Consumer Federation of America

January 12, 2015

Dear Director Germaine Marks:

On December 16, 2014, we sent you a letter commenting on an Allstate auto insurance filing in Wisconsin. A copy of that letter is attached for your reference. We write to you today concerning a similar filing in Arizona.

We also have previously[1] alerted you to the dangers of Price Optimization, explaining that it would be used to produce unfairly discriminatory rates, illegal in every state. We now have proof, in the form of Allstate rate filings from several states, that unfair pricing through so-called "optimization" is occurring.

Indeed, according to Allstate's responses to questioning by regulators in Oklahoma, a filing has been made in Arizona that surely suffers from the same flaws as the Wisconsin filing. Allstate also claims that the filing has been "implemented and allowed" in Arizona.

Please advise if Allstate is correct that the filing became effective in Arizona and the effective date if it did become effective.

Whether the filing became effective or not, we ask that, due to the possible significant adverse impacts this filing has on policyholders in Arizona, you take action to disapprove this filing if you have not already done so. We are convinced that the filing produces unfairly discriminatory prices in that two identical drivers of the same risk can be charged substantially different prices based on Allstate's determination of whether the individual being analyzed is more or less likely to leave the insurer if the price goes up (i.e., by use of elasticity of demand models applied individually to each policy in Arizona). Prices may also be excessive compared to the risk-based prices for those consumers Allstate determines will shop less or otherwise identifies as less desirable customers based on what the filing labels "marketplace considerations." Research indicates that lower-income Americans often have less access to, and shop less for, financial services so this practice adversely impacts those already struggling to afford state-required auto insurance. The use of these price optimization techniques violate not only Arizona law but also the Casualty Actuarial Society's Principles Regarding Property/Casualty Insurance Ratemaking requiring that rates be cost/risk-based.

Further, Allstate is almost certainly not the only company using price optimization tools in Arizona. The price optimization vendor Earnix states that about half of all large (greater than $1 billion in premiums) auto insurers are using price optimization today. The use may not be

[1] August 29, 2013, March 28, 2014 and an undated letter congratulating Maryland for banning Price Optimization sent on October 31, 2014.

applied through a rate filing in the manner of Allstate but through tiering of policy charges or other underwriting processes. These underwriting approaches are harder to discover and root out but are no less insidious and similarly illegal. One elegant solution to the complex and often hidden price optimization issue that we suggest you consider is a ban, perhaps modeled after that done in Maryland (copy of the Maryland Bulletin is attached).

Please advise of the steps you are taking to disapprove the Allstate filing discussed above and of steps you are taking to protect Arizona consumers from other price optimization applications that move the price away from risk/cost-based levels throughout the Arizona insurance industry.

Thank you for your consideration. We hope to hear from you soon,

J. Robert Hunter

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