

Notice 2015-06

INSURANCE DEPARTMENT

Price Optimization; ~~2015-05~~

Recently, the question of whether price optimization techniques may be used by insurance companies has been raised to the Insurance Department (Department). The answer is no and the Department issues this notice to remind insurers about the Department's longstanding prohibition against the use of price optimization techniques in property and casualty insurance rates.

It is well-settled that property and casualty insurance rates cannot be excessive, inadequate or unfairly discriminatory. These prohibitions can be found in all of this Commonwealth's property and casualty rate regulatory acts and the Unfair Insurance Practices Act (40 P.S. §§ 1171.1—1171.15). See 40 P.S. §§ 1183(d), 1223(a)(2), 710-5(c)(2)(i) and 1171.5(a)(7)(ii).

With the advent of sophisticated pricing tools, including computer software and rating models referred to as price optimization, insurers, rating organizations and advisory organizations are reminded that policyholders and applicants with identical risk classification profiles—that is, risks of the same class and essentially the same hazard—must be charged the same premium. Rates that fail to reflect differences in expected losses and expenses with reasonable accuracy are unfairly discriminatory under the Commonwealth law and will not be approved by the Department. See 40 P.S. § 1183(d).

The Department's Property and Casualty Bureau reviews thousands of rate filings each year to ensure compliance with these standards, and the actuaries that review these filings often identify and object to filings that fail to meet these statutory requirements.

Questions regarding this notice may be directed to Mark Lersch, Bureau Director, Property and Casualty, Administration, (717) 783-2103, mlersch@pa.gov.

TERESA D. MILLER,
Insurance Commissioner