



Stephen C. Taylor
Acting Commissioner

BULLETIN
15-IB-06-8/15

TO: ALL PROPERTY AND CASUALTY INSURERS
FROM: STEPHEN C. TAYLOR, ACTING COMMISSIONER
SUBJECT: PRICE OPTIMIZATION BAN
DATE: AUGUST 25, 2015

Purpose and Scope

The purpose of this Bulletin is to announce the Department's position on the use of price optimization in establishing insurance premiums. Price optimization refers to an insurer's practice of charging the maximum premium that it expects an individual or class of individuals to bear, based upon factors that are neither risk of loss related nor estimated expense related. For example, an insurer may charge a non-price sensitive individual a higher premium than it would charge a price sensitive individual; despite their risk characteristics being equal. This practice is discriminatory and it violates the District's anti-discrimination insurance laws codified at D.C. Official Code §§ 31-2231.13(c), 31-2703(a) and 31-2703(b). Any insurer using price optimization to rate insurance policies in the District shall cease such practice and take the necessary steps to comply with the directives in this Bulletin. Every insurer shall ensure that no future filings utilize price optimization in any manner.

Background/History

It has come to the Department's attention that some insurers are charging additional premiums to policyholders presumed likely to accept premium increases by utilizing price optimization. Insurers are analyzing data, not related to losses and expenses (e.g., how a policyholder has responded to rate increases in prior years), to project the policyholder's expected willingness to pay increased premiums. This projection may be realized directly or indirectly through tier placement, risk classification systems, underwriting, relativity factors, surcharges, fees, discounts, factors, etc. Not only does a policyholder's sensitivity to premium increases bear no relationship to the risk of loss and estimated expenses, but the potential for policyholders with like risk characteristics to receive different premiums does exist with price optimization.

Supporting Documentation

D.C. Official Code § 31-2231.13(c) prohibits an insurer from making or permitting an unfair discrimination between insured property having like insuring or risk characteristics, in the premium or rates charged for insurance, in the dividends or other benefits payable thereon, or in any other of the terms and conditions of the insurance.

D.C. Official Code § 31-2703(a) provides that rates shall not be excessive, inadequate, or unfairly discriminatory.

D.C. Official Code § 31-2703(b) requires an insurer to give due consideration for past and prospective loss experience in the making of rates.

Conclusion

Adjusting rates directly or indirectly through methods including, but not limited to, tier placement, risk classification systems, underwriting, relativity factors, surcharges, fees, without regard to the risk of loss and estimated expenses, is a violation of D.C. Official Code § 31-2703(b). Furthermore, charging different premiums to like risks or risk classes due wholly or in part to characteristics that bear no relationship to the risk of loss and estimated expenses is unfairly discriminatory and is in violation of D.C. Official Code §§ 31-2231.13(c) and 31-2703(a).

The Department hereby issues a ban on the inclusion of price optimization in all future rate filings. Any insurer currently utilizing price optimization in any manner similar to that described above to rate insurance policies in the District must submit a SERFF filing that is compliant with this Bulletin no later than November 30, 2015, with proposed effective dates no later than March 31, 2016 for both new business and renewal business. The filing submission must identify the SERFF tracking number of the filing that is being replaced or corrected.

Any questions or concerns regarding this Bulletin may be directed to the Insurance Bureau of the Department of Insurance, Securities and Banking at (202) 727-8000.