

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

### **INSURANCE BULLETIN 16-02**

**Price Optimization in Property & Casualty Insurance Products**

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To: All property and casualty insurance companies and other interested parties

From: John M. Huff, Director

Re: Price Optimization in Personal Lines Ratemaking

The purpose of this Bulletin is to inform Missouri insurers of the insurance laws applicable to the rating practice generally known as “price optimization”.

The Casualty Actuarial and Statistical Task Force (CASTF) of the National Association of Insurance Commissioners (NAIC) developed and recently adopted the White Paper on Price Optimization. A copy of the White Paper can be found here: [CASTF White Paper](#).

The use of the following practices and characteristics are identified in the NAIC White Paper as potentially violating insurance laws that prohibit unfair discrimination:

- a. Price elasticity of demand;
- b. A policyholder's propensity to shop for insurance;
- c. Retention adjustment at an individual policyholder level; and
- d. A policyholder's propensity to ask questions or file complaints.

“Price optimization” is generally considered to be the use of factors to help determine or to adjust the insured's premium that are not specifically related to the insured's risk or hazard. An example would be using an individual policyholder's responses to previous premium increases to determine how much of a premium increase the policyholder will tolerate at renewal before switching to a different insurer. More plainly, if an insured did not complain about a rate increase or cancel the policy due to such an increase, an insurer may use this information to justify additional rate increases. This practice can result in two policyholders paying different premiums, even though they have the same loss history and risk profile.

Missouri law generally requires that base rates and rating classes be based on policyholder characteristics specifically related to an insurer's expected losses, expenses, and/or policyholder risk. Insurers should carefully review the rating standards and requirements set forth under Missouri law (§§379.318 and 379.470, RSMo and 20 CSR 500-4.200, as applicable) to ensure their compliance. Insurers are responsible for any model or program they utilize in the development of rates and the resulting rates should not be unfairly discriminatory in violation of Missouri law. Additionally, Missouri law prohibits the use of rates that are excessive or inadequate.

To aid the Department in determining whether an insurer's rating plan is in compliance with Missouri insurance law, insurers may be asked to identify and explain their use of price optimization in personal lines rate filings.

If an insurer self-identifies a potential use of unfairly discriminatory rates, the insurer is encouraged to visit with the Department as soon as practicable, as contemplated by Section 374.049.9, RSMo.

Any questions or comments regarding this Bulletin should be directed to the Market Regulation Division at 573-751-3365.

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