

May 30, 2026

Hon. Sen. Mallory McMorrow, Chair
Economic and Community Development Committee
Michigan Senate
Lansing, MI 48933
Sent via email

Re: Ban on Price Optimization in Insurance as introduced by Senator Moss

The Consumer Federation of America¹ (CFA) urges the Committee to support Senator Moss’s legislation to protect consumers from the unfairly discriminatory pricing strategy known as “price optimization.” With price optimization insurers charge customers with the same risk profile different premiums based on assumptions about how high a price a customer will tolerate (known as price elasticity of demand) derived from the collection of personal data about the customer.

This practice – charging a different price to customers with similar risks – is a classic example of unfair discrimination and should not be allowed under Michigan law. The proposed legislation makes the prohibition on this discrimination explicit. With price optimization algorithms, insurers gather information about individual policyholders, that may include demographic data, shopping habits, family structure, financial status, and personal activities, to guess which consumers are likely to accept price increases and which consumers will shop around. Lower-income consumers, who often have fewer market options, less available time, and lower financial literacy, can be disproportionately targeted by this practice.

¹ The Consumer Federation of America is an association of over 200 state and local consumer organizations that works to advance consumer interests through research, advocacy, and education. Our testimony is based on many years of experience working to make insurance more affordable and accessible. CFA’s Director of Insurance Douglas Heller is a member of the Federal Advisory Committee on Insurance and a Board member who helps oversee California’s low-cost auto insurance program. CFA’s Research and Advocacy Associate Michael DeLong is a funded consumer representative with the National Association of Insurance Commissioners (NAIC) and a member of the Nevada Advisory Committee on Property and Casualty Insurance.



Price optimization is unfair to consumers in any setting, but it is particularly egregious in insurance. Unfair discrimination laws in virtually every state are built to ensure that consumers with similar risks pay the same premium. By including a measure of elasticity of demand, which is not related to the risk of loss, insurance price optimization undermines that central principle of fair insurance pricing. The insidiousness of price optimization is even more profound when considering that auto insurance is a government mandated purchase for Michigan drivers and that homeowners insurance is mandatory for anyone with a mortgage.

In 2013, when CFA first became aware of the marketing of price optimization tools to insurance companies, we warned state Insurance Commissioners that price optimization is “widespread, actuarially unsound, and unfairly discriminatory,” requesting information on the practice, and urging that Commissioners take steps to end it.² After raising these concerns, at least twenty state insurance departments issued bulletins banning insurance companies from using price optimization—including Alaska, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Indiana, Maine, Maryland, Minnesota, Missouri, Montana, Nevada, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and Washington State.³ The Department of Insurance and Financial Services, as far as we know, never issued such a bulletin, despite our letters to the Insurance Commissioner at the time.

Michigan now has the opportunity to join the above states in protecting consumers by banning this harmful practice. S06441 defines price optimization as “establishing rates or varying premiums at any time based on factors that are unrelated to risk of loss.” The bill’s definition of this behavior includes the following activities: charging policyholders the highest price they will bear, considering the likelihood that they will look for another insurance policy, estimating their willingness to pay a higher

² “Auto Insurers Using Unfairly Discriminatory Pricing System, Illegal in Every State, to Push Up Rates, Especially for Lower Income Drivers.” Consumer Federation of America. September 4th, 2013. Available at <https://consumerfed.org/pdfs/Auto-Insurance-Price-Optimization-Press-Release-9-4-13.pdf>.

³ As an example, the Washington, D.C. bulletin: “Price Optimization Ban.” Department of Insurance, Securities, and Banking. August 25th, 2015. Available at https://disb.dc.gov/sites/default/files/dc/sites/disb/publication/attachments/Bulletin15-IB-06-8_15.pdf.



premium compared to other policyholders, and using any measure of a consumer's or group of consumers' price elasticity of demand.

S06441 also specifically states that rates are unfairly discriminatory if they are established through or impacted by price optimization and adds that insurers shall not establish their underwriting rules through price optimization either. Both of these provisions are needed to close loopholes through which insurers overcharge consumers.

Price optimization is nothing less than the rejection of fair insurance standards for the sake of increased profits and at the expense of unwitting consumers. By banning this practice, the Michigan Legislature will lower insurance costs, combat unfair discrimination, and more accurately match rates to risk.

The Consumer Federation of America urges a favorable report on S06441. Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

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