

How the Insurance Industry is Navigating the Complex Debate Over Fairness in Pricing

As actuaries develop more sophisticated tools to evaluate risk, legislators are increasingly focused on what constitutes fair insurance pricing. Here's how the industry is working to find common ground.

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Few topics in insurance generate as much debate as the question of fairness in pricing. Auto insurance, in particular, sits at the center of this conversation because driving is a near-universal necessity in the United States, and coverage is legally required. When premiums vary significantly from one policyholder to the next, questions inevitably arise about whether those differences are justified — and whether certain groups are being unfairly burdened.

The challenge has only grown more complex as insurers adopt advanced modeling techniques, machine learning and artificial intelligence, to better differentiate risk.

While these tools can allow for more precise pricing, they may also intensify questions about disparate impact and proxy discrimination that legislators, regulators, and consumer advocates have been working to address.

“The potential for disparate impact and unintentional bias is commonly discussed in auto insurance. Every driver in the US needs auto insurance, but there is great variety in pricing from driver to driver. The inequality in pricing makes the potential for bias and disparate impact a frequent topic of conversation,” said Gary Wang, Senior Consulting Actuary at Pinnacle Actuarial Resources.

Where Disagreements About Pricing Arise

At the heart of the fairness debate is the fact that insurers intentionally differentiate pricing based on risk. Riskier drivers pay more, which means policyholders are charged different amounts based on a determined





**Gary Wang, Senior
Consulting Actuary,
Pinnacle Actuarial
Resources**

set of individual characteristics, circumstances and attributes. The tension emerges when those differences appear to fall along demographic lines.

“The question then becomes: what happens if minority groups are being charged, on average, higher premiums than majority groups such as white drivers, for example? This is where the tension occurs in terms of premium differences,” Wang said.

Complaints frequently surface in the legislative arena, where consumers express frustration that their premiums don’t seem to align with their actual loss experience. “A way to think about it is that even if I were not a good driver, in a given year I’m more likely not to have a claim than to have one or be in an accident. The idea is that most years, I won’t have accidents, yet my premium remains high,” Wang explained.

This disconnect is compounded by an affordability crisis. Over the past few years, premiums have risen faster than the typical cost of living, driven by higher severity in claims and rising labor and parts costs. For policyholders with limited budgets, the math becomes painful.

“For some, unfortunately, an easier answer is to give up the insurance and essentially roll the dice, hoping nothing happens,” Wang said.

Complicating matters further, most consumers don’t think of insurance as a risk pool. “Most of the time when people think about insurance, they think of it as me versus the insurance company, not me as part of an insured group of people,” Wang said. That mental framing makes it harder to explain why premiums behave the way they do, even after a claim-free year.

Legislative Activity Across Key States

Discussions about how to govern and test insurance models began gaining momentum around 2020 and 2021, and several states are now taking concrete steps to address fairness in pricing.

Colorado has emerged as a leading example. Senate Bill 21-169, which passed in 2021, established new requirements that have taken several years to develop through regulation. The law applies to private passenger auto insurance, among other lines, and the regulator is still working out exactly what testing will involve.

“Colorado’s definitely a state that bears watching, and I hope we will continue to have proactive dialogue about what we’re measuring when we test. This includes the premium differences as well as their difference relative to the loss differences that we observe. There is a balance to be struck there,” Wang said.

New York has also drawn significant industry attention through a circular addressing governance and testing requirements. “Insurance companies are definitely paying heed to the New York circular and trying to understand what exactly it asks for in terms of governance and testing, and how they should engage in making sure they meet the recommendations and requirements,” Wang said.

Washington, D.C. is conducting studies to formulate its own approach, and Washington state is engaged in a study that Pinnacle is participating in. Wang sees no signs of this regulatory momentum slowing down.

“I think we need to see some finish lines — not as ‘this is it,’ but more as milestones, steps toward a better future. The idea is that whatever we reach in terms of what it means to govern and test isn’t going to be the final answer, but simply a first iteration of an answer,” he said.

A core tension underlies all of this activity. More sophisticated risk evaluation tools allow insurers to match prices more closely to expected losses — but that precision often results in greater pricing differentiation, not less.

“The core trade-off is this: you gain the ability to match pricing more closely with the potential for loss or claims. But the cost of that precision is increased segmentation and differentiation. When you simply compare premiums side by side, they appear more unequal than ever,” Wang said.

How Actuaries Can Support Effective Regulation

Given the technical complexity of these issues, actuaries have an important role to play in helping legislators and regulators craft rules that achieve their intended goals without disruptive consequences. That means being engaged early and often in the conversation.

“It’s essential that we are engaged proactively in this discussion. It’s easy to say that we want things to be fair, but when you dig into it, it’s more complicated than that single statement,” Wang said. “The statements have very real definitions and consequences when you have to put numbers to the idea, and we want to make sure that we’re on the same page and really solving the same problems.”

Actuaries can help define what proxy discrimination looks like in practice, how it should be measured, and how testing methodologies can be both practical and sufficiently accurate. They can also help stakeholders understand the trade-offs involved — such as how telematics data can support behavior modification for some drivers while recognizing that other policyholders have limited choices about where they live or when they drive.

“In those situations, we should be asking: knowing that, how can we make those environments safer? If there’s a way for them to engage in that driving time or on that road but make the environment safer for them, then their riskiness will come down despite being forced to drive in that situation,” Wang said.

As a consulting actuarial firm engaged in studies across multiple jurisdictions, Pinnacle Actuarial Resources is positioned to support that ongoing dialogue between industry and government. The goal is to ensure that constraints and regulations don't lead to outcomes that aren't visible until it's too late to course-correct.

"We want to make sure that the constraints or regulations don't lead us down a road with unintended consequences that we don't see downstream until it's too late," Wang said.

To learn more, visit <https://www.pinnacleactuarial.com/>.

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