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States Weigh Insurer Price Caps

BY JEAN EAGLESHAM

The U.S. is in a cost crisis when it comes to home and auto insurance. A number of states have a controversial answer: price controls.

Illinois lawmakers are considering a ban on home insurers hiking rates because of catastrophes in other states. Louisiana recently handed its regulator the power to strike down "excessive" premiums.

New York lawmakers are investigating soaring home-insurance costs, with a view to potential new curbs. In Michigan, Democratic lawmakers proposed this summer a law to impose a 10% cut in auto-insurance rates.

"Rate increases are top of mind for every policymaker across the country. Consumers are going to them and saying, 'I can't deal with a 30% rate increase, or a 40% rate increase,'" said Jon Godfread, president of the National Association of Insurance Commissioners.

The U.S. economy is built on open competition and the ability of industry to set prices—except when it comes to insurance. Governments play a role in setting prices in local, regulated monopolies such as electricity and water. Among competitive industries, insurance is an outlier.

Soaring rates are piling pressure on politicians. And increasingly, insurers are being told to cap prices.

"The increases are so big—you just think 'wow, what's going on,'" said Jarrad McCarthy, a Chicago sales executive. In the past two years, the annual cost of insuring his three-bedroom home has risen 47%, to \$1,929 from \$1,312.

Coverage for his Hyundai Tucson has gone up even more: The six-month premium jumped 62%, to \$946 this summer from \$584 in

June 2023.

"This doesn't feel like a competitive market," he said. "I wouldn't object to increases if they could put a cap on it."

Since the start of 2020, state regulators have agreed to rate increases averaging 50% for home insurance and 42% for auto, far outstripping the 26% increase in consumer prices through August, S&P Global Market Intelligence and Labor Department data show.

Every state, except for Wyoming, requires insurers to file a notice of rate increases, according to the National Association of Insurance Commissioners.

Some go much further. Regulators have the power to reject requested increases in 11 states: Alabama, California, Hawaii, Mississippi, New Jersey, North Carolina, North Dakota (for increases of 5% or more), Pennsylvania, South

Carolina (7% or more), Washington and West Virginia.

Some lawmakers see rate controls as the answer. Illinois Gov. JB Pritzker, a Democrat, backed the state's gaining a veto over price increases this summer, after lashing out at an "unfair and arbitrary" 27% hike in home-insurance rates by State Farm.

Insurers have said political attacks ignore the math. State Farm told Illinois regulators it has lost money selling home insurance in the state in 13 of the past 15 years.

A spokeswoman for the in-surance giant said the gover nor's criticism "misrepresents the rigorous actuarial analysis that supports our filings."

Robert Gordon, a senior vice president at industry group American Property Casualty Insurance Association, said it was "bizarre" that Illinois would seek to change what he called an incredibly competitive market, with below- average rates. "It just goes back to—people don't like higher rates," he said.

Michael Hastings, a Democratic state senator, said Illinois lawmakers were trying to strike a balance between consumer protection and keeping insurers in the state.

"You don't want to lose State Farm," he said.

The U.S. insurance market is unique. ^{Note} It developed on state lines—Benjamin Franklin helped found the industry in 1752 with a Philadelphia company—and so did its regulation. ^{Note} The first state insurance commissioners were appointed in the 1850s. In the 1940s, Congress ringfenced insurance from federal antitrust laws, allowing states to legislate on prices.

Insurers said the shortterm popularity of price caps masks the long-term damage they can wreak.

"Price controls don't lead to affordability," said Tim Zawacki, an analyst at S&P Global. "Ultimately, they just chase insurers out of the market."

Some states are rowing against the rate-cap tide. ^{Note}

California for decades had an effective 6.9% ceiling on premium increases. That kept its home-insurance rates below the national average, despite pricey real estate and vulnerability to wildfires.

But a pullback by major home insurers has plunged the market into crisis. To try to woo them back, regulators in recent months greenlighted double-digit home-insurance rate increases far in excess of the historic norm.

"I may be criticized and dragged through the mud for it...but I don't care," Insurance Commissioner Ricardo Lara said, after backing a 17% increase for State Farm. "We can't just talk about afford--ability without first addressing availability. You can't afford what doesn't exist." ^{Note}

Other states are taking note. "We see California trying to be a little bit more insurer friendly," said Jon Pike, insurance commissioner for Utah. "So I don't want to move too much in the lessfriendly direction."

Home insurers in the wildfire- prone state have filed rate increases averaging 75% since 2020, among the highest in the nation, S&P data show. But Utah won't be switching to a rate cap anytime soon, Pike suggested.

"I'm happy that we have 130 insurers in our market," he said. "I don't want to do anything that would drive them out."

Disaster-prone Louisiana axed last year a requirement for rate increases to be approved by regulators, to try to attract more insurers, only to impose this year fresh controls. A new law allows regulators to strike down any "excessive" rate—defined as one likely to produce unreasonably high profits—and even demand refunds from insurers.

The move led to a feud between two Republicans: Gov. Jeff Landry, who championed the new power, and Insurance Commissioner Tim Temple, who vehemently opposed it.

Both men agreed the state faces an insurance crisis. Louisiana is one of the most expensive states in the nation for home and auto insurance, compared with household income. "Insurance companies continue to send to Wall Street record profits, while our rates continue to climb," Landry said this spring.

He lambasted Temple as "simply a paper pusher," who ran the math on rate increases without being able to fix the problem. "I am going to beg y'all to stop this circus," he told lawmakers.

Temple dismissed Landry's measure as a "red herring," that would—if anything—make the market worse by deterring insurers. The power to reject rates as excessive, without any actuarial backing, introduces "political whim" to the process, he said in an interview.

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