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CONSUMER GROUPS APPLAUD ALASKA INSURANCE DIRECTOR WING-HEIER FOR BANNING PRICE OPTIMIZATION

Alaska Director States Rates Cannot Be Excessive, Inadequate, or Unfairly Discriminatory

Washington, D.C. – Alaska Insurance Director Lori Wing-Heier issued an official bulletin to insurance companies to disclose any use of so-called "price optimization" and highlighted the state's prohibition on any use of pricing techniques unrelated to risk, such as price elasticity of demand. According to the bulletin:

> A rate will be considered unfairly discriminatory if price differentials fail to reflect equitably the differences in expected losses and expenses for different classes of policyholders. Both base rates and rating classes must be based on policyholder characteristics specifically related to an insurer's expected losses, expenses, or policyholders' risk. While insurers may employ actuarial judgment in setting their rates, judgmental adjustments to a rate may not be based on non-risk related policyholder characteristics such as an individual's "price elasticity of demand" which seek to predict how much of a price increase an individual policyholder will tolerate before switching to a different insurer.

Alaska is the 17th jurisdiction to notify insurers that price optimization violates state insurance statutes that require cost-based pricing and prohibit unfair discrimination in setting insurance premiums. Maryland, California, Ohio, Florida, Vermont, Washington, Indiana, Pennsylvania, Maine, Washington, D.C., Rhode Island, Montana, Delaware, Minnesota, Colorado and Connecticut have previously issued notices to insurers with the same message as the Alaska bulletin: utilizing non-risk related consumer characteristics to set insurance prices is illegal.

In recent years, insurance companies began to use "price optimization" to raise customers' premiums based on individual shopping habits and perceived "price elasticity of demand," which is a measurement of a consumer's tolerance for price changes and can also reflect their level of access to other choices. 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 Director Wing-Heier for her action. We do however, call on all Commissioners to ban the use of price optimization completely for pricing and not just in rate filings. The District of Columbia Bulletin does that and should be used as a model."

The bulletin issued by the DC Department of Insurance, Securities and Banking can be downloaded here.

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 17 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.