Consumer Federation of America

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ALLSTATE HAS FILED FOR ILLEGAL AUTO INSURANCE RATES IN LOUISIANA

Action Requested by Insurance Commissioner James Donelon to Determine if Louisiana Allowed the New Pricing Scheme to Take Effect; Call to End All Insurer Use of Unfair and Excessive Prices Based on Consumer Shopping Habits, Not Driving Record Or Other Risk Factors

Washington, D.C . – The Consumer Federation of America (CFA) today called on Insurance Commissioner James Donelon to make public the status of a proposed Allstate plan to adopt a new pricing system that unfairly increases premiums for thousands of Louisiana's good drivers in a letter sent to the Commissioner yesterday. The group urged the Commissioner to disapprove and prohibit Allstate from using the rating plan, if it has already taken effect. A copy of the letter to Commissioner Donelon can be downloaded here.

"Here in Louisiana, Allstate made a filing that would charge different prices to people of the same risk but who have different shopping habits, raising the rate if a person shops less, like a loyal customer," said J. Robert Hunter, Director of Insurance at CFA and a former Texas Insurance Commissioner. "Charging different rates to persons of the same risk is unfair discrimination and illegal in Louisiana. Raising rates above the level that covers a policyholder's risk produces excessive prices, also illegal in the state."

Last month, CFA discovered the illegal rating system when reviewing an Allstate document filed with the Wisconsin's Department of Insurance. In that document, Allstate revealed that the company was introducing a new customer pricing system that relies heavily on a new factor called "marketplace considerations," which is believed to focus on individual customers' shopping behavior and other non-risk related characteristics. Allstate's new system places significantly more emphasis on these "marketplace characteristics" than on traditional auto insurance rating factors such as driving safety record or the number of miles a policyholder drives each year. Further research by CFA determined that Allstate has implemented a similar program in Louisiana and in an unknown number of other states (CFA has determined so far that only Maryland and Pennsylvania have not approved the filing.)

In addition to disallowing Allstate's new rating system, CFA asked that the Commissioner take action to stop other insurers who are using this approach, what economists label as "elasticity of demand" and others call "price optimization." Noting

that Earnix, a vendor of price optimization models to insurers, claims that about half of the nation's largest auto insurers are using elasticity to raise prices on people who tend to be more loyal or otherwise shop less, CFA warned the Commissioner that some companies may be deploying more complicated "underwriting" strategies to hide their illegal pricing system. "These underwriting approaches are harder to discover and root out but are no less insidious and similarly illegal," CFA wrote.
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CFA asked Commissioner Donelon to advise CFA of the steps being taken to disapprove the Allstate filing and of steps being taken to protect Louisiana's consumers from other price optimization applications being used by other insurers that move the price of auto insurance away from factors related to risk, such as driving safety record or number of miles driven by the customer. Hunter suggested that the approach of banning use of elasticity of demand as Maryland has done "is an elegant option to consider to stop this complex and often hidden consumer abuse."

The Consumer Federation of America (CFA) is an association of non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.