



Consumer Federation of America



CENTER FOR ECONOMIC JUSTICE

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CONSUMER GROUPS APPLAUD INDIANA INSURANCE COMMISSIONER ROBERTSON FOR DIRECTING INSURERS TO STOP PRICE GOUGING CONSUMERS

Indiana Becomes Sixth State to Ban Insurance Companies' Use of "Price Optimization"

Washington, D.C. – Consumer groups thanked Indiana Insurance Commissioner Stephen Robertson who, in an official [bulletin](#) issued today, directed insurers to stop setting insurance premiums on the basis of consumer characteristics unrelated to risk – so-called “price optimization.” Price optimization is a technique by which insurance companies mine databases of web browsing history, shopping habits and other activities unrelated to insurance risk to set premiums for consumers. The term “price optimization” is used because the goal is to charge premiums that optimize insurer profits without prompting consumers to shop around.

Indiana is the sixth state to explicitly ban price optimization, following Washington, Florida, Maryland, Ohio and California. Additionally, Vermont, according to consumer advocates, has effectively banned price optimization by both requiring disclosure and highlighting that the techniques underlying the practice are illegal. The Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) applauded Commissioner Robertson for the action and are calling on all Insurance Commissioners around the country to prohibit price optimization.

“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 Robertson for his action.”

Over the past several years there has been a growing trend in the insurance industry to use personal consumer data – unrelated to insurance activities – and statistical models to measure how likely each customer is to shop around, how much of a price increase he or she will tolerate and whether there are competitive options for the consumer in the marketplace. After determining what economists call the “price elasticity of demand,” insurers push up premiums based on how unlikely it is that a customer will shop around for a better price, even if the policyholder has never caused an accident, been issued a ticket or filed a claim. The models also raise prices unrelated to a consumer’s risk of loss based on whether other insurers are actively offering competitive prices in the consumer’s micro-location.

In December, CFA [released an analysis](#) of a new rating structure that Allstate has deployed in at least 31 states, in which the company began using a new rating factor called "marketplace considerations" to price its auto insurance customers. CFA has since called on the Commissioners of those states to reject Allstate's plan and look closely at other companies' rating systems to determine and block other uses of this unfair pricing scheme.

In a series of letters to state insurance commissioners and in presentations to the National Association of Insurance Commissioners over the past two years, CFA and CEJ have called for pro-active and pre-emptive efforts by insurance departments to protect consumers from the use of Big Data and other non-risk related strategies for rating drivers and homeowners and raising prices.

"Price optimization by insurers is Big Data run amok. Consumers are being punished for activities and circumstances without any disclosure or transparency by insurers," said Birny Birnbaum, Executive Director of CEJ. "The state actions by Commissioner Robertson and six other Insurance Commissioners are the first steps in returning insurance practices to the foundation of pricing insurance based on risk of loss. We thank Commissioner Robertson for protecting insurance consumers."

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.