

Liberalize Homeowners, Automobile, Life, and Commercial Insurance Regulation

A confusing patchwork of state-level regulations currently governs insurance in the United States. This balkanized regulatory structure hampers innovation, raises insurance rates for those who behave prudently, and needlessly expands government bureaucracy. In the realms of homeowners', automobile, and life insurance—the types of insurance that most Americans buy for themselves—the United States needs a *national* insurance market that leaves rate regulation to market forces. Three major options exist for creating such a market.

Optional federal charter. The single most popular proposal to expand flexibility is an optional federal charter (OFC). This would give insurers the flexibility to choose between federal and state regulation, an option that banks have enjoyed since the Civil War. An OFC would promote innovation. Without the need to get individual approvals in each state in which they want to do business, insurers would be able to introduce many new products. Since the introduction of the modern homeowners' insurance policy in the 1960s, few genuinely new insurance products for individual consumers have appeared on the market.

In addition, with risk factors rather than political ones serving as the primary determinants of insurance rates, the system would provide a

powerful disincentive for people drive fast or live in disaster-prone areas.

Finally, the option of a single federal regulator would place great pressure on states to improve their own regulatory environment, trim bureaucracy, and make their own regulations more consumer- and business-friendly.

Interstate insurance choice. Allowing state-regulated insurers to operate across state lines under the laws of their home state could also yield many of the positive consequences of an optional federal charter without the need to create a new federal agency to administer it. (The total expansion of bureaucracy, however, could actually be greater as various states expanded their reach to regulate out-of-state companies.)

State-level liberalization. Finally, there is an option that Congress only would need to let happen. States could simply improve and harmonize their laws to the point that insurers and consumers have the benefits of an OFC within the context of a state system. All 50 states have enacted some form of the Uniform Commercial Code as a way of dealing with transactions of personal (that is, moveable) property, so a sufficiently liberal uniform insurance regulatory law could also accomplish many of the purposes of an OFC while keeping the federal government out of the insurance business.

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