



# For Homeowners and Auto Insurance, Right Regulation is Right for Texas

Texas insurance regulation should not be linked to the uncertainty and instability in the financial, investment and lending markets. Interestingly, of all the corporate collapses in recent months, only one major insurer, American Insurance Group (AIG), has been involved. Even more notable, regulators have determined that AIG's insurance operations were the most stable part of its portfolio and represent the best assets of the company.

The resilience of insurance in this time of financial crisis is no accident. Insurance financial regulation has been firm, fair and focused for decades. Both regulators and insurers have embraced the idea that the most important attribute of an insurer is the ability to pay claims to its customers. The resulting body of law regulating insurer assets has led to general stability and limited insolvencies, even in these times of both financial and natural disaster.

## Insurance Financial Regulation

- ▶ Insurance financial regulation seeks to maintain the financial strength of companies so that they can meet their claims obligations.
- ▶ The regulation uses a risk based capital ("RBC") system to enhance the safety of investments. The RBC system precisely measures investment risk, creates limits on risk, and demands safety and diversity in company investments.
- ▶ Insurance financial regulation has been in place and constantly refined and improved for decades, making insurance insolvencies rare despite the external loss risks to which insurers are exposed.
- ▶ Most insurance companies, including all TCAIS members, embrace financial regulation as vital to the interests of the insurance marketplace. In fact, companies have often called for increased focus by regulators on financial regulation in the interest of a healthy, stable insurance environment.

## Insurance Rate Regulation

- ▶ Insurance rate regulation is a separate issue from insurance financial regulation.
- ▶ Rate regulation either impedes or allows the accurate pricing of policies by insurers.
- ▶ The marketplace has historically been the best mechanism for determining the right rate for insurance policies. Market-based systems tend to be stable and well priced relative to risk.
- ▶ State rating systems very often include rating pressures, primarily political pressures that have nothing to do with risk. Rates in such systems are often not actuarially sound.
- ▶ As a result, active state regulation of rates has historically lead to financial stress on companies, and often either threatens solvency of limits availability.
- ▶ While financial regulation helps ensure the financial strength of companies to pay claims, rate regulation tends to place undue, often politically-based stress on company finances.

**In the interest of consumers and companies, Texas needs to maintain its commitment to strong financial regulation and a market-based system for rates and policies.**

*We need to focus on regulation that ensures companies will meet their obligations, protects consumers from bad practices and unfair discrimination, and allows insurers to compete on price and product. Instead of chasing the short-sighted goal of artificial price fixing, we should stick with the goal of creating a well-regulated competitive marketplace that can handle our state's tough climate efficiently and still attract companies and capital.*

**That's not deregulation, it's right regulation, and it's right for Texas**

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