the nation to join D.C and the nine other states in cracking down an unfair practice penalizing consumers who are required to purchase auto insurance.”

Hunter added, “Insurers have been playing a shell game with regulators – hiding their rating factors by calling them something else – like tier placement factors – and not filing the information with state insurance regulators. Commission Taylor is clearly having none of that – his bulletin tells insurers to cut out price optimization no matter what the insurer calls it.”

According to the consumer groups, price optimization marks a radical departure from the actuarial practice of pricing insurance premiums according to the risk of loss posed by the policyholder. The purpose of price optimization is to extract as much profit as possible from policyholders who are often required to purchase insurance policies.

"Price optimization by insurers is Big Data run amok and simply price gouging by a fancy name. Consumers are being punished for activities and circumstances unrelated to risk and without any disclosure or transparency by insurers,” said Birny Birnbaum, Executive Director of CEJ. “The state actions by ten Insurance Commissioners are the first steps in returning insurance practices to the foundation of pricing insurance based on risk of loss."

The Consumer Federation of America is a national organization of more than 250 nonprofit consumer groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education.

The Center for Economic Justice is a non-profit organization that works to increase the availability, affordability and accessibility of insurance, credit, utilities, and other economic goods and services for low income and minority consumers.