Consumer Federation of America

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SMOKING GUN REVEALS ALLSTATE'S ILLEGAL AUTO INSURANCE PRICING SCHEME; COMPANY WILL CHARGE 30% MORE IF A CONSUMER IS BORN ON JAN. 12, 1968 INSTEAD OF APRIL 9, 1968

Document Provides Evidence That American Insurance Companies Are Using So-Called "Price Optimization" To Push Up Premiums Based on a Consumer's Shopping Habits In Violation of "Unfair Discrimination" Laws

Washington, D.C. – An Allstate document discovered by Consumer Federation of America (CFA) provides the first clear evidence that the insurance giant is basing customers' auto insurance premiums on a new factor, called "marketplace considerations," that has nothing to do with the risk that a driver will cause an accident or file any claims. This and similar schemes, often referred to as "Price Optimization," have been developed by insurance companies and consulting firms to increase profits by raising premiums on individuals who are unlikely to shop around to find a better price.

The document – a filing submitted to the Wisconsin Department of Insurance and available here – includes 1,300 pages of tables listing approximately 100,000 "micro-segments" into which each one of Allstate Property & Casualty's Wisconsin customers is placed. Allstate then assigns each micro-segments to one of one thousand "complementary groups," which determine policyholders' premiums and can range from giving a customer a 90% discount off the standard rate to increasing his or her premium by 800%, depending upon Allstate's analysis of the individual policyholder's "marketplace considerations."

CFA's findings have been distributed in a letter – available here – to all of the nation's State Insurance Commissioners. The revelations are also being presented by CFA to a conference call of the National Association of Insurance Commissioners today.

Allstate's micro-segments use drivers' actual birthdates to individualize the marketplace consideration surcharge, leading to clearly absurd prices. As CFA noted in its letter to commissioners, according to the filing:

> A male driver with a perfect driving record, who had been with his previous auto insurance company for more than five years, lives in Mequon, Wisconsin (53092) and was born on January 12, 1968 *pays 29.5% more than the exact same driver* would if he were instead born three months later on April 9, 1968.

"Allstate's insurance pricing has become untethered from the rules of risk-based premiums and from the rule of law," said J. Robert Hunter, CFA's Director of Insurance and the former Texas Insurance Commissioner. "Unfortunately, we believe that Allstate is not alone in using this new and patently unfair approach to auto insurance pricing, they are just the first to be unmasked."

Further research by CFA found that Allstate has introduced this illegal pricing system in Arizona, Colorado, Idaho, Illinois, Indiana, Iowa, Louisiana, Maryland, Missouri, Oklahoma, Nebraska, Oregon, Pennsylvania, Tennessee, Utah, and Virginia. It is likely in that the filing was made in many more states as well, CFA stated.

Because auto insurance is required in all states but New Hampshire, rules in every state require that premiums are based on factors related to a policyholder's level of risk, and prohibit insurers from "unfairly discriminating" by using non-risk factors. However, over the past two years, there has been a growing effort by some insurers and major consulting firms to change the principles and standards of ratemaking in order to allow insurers to veer away from risk factors and incorporate factors related to consumers' likelihood of paying higher than appropriate premiums, known formally by economists as "elasticity of demand."

Although unfair discrimination is prohibited by laws in every state and charging prices that are above the risk-based price is not allowed under Actuarial Principles in place by the nation's actuarial profession, CFA has contended that insurers have been surreptitiously using elasticity to "optimize" prices in order to maximize profit without clearly disclosing the process to state regulators. While neither the Wisconsin filing, nor the other filings that CFA has reviewed, provides an explanation for exactly what the "marketplace considerations" Allstate uses to alter premiums are, this document is the first time that an acknowledgment of pricing by a non-risk-based factor in a rate filing has been revealed to the public.

"This is a watershed moment in the history of insurance consumer protection," said Hunter. "If regulators don't block this scheme immediately, American consumers will pay a huge price. While we are forced by law to buy these companies' insurance products in order to drive, there seems to be nothing stopping them from targeting millions of unsuspecting customers with unnecessary and unjustified price hikes."

An Allstate filing in Pennsylvania also reviewed by CFA hints at the lengths to which Allstate will go to individualizing its new strategy for gouging consumers. Allstate told the Pennsylvania Commissioner that only about 1,800 of the company's 300,000 policyholders do not have their own unique micro-segment, meaning that more than 99% of Pennsylvanians with Allstate auto insurance have been analyzed individually to determine how much higher a price they are likely to pay beyond the actuarial price of auto coverage. In fact, Allstate reported that it had developed so many potential micro-segments that it needed to condense its disclosure or else "there would have been over 200,000,000 additional micro-segments listed, which would represent over 2,000,000 additional pages with each filing."

Recently, the Maryland Insurance Administration ordered all insurance companies that use any form of price optimization to file with the state a plan and timeline for ending its use.

CFA, in its letter today, is calling on all Commissioners to make a similar order, to review any Allstate filing that includes the creation of “complementary groups” and to hold a public hearing in which all insurers will be required to testify regarding if they use price optimization in pricing, in underwriting or in any other way.

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. Today, more than 250 of these groups participate in the federation and govern it through their representatives on the organization's Board of Directors.