

Flexibility Serves Public

South Florida Sun-Sentinel

May 20, 2007

U.S. Rep. Ron Klein, D-Boca Raton, citing a constituent whose home insurance premium rose \$12,900, in two years, says "older Americans are not able to plan for the increasingly volatile rate increases with no place to turn for help." Klein criticizes insurers who withdraw from high-claim states, wants national backup catastrophe insurance, and doesn't think catastrophic losses correlate with high-risk locational decisions (flood plains).

Rep. Klein has valid points, but his concerns don't add up. Insurers are damned if they pull out but condemned if they charge risk-based (high) rates. Katrina-type catastrophes are a national issue, so why conceal the risks of locating in catastrophe-prone areas?

Congress wants to "fix" the Katrina Problem, but evades key issues. FEMA and the Army Corps of Engineers, face eternal congressional oversight, but government's failure to cope with catastrophe exposes its inability to manage risks-of-the-unknown. Given Katrina's fallout on insurance, we urgently need to rethink risk-management regulation.

Financial risk, a primary function of U.S. financial markets, we manage well. Is property-casualty risk more problematic? Setting aside wealth -- savings, diversified investments, or insurance contracts -- to cover a risk category (fire) or a special catastrophe (damaging Renee Fleming's vocal chords), are hurricane damage and heart-attacks more difficult to predict than the business failure or mortgage foreclosures?

Not really. When markets can price risk appropriately -- (1) project the probability of illness, injury or property damage and (2) price insurance to cover the expected damage plus an investor-friendly profit -- the system works fine.

But government often calls an accurate price "too high," so health care and flood insurance become virtual entitlements regardless of ability to pay. Severing the link between price and risk, government converts individual, pooled-and-priced coverage into a universal benefit paid out of a tax-funded pool -- welfare, not insurance.

Private flood insurance meant astronomical rates to insure high-risk flood areas. Coastal property owners complained 'market failure' and got cheap, subsidized flood insurance. Today we have national flood insurance, state-run health insurance, guaranteed insurance for the aged, children, and for insurers themselves (reinsurance).

Washington and the states share insurance-regulation duties, but in a scattershot way. States control rates and coverage, while Washington backstops the industry and can veto states. Overlapping rules on securities and financial services, plus judicial mandates, create a federalism-gone-bad: a regulatory morass unified only in taking decisions away from the market.

We presume politicians can protect us from risk: coastal flooding, roller-coaster disasters. But government 'risk management' makes people pay a tax-based premium for coverage they don't need or want. Political regulation of insurance stymies industry response to changing circumstances -- multiple regulators, intervening at random, ignore the global evolution of the insurance market and make the U.S. less competitive.

Consumers don't need multiple subsidies but clear choices for insurance. When every politician intervenes in risk and claim decisions, the typical homeowner will blame the insurer first: At least they know who that is!

Maximum market flexibility--who to insure, what packages to offer, how much to charge--always best serves the customer. Treating risk-management as a public utility, hampered by mandates, micromanagement, and populist grandstanding, insurers can't tailor products to the modern economy.

In this most-intense-ever period of global competition, risk-management industries are ill served by centuries of regulatory encrustations and archaic ideas about social welfare. Risk management needs a zero-based regulatory review and some hard, rational decisions about modern realities. That's the only way to get Rep. Klein's constituents the insurance they need, at a price they can manage.

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