



# Consumer Federation of America

For Immediate Release  
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## CONSUMER ALERT!

### **NEW AUTO INSURER PRICING SCHEME MAKES IT IMPORTANT FOR ALL POLICYHOLDERS TO SHOP AROUND**

#### *Insurance Commissioners Must Intervene to Protect Consumers*

Washington, D.C. – Insurance experts at the Consumer Federation of America are warning consumers. According to J. Robert Hunter, Director of Insurance at CFA and former Texas Insurance Commissioner:

“New insurance company practices might be ripping you off. It has never been more important to shop around for auto insurance, no matter how long you have been with your current company.

“You may have been with your auto insurance company for many years. You may even receive a loyalty discount of five or ten percent on your bill. You have filed few or even no claims during your years with the insurer. You are a great customer and it may seem that there’s no reason to complain about your auto insurance.

“Watch out! Your insurer may be increasing your premium by far more than your loyalty discount, precisely because you have been so loyal. Even if you have a perfect driving record, many insurance companies are raising rates on people just like you – people who do not shop around. Newly revealed insurance practices show that reasons you might be vulnerable to price increases are such things as staying with one insurer for many years, never calling the company with complaints or simply buying your insurance through an agent rather than online.”<sup>1</sup>

#### Are you being “PO-ed” by your insurance company?

The name insurers use for this dishonest practice is “Price Optimization,” referred to as “PO” by the insurers. The industry uses personal consumer data and statistical models to measure how likely each customer is to shop around and how much of a price

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<sup>1</sup> According to presentation and comments of Serhat Guven, Director, Risk Consulting and Software Tower-Watson during July 28, 2014 meeting of the National Association of Insurance Commissioners Auto Insurance Study Group.

increase he or she will tolerate. 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 driver has never caused an accident or been issued a ticket.

Many insurance companies, including about half of the larger ones,<sup>2</sup> raise a driver’s premium if they conclude that the driver is not likely to leave their company. This means millions of drivers are possibly being charged a premium that is higher than the amount considered appropriate and fair for their risk profile.

### What should a consumer do?

The first thing to do to stop being PO-ed by an insurance company is shop around. Insurers know that most consumers do not shop often for their insurance. Research shows that 24 percent of drivers never shop for auto insurance, 34 percent rarely shop and 16 percent only shop every few years, so almost three-quarters of policyholders are “sitting ducks” for price optimization.<sup>3</sup>

CFA has talked to policyholders who have shopped recently. One had seen some large increases over several years and the 2012 renewal was offered at just over \$700 for six months of coverage. So the policyholder shopped and got an offer from another insurer for just under \$550. This quote was shared with the original insurer and the \$700 quote was changed to under \$500 as a result. Other consumers have shared similar but not as dramatic experiences.

“Even before the advent of price optimization it was very important to shop for insurance since prices vary so widely. But now, to avoid being POed, shopping is critical,” said Mr. Hunter.

The second thing every consumer should do is call their state’s Insurance Commissioner and tell her or him that you want them to stop insurance companies from using this Price Optimization scheme to unfairly raise rates on customers.

You can find contact information for the Insurance Commissioner in your state here: [http://naic.org/state\\_web\\_map.htm](http://naic.org/state_web_map.htm)

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*The Consumer Federation of America is an association of more than 250 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.*

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<sup>2</sup> “2013 North America Auto Insurance Pricing Benchmark Survey,” Earnix, Slide 19.

<sup>3</sup> “The Voice of the Personal Lines Consumer,” Deloitte Research, June/July 2011.