Consumer Federation of America | CENTER FOR ECONOMIC JUSTICE

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CONSUMER GROUPS APPLAUD FLORIDA INSURANCE COMMISSIONER MCCARTY FOR DIRECTING INSURERS TO STOP PRICE GOUGING CONSUMERS

Groups Call on Other States to Join Florida, Maryland, California and Ohio to Prohibit Insurers from Setting Insurance Premiums on the Basis of Non-Risk Factors Such as Web Browsing History and Shopping Habits

Washington, D.C. – Florida Insurance Commissioner Kevin McCarty, in an official memorandum issued Thursday, directed all 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. Commissioner McCarty's memorandum explains that "the use of price optimization results in rates that are unfairly discriminatory and in violation of ... Florida statutes," because Florida law, as in other states, requires that insurance rates be based on expected risk and not what the market will bear.

Florida is the fourth state to ban price optimization, following Maryland, Ohio and California. The Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) applauded Commissioner McCarty for the decision and are calling on all Insurance Commissioners around the country to follow the lead of these four states.

"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 McCarty 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 four 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.