



## Technical Assistance Advisory 2015-01<sup>1</sup>

**TO:** Property and Casualty Insurers Doing Business in Washington State

**FROM:** Insurance Commissioner Mike Kreidler

**DATE:** July 9, 2015

**SUBJECT:** Price Optimization

In general, the practice of price optimization involves an insurer's use of sophisticated statistical analysis, often using non-insurance data, to predict a policyholder's likelihood of renewing a policy.

One example is using statistical analysis of consumer behavior to determine the premium a policyholder would be willing to pay at renewal before he or she engages in comparison shopping. This practice can result in two policyholders receiving different premium increases, even though they have the same loss history and risk profile. It can also result in increased costs for policyholders who keep their business with the same insurer—in other words, a loyalty penalty.

Washington State law requires that premium rates for insurance not be excessive, inadequate, or unfairly discriminatory.<sup>2</sup> A rate is not unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.<sup>3</sup> Thus rates must be based on *cost* associated with *risk*. Charging higher rates to certain consumers based on their willingness to look elsewhere for insurance does not reflect a genuine increased cost incurred by the insurer.

To the extent that an insurer's use of price optimization results in premiums, rates, or rating factors unrelated to cost and risk, it will be considered unfairly discriminatory and in violation of Washington State law. The OIC will not approve unfairly discriminatory rates.

Please direct any questions about this advisory to Lee Barclay, Senior Actuary, at [leeb@oic.wa.gov](mailto:leeb@oic.wa.gov), or at 360-725-7115.

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<sup>1</sup> This advisory is an interpretive policy statement released to advise the public of the OIC's current opinions, approaches, and likely courses of action. It is advisory only. RCW 34.05.230(1).

<sup>2</sup> RCW 48.19.020

<sup>3</sup> WAC 284-24-065(1)