



Consumer Federation of America

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**AUTO INSURERS USING UNFAIRLY DISCRIMINATORY
PRICING SYSTEM, ILLEGAL IN EVERY STATE, TO PUSH UP
RATES, ESPECIALLY FOR LOWER INCOME DRIVERS**

For Many, Auto Insurance Premiums No Longer Tied To Risk

Washington, D.C – Half of large auto insurance companies report that they use a technique called "Price Optimization" to increase premiums on certain customers despite no increase in risk associated with those policyholders, according to a study by [an industry consulting firm](#). This pricing practice invariably and unquestionably leads to unfair discrimination and illegal rates, according to Consumer Federation of America. The national consumer group is calling on state insurance commissioners to order the practice halted immediately and for an investigation into any insurance company using the manipulative pricing technique.

In a [letter to state insurance commissioners](#) sent last week, CFA's Director of Insurance J. Robert Hunter wrote:

"Price Optimization is nothing less than the rejection of actuarial standards for the sake of increased profits and at the expense of unwitting policyholders. We request any information you are able to provide on the use of price optimization in your state and, if in use, the steps you are taking to end this practice, which produces unfairly discriminatory auto insurance premiums, illegal in every state."

The CFA letter was sent in response to a survey conducted by insurance industry consulting firm Earnix, which found that 45 percent of insurers with more than \$1 billion in annual auto insurance premiums use Price Optimization techniques. The firm's website explains that the rise of these non-actuarial pricing mechanisms is because "[traditional ratemaking based on risk and cost is no longer sufficient.](#)"

Laws in every state, however, require that insurance companies abide by actuarial standards in setting rates and premiums and prohibit the kind of discrimination upon which Price Optimization relies. CFA's Hunter, a former Texas insurance commissioner, notes that auto insurance is not like other products in the marketplace, where customers can be very price-sensitive.

"It's the law of the land that you must buy auto insurance. Those who don't buy it risk getting fined, losing their car or even serving jail time in some states," Hunter said. "With Price Optimization, insurance companies exploit the law by demanding higher prices from customers required to buy their product. But they're not only exploiting the law, they're also breaking it."

Under Price Optimization, after premiums are established using risk-based ratemaking methods, the prices are adjusted within rating segments based on such factors as market conditions for that segment. If a segment of the population is unlikely to switch companies if prices go up more, the prices are raised to the “optimum” level for that group. Thus, two policyholders with identical risks as determined by cost-based methods would pay different prices for the same policy. “This is classic unfair discrimination and is illegal in every state,” said Hunter.

CFA's letter to state regulators highlights the particularly harmful effect the practice has on lower income drivers. [Research shows](#) that poorer consumers do not compare prices for services such as insurance as often as wealthier consumers. Since Price Optimization uses market analysis to segment customers based on price elasticity, lower income consumers become immediate targets for unnecessary rate hikes.

In a previous statement on the issue of Price Optimization, California Insurance Commissioner Dave Jones has said: “There are no differentials allowed (in California) based on whether the applicant or insured is more or less likely to look elsewhere for a lower price; we would consider such distinctions to be unfairly discriminatory.”

Consumer Federation of America is an association of nearly 300 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, education and advocacy.