



PRICE REGULATION AND ITS EFFECTS ON INSURANCE MARKETS

Insurance markets function best when allowed to operate competitively, free from excessive price regulation. The evidence from multiple state case studies demonstrates that while politically appealing, strict price controls ultimately harm the consumers they aim to protect. Here's why:

Unlike public utilities, insurance markets are naturally competitive, with low market concentration across states and lines of business. This competition effectively regulates prices without government intervention. When regulators artificially suppress rates, they trigger a cascade of unintended consequences that destabilize markets and reduce consumer choice.

Recent inflationary pressures illustrate the dangers of regulatory interference. As construction and repair costs soar, insurers must adjust premiums to maintain adequate reserves for future claims. However, regulatory delays in approving necessary rate adjustments force insurers to either absorb unsustainable losses or exit markets entirely. The experience in states like Florida, New Jersey, and Massachusetts proves that such regulatory constraints lead to market exits, reduced competition, and growing residual markets that concentrate risk in state hands.

The evidence for market-based solutions is compelling. When states deregulate insurance markets, they respond positively. After New Jersey reformed its auto insurance market in 2003, new insurers captured nearly 29% of the market share. Similarly, South Carolina's move to a competitive system in 1999 more than doubled the number of insurers operating there. Massachusetts saw nine new firms enter its market after introducing managed competition in 2007, leading to an average 8% price reduction for consumers.

Risk-based pricing is fundamental to market stability. When regulators interfere with this mechanism through cross-subsidization, they create unsustainable markets where low-risk consumers subsidize high-risk ones. This dynamic inevitably leads to market unraveling as low-risk consumers seek alternatives and insurers withdraw from unprofitable markets.

Evidence suggests that the deregulation seen in commercial lines of insurance, which enjoy greater pricing freedom, demonstrates superior performance even after catastrophic events. This stark contrast with heavily regulated personal lines underscores how market-based solutions enhance resilience and stability. States with competitive markets, like Illinois, consistently show the ability to weather market shocks while maintaining long-term price stability.

THE LESSON IS CLEAR: while regulation may seem like a quick fix for market pressures, it often creates decades-long problems that far outlast the temporary conditions that sparked intervention. Insurance is voluntary, and companies will exit markets where they cannot operate profitably. The most effective path forward is to allow market forces to determine prices, enabling insurers to price based on risk while fostering competition that naturally protects consumer interests.