

Freedom of Contract Creates Regulatory Certainty and Lower Insurance Rates

Testimony before the House Insurance Committee

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Mr. Chairman, members, thank you for your time. My name is Ryan Brannan and I am a policy analyst in the Center for Economic Freedom at the Texas Public Policy Foundation.

- Current law restricts the ability of insurers from freely contracting with policyholders. Once an insurance contract reaches the end of its term, i.e. expires a company cannot non-renew its policy. Chapter 551 of the Insurance code forces insurance companies to renew a contract regardless of the number and severity of natural losses and appliance related claims.
- Although the original intent of this law was likely to benefit consumers, the state should not be in the business of interfering in contractual negotiations. The unintended consequences of doing so have resulted in rewarding bad behavior and forcing Texans to pay higher insurance rates.
- Specifically, the status quo encourages bad claims behavior by eliminating the consequences of non-renewal. If a consumer knows that the insurer is locked into a contract, there is no incentive for the policyholder to fix his behavior. The cost of those burdens is then spread to the other consumers.
- HB 1368 is a good step in the right direction of allowing the freedom of contract that is essential to a free market economy; we would actually like to see more improvements and ultimately get TDI out of the regulating contracts business completely.
- By allowing companies and consumers to freely contract with other, Texas would create regulatory certainty. This would in effect bring more insurance companies to Texas, increase competition, and bring down insurance rates for consumers.

Thank you for the opportunity to testify. I'd be happy to answer any questions. ★