



Consumer Federation of America

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Contact: J. Robert Hunter, 703-528-0062
Doug Heller, 310-480-4170

**CONSUMER GROUP CALLS ON COMMISSIONER LINDEEN TO
DISAPPROVE ALLSTATE'S PLAN TO RAISE AUTO INSURANCE
RATES ON LONG TIME CUSTOMERS, OTHER GOOD DRIVERS**

*Montana Among 31 States That Allstate Has Introduced Discriminatory Pricing
Scheme That Ties Premiums to Customers' Shopping Habits More Than Their
Driving Safety*

Washington, D.C – Commissioner Lindeen should disapprove Allstate's new auto insurance pricing plan that unfairly discriminates against long-time customers and other good drivers based on their individual shopping habits, Consumer Federation of America (CFA) wrote in a [letter](#) to the Commissioner. CFA recently discovered an Allstate insurance filing in Arkansas in which the company acknowledged using this pricing scheme, often called Price Optimization, in thirty-one states including Montana.

“In Montana Allstate charges different prices to people of the same risk but who have different shopping habits, raising the rate if a person shops less, such as 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 Montana.”

Allstate's Price Optimization plan for auto insurance customers involves the introduction of a new rating factor, called "Complementary Group Rating," in which the company rates customers based on undefined "Marketplace Considerations." These "considerations," it is believed, 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.

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.

CFA has noted that long-time customers are targeted by this practice precisely because they have stuck with the company for so many years that it is unlikely they would leave the company even in the event of unnecessary price increases. Consumers, of course, rely on Insurance Departments to prevent excessive pricing and are not inclined to suspect that their insurer has imposed an unfair practice such as Price Optimization. CFA also noted that low- and moderate-income customers also fall prey to this pricing scheme because there are often greater barriers to shopping around for lower-income customers.

In addition to calling on the Commissioner to disapprove the Allstate filing, CFA urged further action to stop other insurers who are using 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.

"Consumers in Montana depend on the Commissioner to protect drivers from exactly this kind of insurance company scheme, and we urge Commissioner Lindeen to step in immediately and fight for good drivers who are being overcharged by Allstate's new plan," said Hunter.

The Consumer Federation of America is an association of more than 250 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. www.consumerfed.org