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Insurance Should Be Regulated By Market

Former Illinois insurance commissioner says rate regulation hurts consumers

AUSTIN, Texas - Under legislation in both the Texas House and Senate, Texans could face onerous new regulations that will stifle the insurance market, eventually leading to

even higher prices and less availability across the state. These are the findings of a study released this week to the Texas Legislature by the former director - analogous to "commissioner" in Texas - of the Illinois Department of Insurance.

"Although price controls may initially lower consumer costs, price controls do not produce lower insur-

ance rates in the long term, as are produced by competition," writes Nat Shapo in his study Shopping for a Solution for the Texas Public Policy Foundation. Key provisions of the House and Senate insurance measures would call for rate regulation, and even a government-mandated rate rollback. Shapo's study is available online at www.TexasPolicy.com.

Shapo testified Monday before the House Committee on Insurance as they began consideration of HB 8. He said that the basic problem is one of economics, not politics.

"Because market freedom in Texas exists by loophole, not by choice, insurance companies have not met consumers' demand by aggressively committing capital," Shapo writes in his study. Shapo argues that Texans should examine the insurance experiences of three states similar to Texas: Illinois, New Jersey and South Carolina. Illinois has a loss-ratio worse than Texas', yet consumers there enjoy lower rates and more choices. Shapo finds that the difference is that in Illinois it is the law of supply and

demand that regulates consumer prices, with government monitoring to ensure the marketplace remains competitive.

Shapo finds that after South Carolina instituted market-based reforms in the late 1990s, the "number of insurers writing auto policies doubled; rates steadied and in many cases declined." By contrast New Jersey has a heavily regulated marketplace, with rules similar to those proposed for Texas. Insurance companies are leaving New Jersey, with residents simply unable to obtain coverage.

"Government price controls have failed so thoroughly that even New Jersey has begun bending toward market-based solutions. New Jersey's experience shows that consumers are harmed when government regulates stressed markets," according to Shapo. "Coverage will dry up for Texans unless the legislature stimulates, rather than contracts, the market by enticing capital back to the state and enabling the law of supply and demand to work."

Shapo offers Texas legislators sev-

eral recommendations, including:

* Abolish mandated forms. Subject forms to "file and use" review to ensure compliance with reasonable standards of fair competition. Allow "supply and demand" and state and federal antitrust laws to regulate the insurance marketplace.

* Repeal the benchmark system of rate regulation.

* Require the state insurance department to monitor the marketplace and report regularly back to the

legislature regarding the level of competition. If the market is not sufficiently competitive, authorize file and use regulation of rates after a reasonable period of review (one year recommended).

* Direct state resources toward regulation of solvency, market conduct, consumer complaints, and form review, where consumers need government protection, instead of rate review where consumers can protect themselves.