Insurance Commissioner notifies insurers to cease illegal pricing

SACRAMENTO, Calif. – Insurance Commissioner Dave Jones today issued a notice to all property and casualty insurers doing business in California advising them that so-called “price optimization” in ratemaking is unfairly discriminatory and violates the law.Price optimization is used by insurers to set rates based on an individual’s or class of individuals’ willingness to pay a higher premium relative to other individuals or classes. For example, if a price optimization analysis indicated that a consumer in one location was less likely to comparison shop than a consumer in another location, the insurer would charge the first consumer more for an identical policy-even if the two consumers had the exact same risk profile. A study has indicated that lower income individuals are more likely to fall victim to price optimization as they often have fewer choices for insurance coverage and are less likely to shop for lower rates. Commissioner Jones is among the first regulators to take preemptive action in noticing insurers to cease this practice.”It is illegal for an insurer to charge people different rates based on their sensitivity to price increases or the likelihood they will comparison shop,” said Commissioner Jones. “Price optimization represents a fundamental threat to fairness in rating. As insurance commissioner, I remain committed to ensuring California maintains a healthy and vibrant insurance marketplace, while making sure consumers remain protected.”Because price optimization does not use actuarially sound methods to estimate the risk of loss, its use in the ratemaking process is unfairly discriminatory and violates California law. Insurers have utilized price optimization by applying sophisticated models that allow them to identify trends that predict at what price point a consumer would terminate his or her policy or comparison shop. Insurers have relied on these complex models to price policies based on what they believe a consumer will pay, instead of risk based factors as required by law.Media Notes:The department sent the notice to more than 750 property and casualty insurers.Insurers were instructed to cease using price optimization and adjust their rates in California. They have been given six months to adjust rates and submit new filings to the department.###The California Department of Insurance, established in 1868, is the largest consumer protection agency in California. Insurers collect $257 billion in premiums annually in California. In 2014 the California Department of Insurance received more than 175,000 calls from consumers and helped recover over $54 million in claims and premiums. Please visit the Department of Insurance web site at www.insurance.ca.gov. Non-media inquiries should be directed to the Consumer Hotline at 800.927.HELP or 213.897.8921. Telecommunications Devices for the Deaf (TDD), please dial 800.482.4833.