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Rhode Island follows trend in banning price optimization practices

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By Josh Chetwynd

Rhode Island has become the latest Northeast state jumping on the bandwagon to prevent insurers from using price optimization in setting rates.

On Sept. 18, Rhode Island's Insurance Division put out a warning to all personal lines property/casualty insurers that if they've used price optimization in their rate policies, they have 60 days to re-submit their filings in a way that doesn't use that tactic.

The concept of price optimization, which is also known as a "loyalty penalty," takes into account the likelihood that a client might leave an insurer and changes rates based on that probability. Under this strategy, clients more prone to leave will be incentivized with lower premiums.

Over the past few months, state governments throughout the region have been working to abolish this practice.

Rhode Island's decision mirrors an announcement made by Maine's insurance department on Aug. 24. That state also set a 60-day window for its state's personal lines property/casualty insurers to excise any price optimization from their premium calculations.

Beyond those specific deadlines, other regional regulators have provided broader warnings.

Ibamag.com reported on Aug. 31 that the Pennsylvania Insurance Department warned insurance companies that they were prohibited from utilizing sophisticated computer software or rating model tools to vary premium prices for this purpose.

Likewise, Vermont also hoisted a red flag for insurers who have been making adjustments to rates based on this approach. It is “unfair discrimination” if “price differentials ‘fail to reflect equitably the differences in expected losses and expenses’ for different classes of policyholders,” Vermont’s Department of Financial Regulation said in a bulletin issued on June 24.