**Information Design in Competitive Insurance Markets**

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**Abstract:**

This paper characterizes the optimal information structure in competitive insurance markets with adverse selection.

We consider a regulator that assigns ratings to individuals according to their expected costs.

Insurers observe these ratings and compete as in Akerlof (1970).

The optimal rating system minimizes ex-ante risk subject to participation constraints.

We prove that in any such market there exists a unique optimal system under which all individuals trade and the ratings match low-cost types with high-cost types negative assortatively.

We provide a simple algorithm that yields the optimal system and examine implications for government regulations of insurance markets.