

**STATE OF MICHIGAN  
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

**Bulletin 2024-09-INS**

**In the matter of:**

**Price Optimization**  
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**Issued and entered  
this 6<sup>th</sup> day of March 2024  
by Anita G. Fox  
Director**

This bulletin addresses the practice of “price optimization” and informs property and casualty insurers writing business in Michigan that the use of price optimization in ratemaking is not permitted under Michigan law.

Price optimization generally refers to an insurer’s practice of varying premiums based upon factors that are unrelated to an insured’s risk of loss or expense to charge the highest price that an insured will tolerate. Often, but not always, it involves data analysis as a method of predicting when an insured will seek coverage from another insurer when the new or renewal premium increases too much. Price optimization includes insurers using an individual insured’s response to previous premium increases to determine how much of a premium increase the insured will tolerate at renewal. In some circumstances, insurers use a “price elasticity of demand” model in which similarly situated insureds are charged differing premiums for the same coverage based upon the insured’s likelihood of switching to another insurer.

Under the Michigan Insurance Code, rates for property and casualty insurance shall not be excessive, inadequate, or unfairly discriminatory. See, e.g., MCL 500.2109, 500.2403, 500.2603, and 500.2704. A rate is unfairly discriminatory in relation to another rate for the same coverage if the differential between the rates is not reasonably justified by differences in losses, expenses, or both, or by differences in the uncertainty of loss for the individuals or risks to which the rates apply. Price optimization results in unfairly discriminatory rates when it results in rate or premium adjustments that are not based on an insurer’s risk of loss or expense, or when it results in rates that are not actuarially justified.

Michigan law does not prohibit or restrict acceptable grouping of risks by classification for purposes of establishing rates, nor prohibit the use of judgment to modify actuarially indicated rates. However, similarly situated individuals must be grouped into classifications and treated identically with respect to insurance pricing. In addition, the use of data analytics in developing rating methodologies is not contrary to Michigan law when the resulting risk classifications are not based on an individual insured’s willingness to pay a premium, but instead measure differences in expected losses, expenses, or both.

The Director closely reviews all rate filings to ensure that price optimization is not occurring. Companies making rate filings must also attest that they do not utilize price optimization. DIFS will take appropriate administrative action against any companies employing price optimization in any form.

Any questions regarding this bulletin should be directed to:

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/s/

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