

Connecticut bans use of price optimization for insurance rates

Property Casualty 360

Insurance Commissioner Katharine L. Wade announced last week that the state's Insurance Department has officially warned property and casualty insurance companies against using a controversial pricing method that relies more on consumer buying habits than sound actuarial and risk-based principles. Called "price optimization" or "elasticity of demand," the practice gives insurance companies the ability to use a wide variety of non-cost based factors to increase premiums to the highest amount before a consumer would seek to shop around with other carriers. "The department views price optimization as a discriminatory practice and therefore a violation of state insurance law. It can result in two policyholders who have the same loss history and risk profile receiving two different premium increases," Wade said. "A consumer's propensity to shop for insurance or complain about rates are some examples of price optimization data points being used around the country," she said. "These are not acceptable rating factors in determining premiums and will not be permitted in Connecticut." Deadline Insurance Department Bulletin PC-81, issued on Dec. 4, requires property and casualty carriers that use this methodology to resubmit filings with the state and remove such factors within 60 days. "Insurers that fail to do so and are later determined to have used price optimization or elasticity of demand or failed to disclose such use to the Commissioner may be subject to disciplinary action," the bulletin states. Wade said her department's action is consistent with research and recommendations included in a recent National Association of Insurance Commissioner's white paper on price optimization. Connecticut is the 16th state to prohibit the practice of price optimization. The others are California, Colorado, Delaware, the District of Columbia, Florida, Indiana, Maine, Maryland, Minnesota, Montana, Ohio, Pennsylvania, Rhode Island, Vermont and Washington.

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