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District of Columbia Issues Price Optimization Ban Bulletin

August 28, 2015

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The District of Columbia's Department of Insurance, Securities and Banking (DISB) this week issued a bulletin notifying property/casualty insurers doing business in the District that price optimization is discriminatory and that it violates the District's anti-discrimination insurance laws.

The Department's "Bulletin 15-IB-06-8/15," issued on Aug. 25, directs any insurer using price optimization to rate insurance policies in the District to cease such practice and take the necessary steps to comply with the directives in the bulletin.

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"Price optimization refers to an insurer's practice of charging the maximum premium that it expects an individual or class of individuals to bear, based upon factors that are neither risk of loss nor estimated expense-related," D.C. Acting Commissioner Stephen C. Taylor said in the bulletin.

For example, an insurer may charge a non-price sensitive individual a higher premium than it would charge a price sensitive individual, despite their risk characteristics being equal, Taylor said. "This practice is discriminatory and it violates the District's anti-discrimination insurance laws codified at D.C. Official Code §§ 31-2231.13(c), 31-2703(a) and 31-

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2703(b)," he warned insurers.

Taylor said it has come to the Department's attention that some insurers are charging additional premiums to policyholders presumed likely to accept premium increases by price optimization. Insurers are analyzing data, not related to losses and expenses (e.g. how a policyholder has responded to rate increases in prior years), to project the policyholder's expected willingness to pay increased premiums, he noted.

"This projection may be realized directly or indirectly through tier placement, risk classification systems, underwriting, relativity factors, surcharges, fees, discounts, etc.," Taylor said. "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."

Taylor said adjusting rates directly or indirectly through methods including, but not limited to, tier placement, risk classification systems, underwriting, relativity factors, surcharges and fees, without regard to the risk of loss of estimated expenses, is a violation of D.C. Official Code §§ 31-2703(b). Furthermore, charging different premiums to like risks or risk classes due wholly or in part to characteristics that bear no relationship to the risk of loss and estimated expenses is unfairly discriminatory and is in violation of D.C. Official Code §§ 31-2231.13(c) and 31-2703(a).

"The Department hereby issues a ban on the inclusion of price optimization in all future rate filings," Taylor said.

Any insurer currently utilizing price optimization in any manner similar to that described in the bulletin to rate insurance policies in the District must submit a SERFF (System for Electronic Rate and Form Filing) filing that is compliant with the bulletin no later than Nov. 30, 2015, with proposed effective dates no later than March 31, 2016 for both new business and renewal business. The filing submission must identify the SERFF tracking number of the filing that is being replaced or corrected.

Related:

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- [Vermont Regulators Issue Bulletin on Price Optimization](#)
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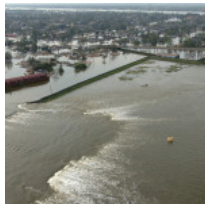
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