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Monday, July 7, 2008

Editorials

Posted on Saturday, July 05, 2008

Regulators Still Trying To Ease Insurance Rates

Five years ago, lawmakers in Austin took steps to remove the state as an intermediary between consumers and homeowners' insurance firms, removing regulations and freeing the market.



But the measures were incomplete, and the result is a less effective, less responsive industry, as the Texas Public Policy Foundation's Drew Thornley points out.

"For most of the last 20 years, Texas regulators have battled the homeowners' insurers, attempting to block 'excessive' rates," Thornley says. "The losers in these battles have been consumers, who have been harmed by the instability injected into the market by overregulation."

But there's hope for consumers, in the form of a current sunset review of the Texas Department of Insurance (TDI). Thornley points to a recent staff report of the Sunset Advisory Commission.

"In 2003, the Texas Legislative shifted insurance regulation to a file-and-use system, where insurers could apply rates immediately after filing with TDI rather than filing a rate request and waiting for TDI to approve," he explains. "But the staff report found that 'the Legislature cannot judge the success of the shift to file-and-use rate regulation because the system has not been fully implemented.' Instead, TDI often exercises its statutory authority to reject rates filed but not in use; in essence, a type of prior approval."

That's easy enough to fix.

"A better market is one governed by a true file-and-use system, where rates and products are more responsive to consumer demand, regulatory costs are lowered, and insurance availability is increased," Thornley says. "By taking away TDI's ability to disapprove rates prior to their use, a major regulatory impediment to true competition in the insurance industry would be removed."

The TDI also has the authority to reject "excessive" rates if they are "likely to produce a long-term profit that is unreasonably high in relation to the insurance coverage provided."

Again, the market is a better judge of these matters.

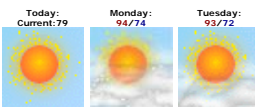
"If consumers think rates are excessive or that insurance companies are earning too much profit, they can switch their coverage," Thornley says. "The overemphasis on 'excessive' rates has often left insurance rates inadequate for the risk they cover, putting overexposed insurers in jeopardy of insolvency."

Insolvency means trouble for taxpayers, he adds, "who are the ones likely to pick up the bill (such as) in the case of the Texas Windstorm Insurance Association not being able to pay claims if a large hurricane hits Texas."

The Sunset Commission is now considering recommendations for action that could transform the homeowner's insurance market.

"Fully implementing a file-and-use system and repealing the Commissioner's authority to reject rates he deems 'excessive' are simple ways to increase the competitiveness of the Texas insurance marketplace and expand the availability of insurance products," Thornley says. "Since the commission's recommendations are likely to set the stage for action in the next legislative session, consumers should take notice of these discussions and demand that the legislature act to give consumers more choice and a path toward lower rates — both of which can only happen if competition takes hold."

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In that day you will say:
 "Give thanks to the Lord, call
 on his name; make known
 among the nations what he
 has done, and proclaim that
 his name is exalted. -- Psalm
 39:7-8