



Consumer Federation of America

November 11, 2014

Dear Commissioner:

On October 31, 2014 Commissioner Therese Goldsmith of the Maryland Insurance Administration issued a bulletin to all P&C companies clarifying that the use of “price optimization” techniques constitute unfair discrimination and are illegal under Maryland law. Commissioner Goldsmith ordered all companies that currently use price optimization to file, by January 1, 2015, a plan to stop its use. We urge you to do the same.

The bulletin is available at <http://bit.ly/1uqGcXY>.

In August 2013, we wrote your department and asked that you investigate and prohibit the use of price optimization, in which carriers adjust customers’ premiums according to factors such as a likelihood to comparison shop for insurance that are entirely unrelated to risk. Over the course of the fifteen months since we sent that letter (also attached), purveyors of price optimization software and services have made efforts to defend these pricing strategies before the NAIC. Each time we have pointed out the unfair discrimination that results when similar risks are charged different rates based on non-actuarial factors such as price elasticity of demand or, as the Maryland bulletin highlights, the tendency of a consumer to complain.

It is becoming increasingly evident that price optimization is no longer a theoretical threat to marketplace fairness but an actual and expanding attack on basic consumer protections insurance departments have used to protect against unfair discrimination in insurance pricing. It is critical that this subversion of the basic principles of insurance pricing be stopped immediately and completely. As such, we ask that you ban the use of price optimization in your state as Maryland has done through its October 13, 2014 bulletin.

As always, we appreciate your consideration and would be happy to discuss this in further detail with you or your staff.

Sincerely,

J. Robert Hunter
Director of Insurance