



# Competition in the Insurance Market: Why Prior Approval is Bad for Texans

*The trend across the country has been to move away from over burdensome and rigid, prior approval systems that stifle competition and depress the insurance marketplace place. In fact, today only 16 states use some form of prior approval. A healthy competitive system should focus on regulation of the true consumer protections of solvency, claims handling, anti-trust protection, eliminating unfair business practices and eliminating insurance fraud. Such a well-regulated market, with real competitive pricing and products at its heart, offers Texans the best stability, choices, and prices.*

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- **A minority of states – only 16 – still use a prior approval rating system.** States with stringent regulatory structures generally have higher costs and offer less consumer choice.
- **Since Texas moved to a more competition-based system, the insurance marketplace has improved — rates have gone down and more than 29 new companies have entered the homeowners marketplace.** The Legislature should not retreat from its steady and measured movement towards a more competitive rate regulation system.
- **Prior approval systems lead to extreme rate instability.** The history of prior approval systems throughout the country is one of political rate controls, followed by extreme rate increases. In state after state, regulators have been forced to increase rates by double digit numbers to save failing markets from their own poor rating decisions. Consumers need the kind of predictable, steady rates provided by competitive rating systems.
- **A move to prior approval would act as a deterrent to those companies not presently in Texas.** A private carrier is unlikely to invest capital in a market that is stringently regulated. Less carriers means less competition for customers.
- **A number of other states have recently moved away from prior approval to a competitive rating system, resulting in benefits to consumers in price, availability and product choices.**
- **Texas homeowners rates remain high in some areas of the state for several reasons:** (1) the high risk of weather loss throughout the state; (2) the hurricane risk both direct to carriers as well as assessment exposure through Texas Windstorm Insurance Association (TWIA); and (3) a reluctance of the regulators to allow market-based competition.
- **While supporters of prior approval argue it would benefit consumers, it in fact does just the opposite** by expending resources on rate regulation that are better focused on the important consumer concerns of insurer solvency and insurer conduct in the market.
- **Going back to banded rating systems, or to prior approval, is taking Texas' regulation of insurance backwards** to conditions which led to the insurance availability and insurance rating crisis of the late 1990s and early 2000s.