



Consumer Federation of America



CENTER FOR ECONOMIC JUSTICE

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## **CONSUMER GROUPS APPLAUD WASHINGTON INSURANCE COMMISSIONER KREIDLER FOR PROHIBITING INSURANCE COMPANIES FROM NON-RISK FACTORS TO PRICE INSURANCE**

*Groups Call on Commissioner to Pro-Actively Stop Insurers Currently Using Unfair “Price Optimization”*

Washington, D.C. – Washington Insurance Commissioner Mike Kreidler, in an official [advisory](#) issued yesterday, directed all insurers to stop setting insurance premiums on the basis of so-called “price optimization.” The Commissioner stated in the advisory that charging higher rates, based on consumers’ willingness to shop around, is considered unfairly discriminatory and in violation of Washington State law.

Washington is the fifth state to formally describe price optimization techniques as “unfair discrimination,” which is illegal in every state, following Maryland, Ohio, California, Florida and Vermont. The Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) applauded Commissioner Kreidler for the decision and are calling on all Insurance Commissioners around the country to follow the lead of these six states.

In recent years, insurance companies have begun 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.

“This practice discriminates against people who don’t shop around, and discriminatory pricing is against state law,” said Commissioner Kreidler in a [press release](#). “It’s hard to root out loyalty penalty pricing, but our actuaries are actively watching for it.”

The consumer groups called on Kreidler to pro-actively stop the unfair pricing practice by requiring all insurers to report to the Commissioner any and all instances of price optimization the insurers have or are using. The groups cited the actions of other states which have issued bulletins both alerting insurers that pricing based on non-risk factors violates the law and for the insurers to report their practices in an effort to stop price optimization immediately.

“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 Kreidler for his action.”

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 six 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.*