

Subject: Consumer Groups Criticize Illinois Insurance Director Dowling For Failing To Protect Consumers

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Consumer Federation of America



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CONSUMER GROUPS CRITICIZE ILLINOIS INSURANCE DIRECTOR DOWLING FOR FAILING TO ENFORCE UNFAIR DISCRIMINATION LAW AND PROTECT CONSUMERS

Groups Call on Dowling to Protect Consumers from Unfair Rates Caused by “Price Optimization”

Washington, DC – A coalition of consumer groups are calling on Acting Illinois Insurance Director Anne Melissa Dowling to reverse her “do-nothing” position and start protecting Illinois consumers from the unfair use of certain information unrelated to insurance risk – such as personal consumer shopping data – to set auto and homeowners insurance prices. The groups say that the use of price optimization by Illinois insurers violates Illinois statutes requiring cost-based insurance pricing and prohibiting unfair discrimination.

In a [Crain’s Chicago Business story](#) this week, Dowling stated that the Illinois Insurance Department is aware of the use of price optimization by Illinois insurers but will not take steps to protect consumers because “there is no agreed-upon definition.” Dowling further left consumers to fend for themselves against insurers by telling them to shop around – despite the lack of any effort by her Department to help consumers with information necessary for consumers to meaningfully do so.

The use of non-cost factors to set individual insurance premiums is unfair discrimination

In recent years, insurance companies – with little or no disclosure to regulators – began using “price optimization” to raise customers’ premiums based on individual shopping habits and perceived “price elasticity of demand,” which is a measurement of a consumer’s tolerance for price changes and can also reflect their level of access to other insurance options. Price optimization “optimizes” the setting of premiums for insurers by utilizing vast amounts of consumer data to determine how much insurers can increase rates for each individual customer based on the consumer’s willingness to pay. This adjustment to price is totally unrelated to the likelihood that a consumer will cause an accident or file a claim.

While common in other industries, price optimization is prohibited in insurance because, unlike other consumer products, state laws require insurance prices to reflect the insurer’s costs.

“The use of non-cost data to set insurance prices is unfair discrimination in violation of Illinois unfair competition laws,” said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner. “Dowling’s abdication of her responsibility to protect consumers is bad enough, but her justification – that there is no “agreed-upon” definition – is nonsense. While insurers have tried to muddy the waters with such claims, the offensive practice is crystal clear – there is no dispute at all that price optimization based on personal consumer data having nothing at all to do with insurance risk measurement harms consumers and undermines competition.”

“Shopping” not a solution

Birny Birnbaum of the Center for Economic Justice added, “Telling consumers to shop around is another huge cop-out by the Director. The reason insurers can successfully use price optimization is that Illinois insurance markets are not competitive – allowing insurers to charge more than cost-based prices. If consumers had the market power to discipline insurers, there wouldn’t be price optimization in the first place.”

Birnbaum added, “Further, insurers pricing is completely opaque to consumers – insurers are using all sorts of non-insurance personal data without any disclosure to consumers. Director Dowling must not shop for insurance herself – today, shopping for insurance means giving every insurer you apply to huge amounts of personal information, including credit information and reams of personal non-insurance data. Plus, there is no information collected and published by the Illinois Department about claims performance by insurers – average time to settle a

claim, consumer claim complaints as a percentage of claims filed, frequency insurer denies claims and goes to court. This is like telling consumers to go buy a car, but not having any information about how the final price is developed or any information on the car's performance and reliability or specifications.”

16 states and the District of Columbia have already issued bulletins telling insurers that price optimization is illegal, including Connecticut where Dowling served before coming to Illinois

Insurance departments in 16 states and the District of Columbia have already issued bulletins telling insurers that price optimization violated state discrimination laws, including Connecticut where Dowling served before coming to Illinois. Several states' price optimization bulletins have emphasized that such pricing practices are inconsistent with competitive markets. Dowling's lack of action leaves consumers unprotected from this new pricing strategy that raises premiums on customers based on their shopping habits even if they are proven safe drivers and responsible homeowners.

Birnbaum stated, “It is truly distressing to hear Dowling regurgitate discredited insurer talking points and promoting insurer distortions about price optimization rather than protecting vulnerable Illinois citizens. As insurance Director, she is no longer a lobbyist for insurers, but the enforcer of consumer protection laws. Her statements on price optimization don't reflect the new role.”

Illinois drivers face a variety of unfair practices by insurance companies

CFA noted that the Director's unwillingness to prevent price optimization is not the only insurance problem Illinois residents face. In studies conducted over the past three years, CFA has found:

- Good drivers living in predominantly African American neighborhoods in the Chicago region [are charged 23 percent more](#) for basic liability insurance than drivers in predominantly white Chicago region neighborhoods even when adjusting for income and density;
- Single or widowed women with perfect driving records in Chicago [are charged as much as 21 percent more](#) for basic coverage than married women living in the city with similar records;
- In Illinois, State Farm [charged a good driver with a low credit score as much as 123 percent more](#) for basic insurance than a driver with a high credit score; and
- Allstate, Progressive, and Farmers [offers no discount for low-mileage policyholders](#), charging the same premium to a good driver in Chicago whether she drives 5,000 miles or 20,000 miles per year.

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*The **Center for Economic Justice** is a non-profit organization that works to increase the availability, affordability and accessibility of insurance, credit, utilities, and other economic goods and services for low income and minority consumers.*

***Citizen Action/Illinois** is the state's largest public interest organization. Building on over four decades of experience, Citizen Action/Illinois is a key player in the fight for social and economic justice at the state and national levels. Citizen Action/Illinois has led campaigns for lower utility rates, fair taxes, affordable and quality health care, insurance and campaign finance reform, stronger environmental and food safety protections. Citizen Action/Illinois works hard to hold our elected officials accountable on these issues every day in the State House and in the Congress.*

***Woodstock Institute** is a leading nonprofit research and policy organization in the areas of equitable lending and investment, wealth creation and preservation, and safe and affordable financial products and services. For over 40 years, Woodstock Institute has worked locally in Illinois and nationally to create a just financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity.*

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