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Michael Quinn Sullivan

Senate looks at wrong 'solution' for insurance issue

AUSTIN — The foxes are preparing to guard the henhouse.

Everyone is rightly upset about homeowners insurance. Texans are paying skyrocketing prices and policies are hard to come by. While the Legislature is right to be looking at this problem, the "solution" most senators are leaning toward (including rate rollbacks) is both wrong and disastrous.

From the lieutenant governor on down, the Senate is poised to pass draconian new regulations. Rather than seeking solutions that have proven successful in other states, these politicians are simply proposing to do more of what has always done: regulate, regulate, regulate.

Calls for interested regulation have been justified by demonizing the insurance industry while ignoring the government's own culpability in driving up rates and scaling back coverage. The state's excessive regulation of coverage — referred to as the "forms" — has limited consumer choice, while driving down the ability of companies to do business in Texas.

We can look at real-world example for guidance to see how other states have dealt with similar crises.

The folks in New Jersey responded to their insurance crisis with strict regulation, mandated rate rollbacks and the like. Illinois, on the other hand, has almost no regulation in its homeowners insurance market.

Illinois, without regulating insurance, has produced lower premiums, more consumer choices and higher consumer satisfaction than states that bind insurance rates and forms with increasing regulation.

Nat Shapo, former commissioner of insurance for Illinois, explains that the law of supply and demand is the ultimate arbiter of fair prices. In a study soon to be released by the Texas Public Policy Foundation, Shapo asserts that Illinois has the ultimate consumer protection: a thriving, competitive marketplace.

By contract, New Jersey has devastated its market through ever increasing rate regulation. In 2001, a major national company began denying insurance coverage to residents of New Jersey, a scenario all too familiar to Texans. New Jersey has what Texas lawmakers want, but Texas' consumers simply cannot afford.

The free-market does work, if we will let it. The insurance problems plaguing Texas and New Jersey have not been the absence of heavy regulation, but the presence of it.

Make no mistake: we have not had a free-market for insurance in Texas, despite what some would have us believe. Shapo says that what looks like a free market is really just business conducted through loopholes in state regulation. These loopholes have given insurance companies just enough freedom to cover their risks, but deny them the ability to protect capital investments that would provide Texans low prices and broad coverage. These loopholes, now under attack in the Senate, are all that have saved Texans up until now from experiencing a New Jersey-style implosion.

The Texas Legislature can learn from other states. In the mid-1990s, South Carolina faced problems very similar to our own. Their legislators managed to do the right thing, introducing market-oriented solutions and rejecting the quick fix of burdensome regulations. Overnight the number of insurers nearly doubled and consumers now enjoy a stable market with greater competition.

Michael Quinn Sullivan is director of media and government relations for the Texas Public Policy Foundation, www. TexasPolicy.com

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