



Consumer Federation of America



CENTER FOR ECONOMIC JUSTICE

For Immediate Release

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CONSUMER GROUPS APPLAUD VERMONT INSURANCE COMMISSIONER DONEGAN FOR DEMANDING DISCLOSURE OF INSURANCE COMPANY "PRICE OPTIMIZATION"

Like Maryland, Ohio, California and Florida, which have banned Price Optimization, Vt. Commissioner Makes Clear That Use of Non-Risk-Related Pricing Techniques is Illegal

Washington, D.C. – Vermont Insurance Commissioner Susan Donegan, in an official [bulletin](#) issued last week, directed all insurance companies to disclose any use of so-called “price optimization” and highlighted the state's prohibition on any use of pricing techniques unrelated to risk. Consumer groups have called on regulators around the country to stop insurers from using price optimization, in which customer premiums can be increased based on such things as their shopping habits or loyalty to their insurance company.

In recent years, insurance companies have begun to use “price optimization” to raise customers' premiums based on individual shopping habits and perceived "price elasticity of demand," which is a measurement of a consumer's tolerance for price changes and can also reflect their level of access to other choices. Price optimization aims to determine how much insurers can increase rates for each individual customer beyond what is appropriate based on his or her risk profile. Pricing based on non-risk factors leads to "unfair discrimination" and, as the bulletin makes clear, *"is also directly in conflict with the statutory principles that underlie Vermont's 'open and competitive' property and casualty marketplace."*

Vermont is the fifth state to formally address price optimization, following Florida, Maryland, Ohio and California, all of which have taken the further step of explicitly banning the practice. Commissioner Donegan's bulletin, according to consumer advocates, effectively bans 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 Donegan 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 Donegan for her action.”

According to the consumer groups, price optimization marks a radical departure from the actuarial practice of pricing insurance premiums according to the risk of loss posed by the policyholder. The purpose of price optimization is to extract as much profit as possible from policyholders who are often required to purchase insurance policies, the groups say.

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

It is not clear exactly how many insurers currently use price optimization or similar nonactuarial pricing strategies in the United States. One company that provides price optimization tools, Earnix, has claimed that approximately half of the nation's large property-casualty insurers use price optimization for auto insurance and over one-quarter of large insurers use it for homeowners insurance.

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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.