CFA Consumer Federation of America

CONSUMER ALERT

WARNING: YOUR INSURNCE COMPANY MAY RAISE YOUR AUTO AND HOME INSURANCE RATES IF THEY THINK YOU WON'T SHOP AROUND

How not to get "POed" by your insurer

New evidence has surfaced that insurance companies are using a new technique – called "Price Optimization" (PO) – to push up prices on customers they think are unlikely to shop around for a lower auto or home insurance premium. People who are Price Optimized ("POed") by their insurer will be charged more for insurance than before and more than the risk the insurer is taking requires.

Technically speaking, Price Optimization is a way that insurers maximize profitability by adjusting rates based upon consumer responsiveness to price changes (a technique known as "price elasticity of demand"). In plain terms, even if you should be paying $100 a month for insurance based on your risk level, if insurance companies determine you are not much of a shopper they might increase your premium to $105 or $110 per month or more.

So, if you do not shop, you are at risk of being POed.

It has always been important to shop. The variability of prices between insurers is wide, because in most states competition is weak. You can easily pay twice as much or more from one insurer to another.

But now the risk of being POed makes shopping all the more vital for your economic health.

Staff at Consumer Federation of America has heard of many insurance customers who noticed that their renewal bills from the insurer kept rising. When they shopped and found a lower rate and told their current insurer about it, the current insurer often lowered the price to below the competitor. If you do not shop, your rate could continue to increase if the insurer POs you.

SHOPPING TIPS

1. Price: Go to http://www.naic.org/state_web_map.htm and click on your state on the map. Most state insurance department websites have a buyers guide showing rates for at least leading companies. Usually, there are several hypothetical consumers to

choose from. Pick the one most like you and look at the prices of the insurers in your area of the state. List the sixinsurers with the lowest rate for you.

2. Service: Go to https://eapps.naic.org/cis/ and put the low priced insurers you found in step 1. Select “Property/Casualty” on the “Business Type” tab. Click on “Closed Complaints” for the company. On the new page, click on “Closed Claim Ratio Report,” and then click “Private Passenger” for auto or “Homeowner” for homeowners insurance; also click on the year you want data for, right now choose 2013. Then click “Create Report.” You will see a table showing a complaint ratio for the country. For example, for auto insurance in 2013, State Farm had a complaint ratio of 0.44. Compare the ratios of the six companies from step 1. Drop the two highest complaint ratio companies from your list.

3. Call the four companies for a quote for you. Make sure you tell them the same coverage levels so all are quoting on the same basis.

4. If you like your current insurer, call them up and tell them what you'd be paying at their competitors. If they come back with a lower premium, you'll know you were probably POed.