

What is the Rationale for an Insurance Coverage Mandate? Evidence from
Workers' Compensation Insurance
Marika Cabral

Abstract

There is ongoing policy debate about whether government insurance coverage mandates are necessary to effectively address market failures in private insurance markets. This paper analyzes the demand for insurance in the absence of a coverage mandate and the potential market failure rationale for coverage mandates in the context of workers' compensation insurance. Workers' compensation is a state regulated insurance program that provides employees with income and medical benefits in the event of work-related injuries or illnesses. Historically, nearly all states have mandated workers' compensation insurance coverage, with the exception of Texas. Using administrative data from the Texas workers' compensation insurance system, we estimate the demand for workers' compensation insurance leveraging idiosyncratic regulatory updates to relative premiums across industry-occupation classifications. The difference-in-differences estimates indicate that workers' compensation coverage is price-sensitive, with a 10% increase in premiums leading to approximately a 3% decline in covered payroll and the number of covered firms. Drawing upon these estimates, we analyze potential rationale for government intervention to increase coverage, through subsidies or a mandate. This analysis suggests that classic market failure justifications for government intervention in insurance markets—such as adverse selection, market power, and externalities—may not be compelling justifications for a mandate in this setting.