Free markets. Real solutions.

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2019 INSURANCE REGULATION REPORT CARD

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INTRODUCTION

Welcome to the eighth edition of the R Street Institute's Insurance Regulation Report Card, our annual examination of the state-based system of insurance regulation.

As indicated by our institutional motto, R Street is dedicated not only to "free markets," but also to "real solutions." This annual report embodies those principles of limited, effective and efficient government by applying them to public policy governing the business of insurance. We believe governments should regulate only those market activities on which government is best-positioned to act; that they should do so competently and with measurable results; and that regulatory systems should lay the minimum possible burden on companies, taxpayers and ultimately, consumers.

This report seeks to answer three fundamental questions:

1. How free are consumers to choose the insurance products they want?
2. How free are insurers to provide the insurance products consumers want?
3. How effectively are states discharging their duties to monitor insurer solvency and foster competitive, private insurance markets?

The insurance market is both the largest and most significant portion of the financial services industry to be regulated almost entirely at the state level. While state banking and securities regulations largely are preempted by federal law, Congress reserved for the states the duty to oversee the "business of insurance" as part of 1945's McCarran-Ferguson Act.[1]

This report demonstrates that, on balance, states do an effective job of encouraging competition and ensuring solvency in insurance markets. In most U.S. states, markets for the common "personal lines" of home and auto insurance meet common statutory definitions of competitiveness. Insolvencies are relatively rare and, through the runoff process and guaranty fund protections enacted in nearly every state, generally quite manageable.

1. Alan M. Anderson, "Insurance and Antitrust Law: The McCarran-Ferguson Act and Beyond," *William and Mary Law Review* 25:1 (1983), p. 81. http://scholarship.law.wm.edu/cgi/viewcontent.cgi?article=2189&context=wmlr.

However, there are ways in which the thicket of state-by-state regulations leads to inefficiencies, as well as state policies that have the effect of discouraging capital formation, stifling competition and concentrating risk. Central among these are rate controls.

While explicit price-and-wage controls largely have fallen by the wayside in most industries (outside of natural monopolies like utilities),[2] pure rate regulation remains commonplace in insurance. Some degree of rating and underwriting regulation persists in nearly every state. To a large degree, this is a relic of an earlier time, when nearly all insurance rates and forms were established collectively by industry-owned rate bureaus, as individual insurers generally were too small to make credible actuarial projections. McCarran-Ferguson charged states with reviewing the rates submitted by these bureaus to counter anticompetitive collusion. With the notable exception of North Carolina, rate bureaus no longer play a central role in most personal lines markets, and many larger insurers now establish rates using their own proprietary formulas rather than rely on rate bureau recommendations.

In some cases, regulations may hinder the speed with which new products are brought to market. We believe innovative new products could be more widely available if more states were to free their insurance markets by embracing regulatory modernization. An open and free insurance market would maximize the effectiveness of competition and best serve consumers.

In 2019, we saw progress toward more competitive insurance markets. Residual property insurance mechanisms continued to shrink. Florida enacted landmark reform of its assignment-of-benefits system and Michigan finally ended its mandate that all personal injury protection policies must provide unlimited lifetime medical benefits, which had driven out-of-control costs for decades.

As it has in years past, the regulatory landscape is changing. We hope this report captures how those changes may impact both the insurance industry and insurance consumers in the months to come.

THE YEAR IN INSURANCE REGULATION

Federal and National Developments

In March, freshman Rep. Rashida Tlaib (D-Mich.) introduced H.R. 1756, which would ban the use of consumer credit information in insurance underwriting and rate-setting nationwide. The bill received no action in committee, but it did attract 26 co-sponsors.[3]

In June, the House Financial Services Committee unanimously passed H.R. 3167, reauthorizing the National Flood Insurance program for five years, investing significant amounts in mapping and mitigation and creating a pilot affordability program.[4] A competing Senate bill, S. 2187, was introduced in July by Sen. Bob Menendez (D-N.J.). It would cap annual rate increases at 9 percent, cap Write Your Own company compensation, raise coverage limits and explore adding coverage for business interruption.[5]

In August, the National Association of Insurance Commissioners' Innovation and Technology Task Force moved to open the NAIC's Unfair Trade Practices Act, Model 880, with the goal of rewriting its "anti-rebating" prohibitions.[6]

In October, the House Financial Services Committee passed H.R. 4634, which authorizes a seven-year extension of the Terrorism Risk Insurance Program.[7]

Also in October, Rep. Danny Heck (D-Wash.) introduced H.R. 4592, which would direct federal trade negotiators not to agree to any international regulatory standards that do not recognize the U.S. system of state-based regulation.[8] An earlier version of the bill passed both the House and Senate in 2018 as part of the JOBS and Investor Confidence Act, but the chambers were unable to agree to a final conference version of that bill in the 115th Congress.[9]

State-by-State Developments

California: In June, Gov. Gavin Newsom signed A.B. 1054, creating a $21 billion California Wildfire Fund that will offer insurance and emergency liquidity options to the state's major utilities to cover their wildfire-related liabilities.[10]

2. Gene Healy, "Remembering Nixon's wage and price controls," *Washington Examiner*, Aug. 15, 2011. http://www.washingtonexaminer.com/remembering-nixons-wage-and-price-controls/article/40706.

3. H.R. 1756, Preventing Credit Score Discrimination in Auto Insurance Act, 116th Cong. https://www.congress.gov/bill/116th-congress/house-bill/1756.

4. H.R. 3167, National Flood Insurance Program Reauthorization Act of 2019, 116th Cong. https://www.congress.gov/bill/116th-congress/house-bill/3167/actions.

5. S. 2187, National Flood Insurance Program Reauthorization and Reform Act of 2019, 116th Cong. https://www.congress.gov/bill/116th-congress/senate-bill/2187.

6. Ray Lehmann, "NAIC Innovation Panel Moves for Update of Anti-Rebating Model," *Insurance Journal*, Aug. 5, 2019. https://www.insurancejournal.com/blogs/right-street/2019/08/05/534953.htm.

7. H.R. 4634, Terrorism Risk Insurance Program Reauthorization Act of 2019, 116th Cong. https://www.congress.gov/bill/116th-congress/house-bill/4634.

8. H.R. 4592, International Insurance Standards Act of 2019, 116th Cong. https://www.congress.gov/bill/116th-congress/house-bill/4592/text?r=8&s=1.

9. S. 488, JOBS and Investor Confidence Act of 2018, 115th Cong. https://www.congress.gov/bill/115th-congress/senate-bill/488/all-actions.

10. AB-1054, Public utilities: wildfires and employee protection, 2019-2020, California Legislature. https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB1054.

S.B. 290, legislation that would authorize the governor and insurance commissioner to secure insurance or reinsurance to cover the state government's natural disaster risks, passed the state Senate in May and made it through two Assembly committees in June and July. It was ultimately held up in the Assembly Appropriations Committee in August.[11]

Florida: In May, Gov. Ron DeSantis signed H.B. 7065, landmark legislation to address the state's assignment-of-benefits litigation crisis. Under the bill, insurers must keep consumers in the loop during the claim-resolution process and provide them an opt-out period and an itemized, written estimate, which is then sent to the insurer within a reasonable timeframe.[12]

Also in May, DeSantis signed H.B. 107, strengthening penalties for and expanding the definition of texting while driving.[13]

Legislation to address assignment-of-benefits in auto glass claims, which would, among other things, bar repair shops from offering customers anything of value in exchange for making insurance claims, passed the House Insurance and Banking Committee in February but ultimately died in the Civil Justice Committee.[14] A Senate version passed that chamber's Banking and Insurance Committee and Commerce and Tourism Committee, but died in the Rules Committee.[15] The legislation is expected to be reintroduced in 2020.

Michigan: In May, Gov. Gretchen Whitmer signed S.B. 1, landmark legislation that finally ends the state's unique no-fault automobile insurance law, which required unlimited lifetime medical benefits. The new regime will allow consumers to choose from a variety of levels of PIP coverage. The bill also imposes a broad fee schedule and gradually phases out the Michigan Catastrophic Claims Association, the state-backed reinsurer that historically has financed catastrophic PIP claims. Among other provisions, the bill ordered 10 percent across-the-board rate rollbacks and banned the use of gender, credit score, ZIP code, occupation, marital status and homeownership status in setting insurance rates.[16]

Oregon: The Legislature adjourned in June without taking action on H.B. 2421 or S.B. 728, a pair of controversial measures that would have opened the door to third-party bad faith lawsuits against insurers.[17]

South Dakota: In February, the state House of Representatives passed H.B. 1088, which prohibits the use of certain electronic devices while driving. However, the measure failed to pass the state Senate.[18]

Texas: In June, Gov. Greg Abbott signed H.B. 1306, allowing insurance brokers to place flood insurance policies directly in the surplus lines market without the three declinations that would otherwise be required.[19]

Vermont: In June, Gov. Phil Scott signed S. 131, legislation creating a "regulatory sandbox" for insurance and certain other financial services products.[20] The law gives the Department of Financial Regulation discretion to allow innovative products to be tested by granting limited waivers from standing regulations.

Virginia: The commonwealth's Senate and House of Delegates each passed their own versions of legislation prohibiting any person from holding a handheld personal communications device while driving a motor vehicle (S.B. 1341 and H.B. 1811, respectively), but a February conference report failed to pass the House.[21]

METHODOLOGY

This report card strives to evaluate the regulatory environments in each of the 50 states using objective metrics. It tracks seven broad categories, most of which consist of several variables, to measure: whether states avoid excess

11. SB-290, Natural disasters: insurance and related alternative risk transfer products: Special Fund for Economic Uncertainties, 2019-2020, California Legislature. https://leginfo.legislature.ca.gov/faces/billHistoryClient.xhtml?bill_id=201920200SB290.

12. CS/CS/HB 7065, Insurance Assignment Agreements, 2019 Session, Florida Legislature. https://www.flsenate.gov/Session/Bill/2019/7065.

13. CS/HB 107, Wireless Communications While Driving, 2019 Session, Florida Legislature. https://www.flsenate.gov/Session/Bill/2019/323/ByCategory.

14. HB 323, Motor Vehicle Insurance Coverage for Windshield Glass, 2019 Session, Florida Legislature. https://www.flsenate.gov/Session/Bill/2019/323/ByCategory.

15. SB 754, Motor Vehicle Insurance Coverage for Windshield Glass, 2019 Session, Florida Legislature. https://www.flsenate.gov/Session/Bill/2019/323/ByCategory.

16. Ray Lehmann, "Has Michigan Fixed Its Broken Auto Insurance System?," *Insurance Journal*, May 28, 2019. https://www.insurancejournal.com/blogs/right-street/2019/05/28/527607.htm.

17. R.J. Lehmann, "Oregon Should Reject Third-Party Bad Faith," R Street Policy Study No. 165, March 4, 2019. https://www.rstreet.org/2019/03/04/oregon-should-reject-third-party-bad-faith.

18. H.B. 1088, prohibit the use of certain electronic devices while driving, 2019 Session, South Dakota Legislature. http://sdlegislature.gov/legislative_session/bills/Bill.aspx?Bill=1088&Session=2019.

19. HB 1306, Relating to the provision of flood coverage under insurance policies issued by surplus lines insurers, 86th Texas Legislature. https://legiscan.com/TX/votes/HB1306/2019.

20. S. 131, An act relating to insurance and securities, 2019 Session, Vermont General Assembly. https://legislature.vermont.gov/bill/status/2020/S.131.

21. S.B. 1341, Handheld personal communications devices; prohibition on holding while driving, 2019 Session, Virginia General Assembly. https://lis.virginia.gov/cgi-bin/legp604.exe?191+sum+SB1341.

politicization; how well they monitor insurer solvency; how efficiently they spend the insurance taxes and fees they collect; how competitive their home and auto insurance markets are; how large their residual markets are; and the degree to which they permit insurers to underwrite and employ rating criteria as risks and market conditions demand.

We strongly emphasize property-casualty insurance and particularly the personal lines of business that most directly affect regular people's lives. Perhaps because of this nexus, these also tend to be the lines of business most often subject to legislative and regulatory interventions, like price controls and direct provision of insurance products by state-sponsored, state-supported or state-mandated institutions.

For each of the seven categories, we use the most recent year with available data. We defer to empirical data over subjective judgment wherever such figures are relevant and available. The two factors with the greatest emphasis—solvency regulation and underwriting freedom—reflect those we feel are most illustrative of states' abilities to foment healthy, competitive markets.

The report is not intended as a referendum on specific regulators. Scoring an "F" does not mean that a state's insurance commissioner is inadequate, nor is scoring an "A+" an endorsement of those who run the insurance department. Significant changes in states' scores most often would only be possible through action by state legislatures. Variables are weighted to provide balance between considering the rules a state adopts and the results it demonstrates, between the effectiveness regulators demonstrate in their core duties and the efficiency a state shows in making use of its resources.

Because we are necessarily limited to those factors that we can quantify for all 50 states, there are many important considerations our report card does not reflect. Among other variables, we lack good measures of how well states regulate insurance policy forms and the level of competition in local markets for insurance agents and brokers. And while the National Association of Insurance Commissioners (NAIC) does offer some data that could illuminate how quickly states act on rate-and-product filings,[22] both the sheer volume of filings and the lack of apples-to-apples comparisons of states' speed-to-market environments render attempts at comprehensive analysis of such factors—across 50 states in multiple lines of business—beyond the scope of this report.

TABLE I: POLITICIZATION

State	Commissioner	Points
AK	2	3.5
AL	1	3.0
AR	0	2.5
AZ	0	2.5
CA	-5	0.0
CO	0	2.5
CT	1	3.0
DE	-5	0.0
FL	15	10.0
GA	-5	0.0
HI	2	3.5
IA	6	5.5
ID	6	5.5
IL	0	2.5
IN	1	3.0
KS	-5	0.0
KY	0	2.5
LA	-5	0.0
MA	1	3.0
MD	6	5.5
ME	7	6.0
MI	6	5.5
MN	0	2.5
MO	0	2.5
MS	-5	0.0
MT	-5	0.0
NC	-5	0.0
ND	-5	0.0
NE	0	2.5
NH	7	6.0
NJ	0	2.5
NM	12	8.5
NV	2	3.5
NY	0	2.5
OH	0	2.5
OK	-5	0.0
OR	2	3.5
PA	6	5.5
RI	2	3.5
SC	0	2.5
SD	2	3.5
TN	1	3.0
TX	5	5.0
UT	0	2.5
VA	10	7.5
VT	5	5.0
WA	-5	0.0
WI	0	2.5
WV	8	6.5
WY	0	2.5

SOURCES: NCSL, NAIC, R Street analysis

POLITICIZATION (10% of total score)

The great political scientist Max Weber argued that the most important feature of a modern state is that it be organized into functional offices and that those officeholders be selected based on merit.[23] Moreover, researchers who have examined Weber's insights have demonstrated empirically that bureaucracies characterized by this kind of impartiality, professionalism and competence are strongly correlated with economic growth and negatively correlated with corruption.[24]

This report seeks to apply those insights to the field of insurance regulation. Insurance is a technical matter that, by and large, should be insulated from the political process and

22. For speed-to-market analysis of just six states in a single line of business, see Ian Adams, "The Troublesome Legacy of Prop 103," *R Street Policy Study* No. 43, October 2015. http://www.rstreet.org/wp-content/uploads/2015/10/RSTREET43.pdf.

23. Max Weber, *Economy and Society* (University of California Press, 1978), pp. 220-21.

24. James E. Rauch and Peter B. Evans, "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth," *American Sociological Review* 64:5 (Oct. 1999), pp. 748-65. https://www.jstor.org/stable/2657374?seq=1#page_scan_tab_contents.

prevailing political concerns. The introduction of political pressure to the process of insurance regulation inevitably leads to negative consequences. Insurance regulators are public servants, and thus it is necessary and valuable for the public to have oversight of their activities. But trained, professional regulators can enforce the law much more effectively when unbidden by the shifting winds of political passions.

For this reason, we downgrade those states where insurance regulation is explicitly a political matter and acknowledge the wisdom of republican structures that properly insulate insurance regulators from fickle politics. Based on descriptions provided by the National Conference of State Legislators (NCSL), we identify six different systems for selecting, appointing and removing insurance commissioners and rate them accordingly.[25]

Elected Commissioner ***(-5 points):*** The 11 states in which the insurance commissioner is an elected position automatically received -5 points in the politicization measure. Those states are California, Delaware, Georgia, Kansas, Louisiana, Mississippi, Montana, North Carolina, North Dakota, Oklahoma and Washington state.

Gubernatorial Appointment with Legislative Consent ***(0 points):*** The modal case is a commissioner who is appointed by and serves at the pleasure of the state's governor. There are 15 such states where such appointments also are subject to advice and consent of the state Senate (or unicameral legislature, in the case of Nebraska), representing the most common form of insurance commissioner authority.

Gubernatorial Appointment without Legislative Consent ***(+1 point):*** In addition to the 15 states where gubernatorial appointments are subject to legislative advice and consent, there are five states (Alabama, Connecticut, Indiana, Massachusetts and Tennessee) where such appointments are not reviewed by the legislature, thus providing slightly more insulation from political considerations.

Administrative Appointment ***(+2 point):*** In six states, the commissioner does not serve the governor directly, but instead serves at the pleasure of a different appointed executive officer. In practice, such a structure is nearly equivalent to gubernatorial appointment, but we grant a small bonus to acknowledge the extent to which this buffer might help to depoliticize regulatory decisions in some cases. The six states with this structure are Alaska, Hawaii, Nevada, Oregon, Rhode Island and South Dakota.

Fixed Term: In 10 states, the insurance commissioner is appointed (generally by the governor) to a set term of office and cannot be removed without cause. Our scoring recognizes this structure as offering significantly more political independence for the regulator. The longer the fixed term of office, the greater bonus our scoring structure provides. The 10 states are as follows.

Two-Year Term ***(+5 points):*** Texas and Vermont.

Four-Year Term ***(+6 points):*** Idaho, Iowa, Maryland, Michigan and Pennsylvania.

Five-year Term ***(+7 points):*** Maine and New Hampshire.

Six-year Term ***(+8 points):*** West Virginia.

Independent Commission: In three states, the insurance commissioner is not appointed by and does not answer to a single figure; rather, the commissioner is selected by and answers to a public board. These structures provide the greatest independence for the regulator. Each of the three arrangements is uniquely structured, and we consider them separately here.

Virginia ***(+10 points):*** In Virginia, decisions on selection or removal of the insurance commissioner are made by the State Corporation Commission, whose three members are appointed by the General Assembly to staggered six-year terms.

New Mexico ***(+12 points):*** In New Mexico, the insurance superintendent is selected by the appointed nine-member Insurance Nominating Committee. Four of the members are selected by the New Mexico legislative council and four by the governor, with two each representing insurance industry and consumer interests, and with additional partisan balance requirements. The eight appointed members of the committee select the ninth member. The insurance superintendent may be removed by the committee for incompetence or maladministration.

Florida ***(+15 points):*** Florida's insurance commissioner can only be appointed or removed by a majority of the Financial Services Commission, whose members are the state's elected governor, chief financial officer, attorney general and agriculture commissioner. Both the governor and chief financial officer must vote with the majority for a motion to appoint or remove to prevail.

The results were then summed and weighted to grant states between 0.0 and 10.0 points for the category. Florida led with 10.0 points, while the 11 states with elected commissioners tied as the most politicized markets in the country.

25. "Insurance State Regulators - Selection and Term Statutes," National Conference of State Legislators, April 12, 2013. http://www.ncsl.org/research/financial-services-and-commerce/insurance-state-regulators-selection-and-term-stat.aspx; "Insurance Department Directory," National Association of Insurance Commissioners, Nov. 9, 2019. https://mymembership.naic.org/naic-directory/complete%20directory%202019.pdf.

TABLE 2: FISCAL EFFICIENCY

State	Regulatory Surplus			Tax and Fee Burden			Total
	Raw (%)	Weighted	Points	Raw (%)	Weighted	Points	
AK	0.2	0.7	10.0	1.9	-1.1	1.7	11.7
AL	18.8	0.6	9.8	1.7	-0.8	2.2	12.0
AR	249.8	-0.6	7.8	1.9	-1.0	1.8	9.7
AZ	0.0	0.7	10.0	1.8	-1.0	1.9	11.9
CA	24.2	0.5	9.8	0.8	0.7	3.8	13.6
CO	0.0	0.7	10.0	0.9	0.6	3.8	13.8
CT	413.8	-1.5	6.4	0.6	1.1	4.3	10.7
DE	225.9	-0.5	8.0	0.2	1.7	4.9	13.0
FL	0.0	0.7	10.0	0.2	1.6	4.9	14.9
GA	129.5	0.0	8.9	0.9	0.6	3.7	12.6
HI	0.0	0.7	10.0	1.3	-0.1	2.9	12.9
IA	120.5	0.0	8.9	0.4	1.3	4.5	13.5
ID	169.9	-0.2	8.5	1.5	-0.5	2.5	11.0
IL	69.4	0.3	9.4	0.6	1.0	4.2	13.6
IN	91.2	0.2	9.2	0.6	1.0	4.2	13.4
KS	56.7	0.4	9.5	1.0	0.3	3.4	12.9
KY	76.9	0.3	9.3	1.3	-0.1	3.0	12.3
LA	260.1	-0.7	7.7	2.8	-2.5	0.1	7.8
MA	1146.3	-5.3	0.0	1.0	0.4	3.5	3.5
MD	0.0	0.7	10.0	1.5	-0.4	2.5	12.5
ME	53.3	0.4	9.5	1.2	0.1	3.2	12.7
MI	0.0	0.7	10.0	0.9	0.5	3.6	13.6
MN	54.3	0.4	9.5	1.2	0.1	3.1	12.7
MO	16.2	0.6	9.9	1.0	0.4	3.5	13.4
MS	50.8	0.4	9.6	2.2	-1.6	1.2	10.8
NC	11.5	0.6	9.9	1.1	0.2	3.2	13.1
ND	55.3	0.4	9.5	1.1	0.3	3.4	12.9
NE	28.0	0.5	9.8	0.7	0.8	4.0	13.8
NH	49.8	0.4	9.6	1.1	0.2	3.3	12.8
NJ	188.4	-0.3	8.4	0.9	0.6	3.7	12.1
NM	205.3	-0.4	8.2	2.8	-2.6	0.0	8.2
NV	126.6	0.0	8.9	0.2	1.7	5.0	13.9
NY	364.9	-1.2	6.8	1.3	-0.2	2.8	9.7
OH	31.9	0.5	9.7	0.7	0.9	4.1	13.8
OK	144.7	-0.1	8.7	1.7	-0.8	2.1	10.8
OR	639.7	-2.6	4.4	0.7	0.9	4.1	8.5
PA	147.3	-0.1	8.7	0.8	0.7	3.8	12.5
RI	0.0	0.7	10.0	0.6	1.1	4.3	14.3
SC	61.0	0.3	9.5	1.0	0.4	3.5	13.0
SD	261.6	-0.7	7.7	1.6	-0.6	2.4	10.1
TN	0.0	0.7	10.0	2.2	-1.5	1.3	11.3
TX	120.3	0.0	9.0	1.5	-0.5	2.5	11.4
UT	1.1	0.7	10.0	1.0	0.4	3.5	13.4
VA	184.9	-0.3	8.4	1.1	0.2	3.2	11.6
VT	105.4	0.1	9.1	2.2	-1.5	1.3	10.4
WA	48.7	0.4	9.6	1.5	-0.5	2.5	12.0
WI	132.3	0.0	8.8	0.6	1.0	4.2	13.0
WV	236.9	-0.6	7.9	2.0	-1.2	1.6	9.6
WY	5.5	0.6	10.0	0.8	0.8	3.9	13.9

SOURCE: R Street analysis of NAIC data

FISCAL EFFICIENCY (15% of total score)

State insurance regulators should perform their duties competently and transparently, and ideally with minimal cost to consumers, companies and taxpayers. Taxes and fees paid to support insurance regulation will be passed on as part of the cost of insurance coverage.

States vary in how they collect and allocate funding to their insurance departments. According to the NAIC's Insurance Department Resources Report (IDRR), 18 states and the District of Columbia derive 100 percent of their insurance department revenue from regulatory fees and assessments.[26] Fees and assessments account for more than 90 percent of the budget in 15 other states and for more than 70 percent of the budget in an additional seven states.[27]

Other states draw on a combination of fees and assessments, fines and penalties, general funds and other sources. Mississippi and South Dakota are the only states whose insurance departments do not directly draw any revenues from the fees and assessments they levy, although fees and assessments also account for less than 5 percent of the budget in North Carolina and Pennsylvania.[28] In all four of those states, the bulk of the insurance department's operating funds come from the state's general fund.

The NAIC's IDRR also shows that the 50 states, Puerto Rico and the District of Columbia spent $1.47 billion on insurance

26. *2018 Insurance Department Resources Report: Volume One*, National Association of Insurance Commissioners, June 2019, p. 31. https://www.naic.org/prod_serv/STA-BB-19-01.pdf.

27. Ibid.

28. Ibid.

regulation in 2018, up from $1.40 billion a year earlier.[29] But it is important to note that state insurance departments collected more than double that amount, $3.17 billion, in regulatory fees and assessments from the insurance industry.[30] State insurance departments also collected $151.4 million in fines and penalties and another $960.8 million of miscellaneous revenue.[31] States separately collected $21.42 billion in insurance premium taxes.[32] Thus, of the total $25.71 billion in revenue that states collected from the insurance industry last year, only 6.0 percent was spent on insurance regulation. Using these data, we have constructed two variables to measure departments' budgetary efficiency and the financial burden states place on insurance products.

Regulatory Surplus – As mentioned, total fees and assessments collected by state insurance departments were more than double the amount spent on insurance regulation. This figure does not include premium taxes, which are a form of sales tax, thus making it appropriate that they should go into a state's general fund. It also does not include fines and penalties, which are meant to discourage bad behavior and compensate victims of that behavior. Limiting the consideration to those regulatory fees and assessments that are paid by insurers and insurance producers, states collected about $1.7 billion more in regulatory fees than they spent on regulation.

That excess amount, which we call "regulatory surplus," is typically diverted to cover other shortfalls in state budgets. Sometimes, these programs have a tangential relationship to insurance, such as fire safety or public health. But often, they do not. By collecting this regulatory surplus through insurance fees, states are laying a stealth tax on insurance consumers to fund what should be general taxpayer obligations.

Our calculations show that eight states collected less in fees and assessments in 2018 than they spent on insurance regulation, giving them a regulatory surplus of $0. Among the 50 states, the mean regulatory surplus was equal to 128.5 percent of a state's budget, albeit with a large standard deviation of 193.2 percentage points.

For our weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. The states ranged from those eight with no regulatory surplus to Massachusetts, the surplus of which was more than 10 times the size of its insurance department budget. We converted those weighted scores into a scale from 0.0 points for Massachusetts to 10.0 points for the states with no or very little regulatory surplus.

Tax and Fee Burden – We also looked at the total of premium taxes, fees and assessments, and fines and penalties collected by each state, expressed as a percentage of the premiums written in that state.[33] This measure represents the overall fiscal burden state governments place on insurance products. The mean of the 50 states was a tax and fee burden of 1.20 percent, with a standard deviation of 0.62 percentage points. The results ranged from a low of 0.2 percent for Nevada, nearly two standard deviations below the mean, to a high of 2.84 percent for New Mexico, which was more than two standard deviations above the mean.

For our weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. We then converted the weighted scores into our point system, from 0.0 points for New Mexico up to 5.0 points for Nevada.

Taken together, states' scores in the Fiscal Efficiency category range from a high of 14.9 points, scored by Florida, to a low of 3.5 points, scored by Massachusetts.

29. Ibid., p. 29.

30. Ibid., p. 32.

31. Ibid.

32. Ibid.

33. Premium data by state were drawn from the *2018 Insurance Department Resources Report: Volume Two*, National Association of Insurance Commissioners, August 2019, p. 7. https://www.naic.org/prod_serv/STA-BB-19-02.pdf.

TABLE 3: SOLVENCY REGULATION

State	Financial Exams			Runoffs			Capitalization			Total
	Raw (%)	Weighted	Points	Raw (%)	Weighted	Points	Raw (%)	Weighted	Points	
AK	160.4	0.7	4.5	0.00	0.37	5.00	656.5	0.3	4.6	14.1
AL	96.8	-0.4	1.9	0.04	0.36	5.00	680.4	0.3	4.6	11.5
AR	104.5	-0.2	2.2	0.20	0.34	4.98	536.6	0.5	4.7	11.9
AZ	123.5	0.1	3.0	6.83	-0.74	4.13	1532.5	-0.7	3.9	11.0
CA	115.5	-0.1	2.6	3.57	-0.21	4.54	596.0	0.4	4.7	11.9
CO	101.1	-0.3	2.0	0.00	0.37	5.00	997.0	-0.1	4.4	11.4
CT	106.5	-0.2	2.3	0.09	0.35	4.99	1175.4	-0.3	4.2	11.5
DE	148.7	0.5	4.0	4.48	-0.36	4.43	1166.3	-0.3	4.2	12.7
FL	55.7	-1.1	0.2	0.90	0.22	4.88	982.4	-0.1	4.4	9.4
GA	75.9	-0.8	1.0	0.00	0.37	5.00	1187.8	-0.3	4.2	10.2
HI	236.8	2.1	7.6	0.13	0.35	4.98	227.1	0.9	5.0	17.6
IA	60.4	-1.0	0.4	0.00	0.37	5.00	550.2	0.5	4.7	10.1
ID	107.3	-0.2	2.3	0.00	0.37	5.00	840.5	0.1	4.5	11.8
IL	117.3	0.0	2.7	3.51	-0.20	4.55	705.1	0.3	4.6	11.9
IN	95.9	-0.4	1.8	9.25	-1.13	3.82	639.7	0.4	4.7	10.3
KS	99.4	-0.3	2.0	0.00	0.37	5.00	672.3	0.3	4.6	11.6
KY	294.0	3.1	10.0	0.94	0.22	4.88	860.1	0.1	4.5	19.4
LA	103.0	-0.3	2.1	0.02	0.37	5.00	592.2	0.4	4.7	11.8
MA	108.4	-0.2	2.3	0.62	0.27	4.92	990.4	-0.1	4.4	11.6
MD	105.7	-0.2	2.2	0.70	0.26	4.91	962.6	0.0	4.4	11.5
ME	104.4	-0.3	2.2	0.02	0.37	5.00	1075.6	-0.2	4.3	11.5
MI	173.1	1.0	5.0	0.14	0.35	4.98	844.8	0.1	4.5	14.5
MN	51.8	-1.2	0.0	0.09	0.35	4.99	662.9	0.3	4.6	9.6
MO	70.4	-0.8	0.8	1.33	0.15	4.83	730.7	0.3	4.6	10.2
MS	86.2	-0.6	1.4	0.84	0.23	4.89	835.8	0.1	4.5	10.8
MT	76.4	-0.7	1.0	0.19	0.34	4.98	578.9	0.4	4.7	10.7
NC	105.6	-0.2	2.2	5.85	-0.58	4.25	527.8	0.5	4.8	11.2
ND	101.4	-0.3	2.0	0.00	0.37	5.00	463.4	0.6	4.8	11.9
NE	117.0	0.0	2.7	0.03	0.37	5.00	617.2	0.4	4.7	12.4
NH	99.9	-0.3	2.0	39.16	-5.97	0.00	1337.3	-0.5	4.1	6.1
NJ	91.9	-0.5	1.7	0.21	0.34	4.97	393.7	0.7	4.9	11.5
NM	154.3	0.6	4.2	0.00	0.37	5.00	1396.0	-0.6	4.0	13.3
NV	185.3	1.2	5.5	0.75	0.25	4.90	1000.6	-0.1	4.4	14.8
NY	67.7	-0.9	0.7	3.28	-0.16	4.58	1056.3	-0.1	4.3	9.6
OH	87.1	-0.6	1.5	2.26	0.00	4.71	849.5	0.1	4.5	10.7
OK	109.3	-0.2	2.4	1.42	0.14	4.82	746.0	0.2	4.6	11.8
OR	117.0	0.0	2.7	0.09	0.36	4.99	1072.5	-0.2	4.3	12.0
PA	143.8	0.4	3.8	18.25	-2.59	2.67	978.2	-0.1	4.4	10.8
RI	69.5	-0.9	0.7	0.22	0.33	4.97	1174.6	-0.3	4.2	9.9
SC	93.0	-0.5	1.7	0.57	0.28	4.93	952.4	0.0	4.4	11.0
SD	80.7	-0.7	1.2	0.00	0.37	5.00	471.5	0.6	4.8	11.0
TN	210.7	1.6	6.6	0.00	0.37	5.00	736.1	0.2	4.6	16.1
TX	99.9	-0.3	2.0	1.23	0.17	4.84	6283.9	-6.5	0.0	6.8
UT	52.0	-1.2	0.0	1.21	0.17	4.85	974.7	0.0	4.4	9.2
VA	155.8	0.7	4.3	0.03	0.36	5.00	606.2	0.4	4.7	14.0
VT	269.5	2.7	9.0	0.91	0.22	4.88	993.6	-0.1	4.4	18.2
WA	288.7	3.0	9.8	0.00	0.37	5.00	883.7	0.1	4.5	19.2
WI	63.5	-1.0	0.5	4.69	-0.39	4.40	552.6	0.5	4.7	9.6
WV	101.1	-0.3	2.0	0.00	0.37	5.00	867.0	0.1	4.5	11.5
WY	91.0	-0.5	1.6	0.00	0.37	5.00	610.5	0.4	4.7	11.3

SOURCES: NAIC, S&P Global Market Intelligence

SOLVENCY REGULATION (20% of total score)

There is no single duty more important for insurance regulators than monitoring the solvency of regulated insurers. In this section of the report, we examine three key metrics to ascertain, both quantitatively and qualitatively, how well states are discharging their duties to regulate insurer solvency.

Financial Exams – The first metric we use to assess states' solvency regulation is how frequently each department examines the financial strength of companies domiciled within its borders. Under the state-based system of insurance regulation, each domiciliary state is charged with primary responsibility for monitoring their respective domestic insurers' solvency.

States vary greatly in both size and number of domestic insurers. Because insurance departments are funded primarily by fees paid by regulated insurers and insurance producers, those with an unusually large number of domestic companies also reap the windfall of unusually large resources. In fact, as discussed in the Fiscal Efficiency section of this report, for most states, insurance regulation is a profit center. States conduct two major types of examinations of the companies they regulate: financial exams, which look at a company's assets, liabilities and policyholder surplus; and market conduct exams, which look at a company's business practices and how well it treats consumers. Sometimes, states conduct joint financial/market conduct exams that look at both sets of factors simultaneously.

States are generally free to subject any company that operates within their markets to either type of exam. In the case of financial exams, states overwhelmingly concentrate their attention on domestic insurers. State insurance codes generally reflect NAIC model law language requiring the insurance commissioner to examine every domestic company at least once every three to five years.[34]

In this report, we attempt to gauge how well states keep up with their duties to examine the companies they regulate. We did this by drawing on NAIC data on the number of financial exams and combined financial/market conduct exams the states reported having completed for domestic companies in each year from 2014 through 2018.[35] We then compared those figures to the number of domestic companies listed as operating in the state for each of those five years in order to calculate the proportion of domestic companies that were examined.

Given the guidance that every company should be examined at least once every five years, our baseline expectation for the sum of those five years of exams is 100 percent. The good news is that 29 of the 50 states met that minimum standard, although that necessarily means 21 states did not. The mean percentage of domestic insurers examined was 118.7 percent with a standard deviation of 56.9 percentage points.

For our initial weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. The states ranged from Minnesota, which was a bit more than one standard deviation below the mean, to Kentucky, which was more than three standard deviations above it. We then converted those weighted scores into our point scale of 0.0 to 10.0 points.

Runoffs – Measuring the number of financial exams completed offers a quantitative assessment of how robust a state's solvency regulation regime is, but there is a need for qualitative assessments as well. A state could examine every company every year, but if it does not actually catch the problems that lead to insolvency, this would offer little benefit to policyholders.

The best measure we can find to assess the quality of solvency regulation is to look at regulatory runoffs, where an insurer has ceased writing new business and instead chosen to wind down its remaining obligations over time. While runoffs are often voluntary, a department may have to intervene by placing the financially troubled company into receivership. If the company may be saved, a court can order it into a conservatory rehabilitation or a supervisory rehabilitation, reorganization processes that may allow the company to resume writing new business. Where rehabilitation is deemed impossible, a liquidation order is signed, wherein a company's assets will be sold off to make good on its remaining obligations and guaranty fund coverage may be triggered to pay claims.

For the report card, we summed all of the claims liabilities reported by the NAIC as "in-progress" as of Dec. 31, 2018, for each state's insurers that have been placed into runoff, supervision, conservation, receivership or liquidation.[36] The totals ranged from Pennsylvania's $19.35 billion to 13 states that had no in-progress runoff claims liability at all.

We scored states based on the proportion of total 2018 net written premiums that the outstanding runoff liabilities represented. States with a high proportion of runoff liabilities were downgraded. Taken together, runoff liabilities represented 2.3 percent of the average state's annual net written premium, with a standard deviation of 6.2 percentage points.

34. *Financial Analysis Handbook*, National Association of Insurance Commissioners, 2014, p. 3. https://www.naic.org/prod_serv/FAH-ZU-14.pdf.

35. *Insurance Department Resources Report*: 2014-2018 editions, National Association of Insurance Commissioners.

36. *2018 Insurance Department Resources Report: Volume One*, National Association of Insurance Commissioners, June 2019, pp. 46-50. https://www.naic.org/prod_serv/STA-BB-19-01.pdf.

For our initial weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. The results ranged from the 13 states with no liabilities to New Hampshire, whose $4.03 billion of runoff liabilities represent 39.2 percent of 2018 net written premiums—nearly six standard deviations more than the mean. Those weighted scores were then converted into our point scale of 0.0 to 5.0.

Capitalization – For the final test of how well states are monitoring insurer solvency, we look to the market itself: How much capital and surplus do firms doing business in a given state have to back up the promises they make to policyholders?

While regulators should encourage new company formation—a quality for which we reward states in the sections of this report that deal with the competitiveness of home and auto insurance markets—one early warning sign of potential solvency issues is when an unusually large market share is held by thinly capitalized insurers. In such cases, an unexpected claims shock—such as a large hurricane or a spate of lawsuits—could create mass insolvencies. This kind of stress event could pose challenges for the guaranty fund system and, in the extreme, could lead to cascading insolvencies.

A common metric for measuring an insurance firm's capitalization is its premium-to-surplus ratio, found by dividing a company's written premiums by its policyholder surplus. A low premium-to-surplus ratio is considered a sign of financial strength, while a higher premium-to-surplus ratio indicates the company has lower capacity to write additional business.

Using 2018 statutory data from *S&P Global*,[37] we derived the premium-to-surplus ratio of each property-casualty insurance operating unit doing business in each state. Multiplying that ratio by the company's market share across all lines of business and then summing those totals effectively provides a capitalization ratio for the entire state market. (These results necessarily exclude statutory entities like wind pools and state compensation funds where such entities do not report policyholder surplus.)

We found a mean capitalization ratio of 936.5 across the 50 states, up from 856.0 a year earlier, and a standard deviation of 817.7. The most strongly capitalized market was found in Hawaii, where the premium-to-surplus ratio clocked in at nearly a full standard deviation lower than the mean. Texas had, by far, the most thinly capitalized market, at more than six standard deviations greater than the mean.

For our initial weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. Those weighted scores were then converted into our point scale of 0.0 to 5.0.

Taken together, states' scores in the Solvency Regulation category range from a high of 19.4 points, scored by Kentucky, to a low of 6.1 points, scored by New Hampshire.

TABLE 4: AUTO INSURANCE MARKET

State	Concentration		Loss Ratio		Totals	Points
	Hhi	Weighted	5-Yr Avg. (%)	Weighted		
AK	1,789.9	-3.3	62.7	-0.7	-3.9	0.0
AL	1,149.8	-0.4	67.8	0.0	-0.4	6.7
AR	1,081.6	-0.1	65.9	0.0	-0.1	7.2
AZ	898.7	0.7	68.0	0.0	0.7	8.8
CA	773.9	1.3	68.6	0.0	1.3	9.8
CO	930.2	0.6	82.5	-3.1	-2.5	2.7
CT	816.4	1.1	66.0	0.0	1.1	9.5
DE	1,322.1	-1.2	68.0	0.0	-1.2	5.2
FL	1,362.4	-1.4	70.0	-0.7	-2.1	3.5
GA	1,035.0	0.1	71.9	-1.1	-1.0	5.6
HI	1,465.3	-1.8	59.3	-1.3	-3.1	1.5
IA	1,014.0	0.2	62.9	-0.6	-0.4	6.6
ID	839.3	1.0	63.8	0.0	1.0	9.3
IL	1,257.0	-0.9	64.4	0.0	-0.9	5.8
IN	901.2	0.7	63.6	-0.5	0.2	7.8
KS	902.0	0.7	62.7	-0.7	0.0	7.5
KY	1,135.4	-0.3	67.2	0.0	-0.3	6.8
LA	1,556.1	-2.2	73.8	-1.4	-3.7	0.5
MA	1,076.0	-0.1	63.2	-0.6	-0.7	6.2
MD	1,318.1	-1.2	69.8	-0.7	-1.8	4.0
ME	771.3	1.3	61.1	-1.0	0.3	8.0
MI	1,071.6	-0.1	85.2	-3.6	-3.7	0.5
MN	1,156.6	-0.4	61.1	-1.0	-1.4	4.7
MO	1,004.1	0.2	67.2	0.0	0.2	7.9
MS	1,121.6	-0.3	64.8	0.0	-0.3	6.9
MT	1,073.6	-0.1	65.5	0.0	-0.1	7.3
NC	883.9	0.8	67.4	0.0	0.8	8.9
ND	805.6	1.1	58.5	-1.5	-0.3	6.8
NE	984.0	0.3	66.3	0.0	0.3	8.1
NH	826.4	1.0	60.8	-1.0	0.0	7.4
NJ	1,103.1	-0.2	66.0	0.0	-0.2	7.1
NM	1,086.0	-0.1	65.6	0.0	-0.1	7.2
NV	934.6	0.6	71.6	-1.0	-0.5	6.6
NY	1,593.5	-2.4	68.2	0.0	-2.4	2.9
OH	885.1	0.8	60.7	-1.1	-0.3	6.9

37. "P&C Market Share Application," *S&P Global Market Intelligence*, 2019.

OK	1,056.0	0.0	58.9	-1.4	-1.4	4.8
OR	999.6	0.3	64.0	0.0	0.3	7.9
PA	996.7	0.3	65.4	0.0	0.3	7.9
RI	1,077.2	-0.1	69.3	-0.6	-0.7	6.2
SC	1,120.8	-0.3	71.8	-1.1	-1.3	4.9
SD	830.8	1.0	69.4	-0.6	0.4	8.2
TN	1,041.9	0.1	63.9	0.0	0.1	7.6
TX	860.2	0.9	70.9	-0.9	0.0	7.4
UT	752.6	1.4	67.7	0.0	1.4	10.0
VA	1,075.5	-0.1	65.9	0.0	-0.1	7.3
VT	849.8	0.9	59.8	-1.2	-0.3	6.9
WA	870.4	0.8	67.3	0.0	0.8	9.0
WI	1,011.6	0.2	63.7	0.0	0.2	7.8
WV	1,305.0	-1.1	57.6	-1.7	-2.8	2.2
WY	1,177.2	-0.5	65.7	0.0	-0.5	6.4

SOURCES: S&P Global Market Intelligence

AUTO INSURANCE MARKET (10% of total score)

As in past editions of this report card, we examined empirical data on the competitiveness of states' auto and homeowners insurance markets, with a special focus on the concentration and market share of insurance groups within each market. We also looked at the loss ratios experienced by companies operating in those markets.

Market Concentration – For markets to serve consumers well, there must be a variety of competitors with products designed to fit different budgets and needs. A high degree of market concentration is not necessarily a sign that consumers are poorly served, but it can be an indication of unnecessarily high barriers to entry or other market dysfunction.

Using data supplied by *S&P Global*, we calculated the concentration of each state's personal auto insurance market, as measured by the Herfindahl-Hirschman Index (HHI).[38] The HHI, which is used by the U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) to assess the degree to which markets are subject to monopolistic concentration, is calculated by summing the squares of the market-share totals of every firm in the market. In a market with 100 firms, each with 1 percent share, the HHI would be 100. In a market with just one monopolistic firm, the HHI would be 10,000.

For this metric, we measure concentration at the group level. In most states, a single insurance group may do business through several separate operating units.

38. Ibid.

The DOJ and FTC generally consider markets in which the HHI is between 1,500 and 2,500 points to be moderately concentrated, while those in excess of 2,500 points are considered highly concentrated. On a nationwide basis, the auto insurance market last year had an HHI score of 782.3, down very slightly from 783.2 last year, while the mean HHI score of the 50 states was 1,059.0, with a standard deviation of 227.8. Under the metrics used by the DOJ and FTC, Alaska, Louisiana and New York were the only states with auto insurance markets that would be considered moderately concentrated, and no state would be considered highly concentrated.

We assigned the mean HHI concentration score a value of 0.0 and weighted states by how many standard deviations they were above or below that baseline. Utah was the least-concentrated auto insurance market, with an HHI score more than a standard deviation less than the mean. Alaska was the most concentrated, with an HHI score more than three standard deviations greater than the mean.

Loss Ratios – In addition to looking at market concentrations in the 50 states, we also used *S&P Global* data to analyze loss ratios—a key profitability metric.[39] Excess profits indicate an insufficiently competitive market. Insufficient profits indicate one in which insurers cannot charge enough to earn their cost of capital or, in the extreme, to pay policyholder claims.

Over the long run, the property-casualty industry has tended to break even on its underwriting book of business. This has shifted somewhat over the decades. In the 1970s through the 1990s, when investment returns on fixed-income securities were strong due to relatively high bond yields, the industry's "combined ratio"—its losses and expenses expressed as a percentage of premiums written—tended to run slightly above 100, which indicates underwriting losses.[40] As interest rates have plummeted, modest underwriting profits have become more common, as there has not been sufficient investment income to offset underwriting losses.[41]

We looked at the loss ratios of auto insurance groups in each of the 50 states. A company's loss ratio includes its claims paid and loss adjustment expenses but excludes agent commissions and other marketing and administrative expenses the industry incurs. To smooth losses over the underwriting cycle, we relied on five-year averages from 2014 through 2018.

39. Ibid.

40. "The Treasury Yield Curve and Its Impact on Insurance Company Investments," National Association of Insurance Commissioners, 2017. http://www.naic.org/capital_markets_archive/110422.htm.

41. "Premiums Decline But Combined Ratio Holds Steady Reports Groundhog Day Forecast," *Insurance Journal,* Feb. 2, 2005. https://www.insurancejournal.com/news/national/2005/02/02/50597.htm.

Loss ratios are not simply a measure of the propensity of a state to experience large losses. Insurance regulators are charged with ensuring that rates are neither excessive nor insufficient (also that they are not discriminatory). If insurers are charging appropriate amounts for the coverage they sell, rates should be relatively higher in riskier states and lower in less-risky states, but equivalent loss ratios would be seen across the board, particularly over a longer time horizon.

Thus, we look for those states where average loss ratios were either inordinately high or inordinately low. In the auto insurance market, the nationwide five-year average loss ratio was 68.2, down very slightly from 68.4 a year earlier. The mean of the 50 states was 66.3, with a standard deviation of 5.2.

After setting the mean loss ratio as zero, we made no adjustment to the scores of states whose average loss ratios fell within half a standard deviation of the mean. For those that were more than half a standard deviation greater than or less than the mean, we subtracted an equivalent number of points from the state's overall auto insurance market competitiveness score.

There were 14 states that had five-year average loss ratios more than half a standard deviation less than the mean, led by West Virginia. At the other end of the spectrum, 11 states had average loss ratios more than half a standard deviation greater than the mean. Michigan, which earlier this year finally amended rules that made it the only state in the country to require auto insurers to provide unlimited lifetime medical benefits, had an average loss ratio that was more than three and one-half standard deviations greater than the mean.

Taking the concentration and loss ratio scores together gives us a raw total that is then weighted on a scale of 0.0 to 10.0 points. The scores ranged from Alaska, the least competitive market, to Utah, the most competitive market.

TABLE 5: HOMEOWNERS INSURANCE MARKET

State	Concentration		Loss Ratio		Totals	Points
	Hhi	Weighted	5-Yr Avg. (%)	Weighted		
AK	1,935.1	-3.6	45.8	-0.8	-4.3	0.0
AL	1,252.1	-1.1	50.5	0.0	-1.1	5.0
AR	1,126.6	-0.6	59.3	0.0	-0.6	5.7
AZ	834.0	0.4	51.4	0.0	0.4	7.4
CA	812.6	0.5	107.1	-3.7	-3.2	1.7
CO	946.0	0.0	91.3	-2.6	-2.6	2.8
CT	519.6	1.6	46.9	-0.7	0.9	8.1
DE	1,068.3	-0.4	48.9	-0.5	-1.0	5.2
FL	377.6	2.1	58.1	0.0	2.1	10.0
GA	1,082.6	-0.5	66.5	-0.8	-1.2	4.8
HI	1,425.6	-1.7	33.3	-1.7	-3.4	1.4
IA	1,116.8	-0.6	62.2	0.0	-0.6	5.8
ID	854.0	0.4	70.0	-1.0	-0.7	5.7
IL	1,393.2	-1.6	67.2	-0.8	-2.4	3.0
IN	922.9	0.1	51.2	0.0	0.1	6.9
KS	910.4	0.1	46.7	-0.7	-0.6	5.9
KY	1,414.4	-1.7	49.9	-0.5	-2.2	3.4
LA	999.7	-0.2	33.4	-1.7	-1.9	3.8
MA	568.4	1.4	51.7	0.0	1.4	8.9
MD	950.2	0.0	61.4	0.0	0.0	6.7
ME	565.6	1.4	42.8	-1.0	0.4	7.4
MI	912.0	0.1	56.2	0.0	0.1	7.0
MN	1,027.1	-0.3	56.3	0.0	-0.3	6.3
MO	1,107.1	-0.6	56.1	0.0	-0.6	5.9
MS	1,170.6	-0.8	45.2	-0.8	-1.6	4.2
NC	776.1	0.6	58.2	0.0	0.6	7.7
ND	827.7	0.4	55.9	0.0	0.4	7.4
NE	1,108.7	-0.6	86.6	-2.2	-2.8	2.4
NH	582.1	1.3	47.2	-0.7	0.7	7.8
NJ	557.1	1.4	47.0	-0.7	0.7	7.9
NM	1,037.1	-0.3	64.7	-0.6	-0.9	5.3
NV	911.6	0.1	50.9	0.0	0.1	7.0
NY	707.3	0.9	46.4	-0.7	0.2	7.0
OH	793.9	0.6	44.9	-0.8	-0.3	6.3
OK	1,196.5	-0.9	42.0	-1.0	-1.9	3.7
OR	1,031.9	-0.3	53.9	0.0	-0.3	6.3
PA	913.0	0.1	51.8	0.0	0.1	6.9
RI	746.6	0.7	55.0	0.0	0.7	7.9
SC	740.2	0.8	46.3	-0.7	0.0	6.8
SD	717.2	0.8	72.8	-1.2	-0.4	6.2
TN	1,267.2	-1.1	50.9	0.0	-1.1	5.0
TX	843.8	0.4	62.8	-0.5	-0.1	6.6
UT	770.0	0.7	52.8	0.0	0.7	7.8
VA	899.2	0.2	55.4	0.0	0.2	7.0
VT	714.5	0.9	49.0	-0.5	0.3	7.2
WA	876.8	0.3	56.0	0.0	0.3	7.2
WI	815.7	0.5	51.1	0.0	0.5	7.5
WV	1,220.4	-1.0	53.8	0.0	-1.0	5.2
WY	1,182.4	-0.8	72.7	-1.2	-2.0	3.6

SOURCE: S&P Global Market Intelligence

HOMEOWNERS INSURANCE MARKET (10% of total score)

As with auto insurance markets, we also examined empirical data on the competitiveness of states' homeowners/farmowners insurance markets, using similar metrics derived from *S&P Global* data.

Market Concentration – On a nationwide basis, the homeowners/farmowners insurance market last year had an HHI score of 566.3, down from 576.69 a year earlier. The mean HHI score of the 50 states was 951.0, with a standard deviation of 276.4. Alaska was the only state with a moderately concentrated homeowners insurance market, as defined by DOJ and the FTC, and no state had a highly concentrated market.

We assigned the mean HHI concentration score a value of 0.0 and weighted states by how many standard deviations they were above or below that baseline. Florida was the least-concentrated homeowners market, with an HHI score 2.1 standard deviations less than the mean. Just as it was in the auto insurance market, Alaska was the most concentrated homeowners insurance market, with an HHI score 3.6 standard deviations greater than the mean.

Loss Ratios – As the catastrophic hurricanes and wildfires of recent years amply demonstrate, our reliance on five-year average loss ratios is particularly important in the homeowners/farmowners insurance market, where catastrophes can introduce outsized losses in any given year. The nationwide five-year average loss ratio was 60.0, up from 54.9 a year earlier, and the mean of the 50 states was 56.3, with a standard deviation of 13.6.[42]

There were 11 states with five-year average loss ratios more than half a standard deviation greater than the mean, topped by California, where the homeowners insurance loss ratio was 3.7 standard deviations greater than the mean. At the other end of the scale, 16 states had loss ratios more than half a standard deviation below the mean, with Hawaii reporting the absolute lowest loss ratio at 1.7 standard deviations below the mean.

Taking the concentration and loss ratio scores together gives us a raw total that is then weighted on a scale of 0.0 to 10.0 points for the Homeowners Insurance Market category. They ranged from Alaska, which was the least competitive market, to Florida, which was the most competitive.

42. "P&C Market Share Application."

TABLE 6: RESIDUAL MARKETS

State	Auto		Home		Workers' Comp		Combined	Points
	Share (%)	Weighted	Share (%)	Weighted	Share (%)	Weighted		
AK	0.06	0.0	0.00	0.0	0.0	0.0	0.0	15.0
AL	0.00	0.0	0.74	-0.7	0.0	0.0	-0.7	14.5
AR	0.02	0.0	0.00	0.0	0.0	0.0	0.0	15.0
AZ	0.01	0.0	0.00	0.0	22.3	-2.2	-2.2	13.3
CA	0.05	0.0	0.78	-0.8	10.9	-1.1	-1.9	13.6
CO	0.01	0.0	0.00	0.0	56.9	-5.7	-5.7	10.7
CT	0.03	0.0	0.17	-0.2	0.0	0.0	-0.2	14.9
DE	0.04	0.0	0.10	-0.1	0.0	0.0	-0.1	14.9
FL	0.01	0.0	4.18	-4.1	1.1	-0.1	-4.2	11.8
GA	0.01	0.0	0.57	-0.6	0.0	0.0	-0.6	14.6
HI	0.58	-0.4	0.00	0.0	24.4	-2.4	-2.8	12.9
IA	0.02	0.0	0.07	-0.1	0.0	0.0	-0.1	14.9
ID	0.00	0.0	0.00	0.0	58.6	-5.9	-5.9	10.6
IL	0.50	-0.3	0.09	-0.1	0.0	0.0	-0.4	14.7
IN	0.05	0.0	0.11	-0.1	0.0	0.0	-0.1	14.9
KS	0.21	-0.1	0.49	-0.5	0.0	0.0	-0.6	14.5
KY	0.06	0.0	0.29	-0.3	28.0	-2.8	-3.1	12.7
LA	0.01	0.0	1.42	-1.4	26.0	-2.6	-4.0	12.0
MA	4.78	-3.2	6.49	-6.4	0.0	0.0	-9.6	7.8
MD	1.57	-1.1	0.04	0.0	21.6	-2.2	-3.3	12.6
ME	0.04	0.0	0.00	0.0	67.4	-6.7	-6.8	9.9
MI	0.32	-0.2	0.35	-0.3	23.3	-2.3	-2.9	12.8
MN	0.04	0.0	0.11	-0.1	12.6	-1.3	-1.4	14.0
MO	0.04	0.0	0.08	-0.1	26.1	-2.6	-2.7	13.0
MS	0.00	0.0	1.83	-1.8	0.0	0.0	-1.8	13.7
MT	0.00	0.0	0.00	0.0	60.2	-6.0	-6.0	10.5
NC	14.84	-10.0	10.18	-10.0	0.0	0.0	-20.0	0.0
ND	0.01	0.0	0.00	0.0	100.0	-10.0	-10.0	7.5
NE	0.02	0.0	0.00	0.0	0.0	0.0	0.0	15.0
NH	0.13	-0.1	0.00	0.0	0.0	0.0	-0.1	14.9
NJ	0.54	-0.4	0.25	-0.2	0.0	0.0	-0.6	14.5
NM	0.03	0.0	0.77	-0.8	35.6	-3.6	-4.3	11.7
NV	0.03	0.0	0.00	0.0	0.0	0.0	0.0	15.0
NY	0.88	-0.6	0.41	-0.4	38.1	-3.8	-4.8	11.4
OH	0.07	0.0	0.37	-0.4	100.0	-10.0	-10.4	7.2
OK	0.01	0.0	0.00	0.0	30.4	-3.0	-3.0	12.7
OR	0.00	0.0	0.09	-0.1	70.6	-7.1	-7.2	9.6
PA	0.04	0.0	0.17	-0.2	5.6	-0.6	-0.8	14.4
RI	2.44	-1.6	3.47	-3.4	55.9	-5.6	-10.6	7.0
SC	0.02	0.0	0.73	-0.7	10.5	-1.0	-1.8	13.7
SD	0.01	0.0	0.00	0.0	0.0	0.0	0.0	15.0
TN	0.01	0.0	0.00	0.0	0.0	0.0	0.0	15.0

TX	0.01	0.0	4.68	-4.6	43.6	-4.4	-9.0	8.3
UT	0.01	0.0	0.00	0.0	49.0	-4.9	-4.9	11.3
VA	0.03	0.0	0.54	-0.5	0.0	0.0	-0.6	14.6
VT	0.11	-0.1	0.00	0.0	0.0	0.0	-0.1	14.9
WA	0.02	0.0	0.01	0.0	100.0	-10.0	-10.0	7.5
WI	0.02	0.0	0.14	-0.1	0.0	0.0	-0.2	14.9
WV	0.03	0.0	0.05	0.0	0.0	0.0	-0.1	14.9
WY	0.00	0.0	0.00	0.0	100.0	-10.0	-10.0	7.5

SOURCES: AIPSO, PIPSO, S&P Global Market Intelligence

RESIDUAL MARKETS (15% of total score)

Residual insurance markets are intended to serve consumers for whom coverage in the private market cannot be found at a reasonable price. Except in a handful of cases, residual-market mechanisms do not generally have the explicit backing of state government treasuries. However, because no state has ever allowed its residual market to fail, there typically is an implicit assumption that states will stand behind a residual market pool or chartered entity if it encounters catastrophic losses. Moreover, some pools and joint underwriting associations have statutory authority to assess private market carriers to cover shortfalls in operations.

Most residual insurance markets are very small. It is unlikely, for example, that a few involuntarily written auto insurance policies representing less than half of 1 percent of the market would have serious consequences for automobile insurance prices in any state or affect consumers more broadly. But where residual markets grow large, it generally represents evidence that regulatory restrictions have prevented insurers from meeting consumers' needs by disallowing what would otherwise be market-clearing prices or precluding underwriting practices that would allow insurers to segment risk effectively. Such large residual markets represent a state subsidy for policyholders who take risks the market is unwilling to absorb without higher premiums or some other form of compensation.

We measured the size of residual markets for home and auto insurance markets using the most recent available data from the Property Insurance Plans Service Office (PIPSO) and the Automobile Insurance Plans Service Office (AIPSO), respectively. We also made use of *S&P Global* market share data for workers' compensation state funds.

Residual Auto Market – Where state residual auto insurance entities once insured as much as half or, in some states, more than half of all private-passenger auto risks, they now represent just 0.593 percent of what is a $324.25 billion nationwide market. According to AIPSO data, residual markets account for less than 0.1 percent of the market in 34 of the 50 states.[43]

Based on AIPSO data, only four states—Maryland, Massachusetts, Rhode Island and North Carolina—have residual markets that account for more than 1 percent of auto insurance policies. Even among that grouping, North Carolina is an outlier. Whereas the residual markets in Maryland, Massachusetts and Rhode Island all account for less than 5 percent of the market, the North Carolina Reinsurance Facility accounts for nearly 15 percent of that state's market.

For each state, we assigned a penalty of between 0.0 and -10.0 points, weighted by market share. The results ranged from six states (Alabama, Idaho, Mississippi, Montana, Oregon and Wyoming) with market share of less than 0.01 percent, who received no penalty, to North Carolina, which received a penalty of -10.

Residual Homeowners Market – Similar to the residual auto insurance market, residual homeowners insurance mechanisms exist to serve insureds who cannot find coverage in the private, voluntary market. Thirty states and the District of Columbia operate what are called Fair Access to Insurance Requirements (FAIR) plans, originally created primarily to serve urban consumers, particularly in areas where "redlining" practices made it difficult for homeowners to obtain coverage.[44]

In addition, five states sponsor specialized pools for coastal windstorm risks, typically called "beach plans." Mississippi, North Carolina and Texas operate both FAIR plans and wind pools, while Alabama and South Carolina only operate wind pools. Florida and Louisiana sponsor state-run insurance companies that serve both the coastal and FAIR plan markets.

While most FAIR plans are quite small, excessive price controls in some states prompted significant growth of state-sponsored insurance mechanisms, particularly in the wake of the record 2004 and 2005 hurricane seasons. That trend has since reversed. According to PIPSO, earned premiums of the nation's FAIR and beach plans continued to shrink as a percentage of the overall market to 1.58 percent in 2018,

43. "Ranking of States by Residual and Total Market Premium," Automobile Insurance Plans Service Office, 2018. https://www.aipso.com/Portals/0/IndustryData/Ranking%20Of%20States%20By%20Residual%20And%20Total%20Market%20Premium_BD047_2018.xlsx?ver=2019-08-28-143340-300.

44. The International Risk Management Institute Inc. defines "redlining" as: "An underwriting practice involving the rejection of a risk based solely on geographical location. This practice is prohibited under the laws of most states as it tends to be discriminatory to minorities." See "Glossary of Insurance & Risk Management Terms," International Risk Management Institute, 2019. https://www.irmi.com/online/insurance-glossary/terms/r/redlining.aspx.

down from 1.67 percent in 2017, 1.72 percent in 2016, 1.87 percent in 2015 and 2.38 percent in 2014.[45]

One notable exception has been North Carolina. The state's Beach Plan did shrink slightly this past year, from 7.59 percent in 2017 to 7.44 percent in 2018, breaking a trend of six straight years of growth. However, because the state's FAIR plan grew from 2.60 percent to 2.74 percent in that same period, the combined size of North Carolina's residual markets remained virtually flat, falling ever so slightly from 10.19 percent to 10.18 percent.[46]

We tallied the total market share of the FAIR plans and beach plans for each state and weighted them on a scale of 0.0 points for North Carolina up to 10.0 points for the 18 states that have no residual property insurance plan.

Workers' Comp Plans – There are four states—Ohio, North Dakota, Washington and Wyoming—in which the state is the sole provider of workers' compensation insurance. In an additional 19 states, the residual market for workers' comp is satisfied by a "competitive" state fund, which in some cases, writes more than half the coverage in the state.

For the four monopoly states, we recorded the state as having 100 percent market share. We used *S&P Global* market share data to record the respective share of the market written by competitive state fund states.[47] Between 0.0 and -10.0 points were deducted based on each state fund's market share.

We summed the weighted home, auto and workers' comp scores to reach a weighted score, which then was translated into our scale from 0.0 points, scored by North Carolina, to 15.0 points, scored by nine states with no significant residual markets.

TABLE 7: RATE REGULATION

State	Auto	Home	Comp	Medmal	Commercial	Combined
AK	1	1	0	0	1	3
AL	0	0	0	0	2	2
AR	2	2	0	0	5	9
AZ	3	3	2	3	3	14
CA	0	0	0	0	0	0
CO	2	2	0	2	5	11
CT	2	2	2	0	2	8
DE	2	2	2	2	2	10
FL	3	2	0	2	2	9
GA	2	2	2	2	5	13
HI	0	0	0	0	0	0
IA	3	3	0	0	0	6
ID	3	3	0	3	3	12
IL	5	5	0	2	5	17
IN	2	2	2	2	5	13
KS	2	2	0	2	5	11
KY	3	3	3	3	3	15
LA	0	0	0	0	5	5
MA	0	2	0	2	2	6
MD	0	0	2	0	2	4
ME	2	2	2	2	2	10
MI	0	2	2	2	2	8
MN	2	2	0	2	2	8
MO	3	3	2	3	5	16
MS	0	0	0	0	0	0
MT	2	2	2	2	2	10
NC	0	0	0	0	2	2
ND	0	0	0	0	0	0
NE	2	2	2	0	5	8
NH	2	2	0	3	5	12
NJ	0	0	0	0	3	3
NM	2	2	0	2	5	11
NV	2	2	0	2	2	8
NY	0	0	0	0	2	2
OH	2	2	0	2	2	8
OK	3	3	3	3	3	15
OR	2	2	0	2	5	11
PA	0	0	2	0	5	7
RI	2	2	0	1	5	10
SC	0	0	0	0	0	0
SD	0	0	0	0	5	5
TN	0	0	0	3	3	6
TX	2	2	2	2	2	10
UT	3	3	2	3	3	14
VA	2	2	0	2	5	11
VT	3	3	0	3	3	12
WA	0	0	0	0	3	3
WI	3	3	0	3	3	12
WV	0	0	0	0	2	2
WY	5	5	0	5	5	20

SOURCE: NAIC Compendium of State Laws on Insurance Topics

45. "2018 FAIR and Beach Plan Underwriting Results and Market Penetration Report," Property Insurance Plans Services Office, June 2019, p. 5.

46. Ibid., p. 10.

47. "P&C Market Share Application."

UNDERWRITING FREEDOM (20% of total score)

When it comes to the design and pricing of insurance products, we believe markets regulate themselves. States impose a variety of schemes to control how quickly or how sharply premium rates can rise, as well as rules about what are or are not appropriate rating and underwriting factors. However, it should be noted that, ultimately, it is not possible to force an insurer to sell coverage at levels below what they deem to be acceptable risk-adjusted returns.

We examine the processes states employ to review rates in five key property-casualty insurance markets: private auto, homeowners, workers' compensation, medical liability and general commercial lines.[48] As demonstrated in Table 7, for each state and each market, we assign:

- **0 points** for states that employ a prior-approval filing system, in which all rates must be approved by a regulator before they can be employed.

- **+1 point** for states that employ "flex band" systems, in which rate changes that exceed a modest percentage band must be submitted for prior approval.

- **+2 points** for states that employ "file and use" systems, in which an insurer that has filed a rate may begin to use it within a given time frame if the regulator has not objected.

- **+3 points** for states that employ "use and file" systems, in which an insurer is permitted to begin using a rate even before it has been filed.

- **+5 points** for states that employ "no file" systems, in which the state either does not require rates to be filed or in which such filings are simply a formality.

Taking those together, we find that Wyoming has the most liberal rate-regulation rules. At the other end of the spectrum are five states (California, Hawaii, Mississippi, North Dakota and South Carolina) that employ prior-approval systems across the board.

Desk Drawer Rules – While Table 7 catalogues the states' systems as they exist "on the books," matters are not always so simple. Rule of law requires that regulations be clear and consistently applied. Neither companies nor consumers can abide by the rules if they cannot anticipate how they will be applied and interpreted. By and large, insurers give state insurance departments good marks on this front, finding most states to be forthright and transparent in their dealings. However, some states have become notorious for what the industry commonly calls "desk drawer rules," in which regulators' interpretation of ambiguities in the statutory code or inconsistent application of legal provisions create a lack of clarity. Based on informal discussions with experts who work in regulatory compliance, we evaluated the breadth and severity of these desk drawer rules on a scale of 0 to 3. We received no reports of significant desk drawer rules in 26 of the 50 states, while eight states (Arkansas, California, Colorado, Georgia, Maine, New Jersey, New York and Washington) were penalized -3 points for having the most voluminous or onerous desk drawer rules.

Rating Restrictions – Finally, we catalogued state rules that bar or severely restrict insurers' use of underwriting variables that have been shown to be actuarially credible. The discovery of actuarially credible variables tied to credit information and other factors has allowed insurers to construct tremendously innovative proprietary rating models that can assign a proper rate to virtually any potential insured. However, the use of credit in insurance has periodically proven to be politically contentious. Despite studies by, among others, the FTC and the Texas Department of Insurance, which demonstrate conclusively that credit factors are predictive of future claims,[49] some states prohibit or severely proscribe its usage as an underwriting and rate-setting variable.

While most states restrict insurers from using credit as a sole underwriting variable, there are six states that go beyond that to ban the practice. California, Hawaii, Massachusetts and, as of this year, Michigan explicitly ban the use of credit in auto insurance underwriting and ratemaking, while Maryland has banned its use in homeowners insurance. Minnesota permits the use of credit in rate-setting but does not permit its consideration in underwriting.[50] We deducted -2 points for each of the six states with restrictive credit-scoring rules.

We also deducted -2 points for each of 11 states (California, Connecticut, Delaware, Maryland, Michigan, Missouri, New Hampshire, New Jersey, New York, Oklahoma and South Dakota) that impose especially stringent restrictions on the use of territory in underwriting and rate-setting.[51] Where a piece of property is located or where a car is garaged and driven can have a large impact on the likelihood that the property or car will experience claims-generating losses.

48. *Compendium of State Laws on Insurance Topics: Rate Filing Methods for Property/Casualty Insurance, Workers' Compensation, Title*, National Association of Insurance Commissioners, May 2019 update, pp. II-PA-10-2 to II-PA-10-21.

49. "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," Federal Trade Commission, July 2007. http://www.ftc.gov/sites/default/files/documents/reports/credit-based-insurance-scores-impacts-consumers-automobile-insurance-report-congress-federal-trade/p044804facta_report_credit-based_insurance_scores.pdf.

50. *Compendium of State Laws on Insurance Topics: Use of Credit Reports/Scoring in Underwriting*, pp. III-MC-20-1 to III-MC-45-12.

51. *Compendium of State Laws on Insurance Topics: Prohibitions Against Redlining and Other Geographic Discrimination*, pp. III-MC-45-1 to III-MC-20-20.

Taken together with the rate regulation scores, we summed these additional adjustments for rating restrictions to produce weighted scores that were then translated into a scale of 0.0 to 20.0. California was the state most restrictive to underwriting freedom, while Wyoming was the most liberal.

TABLE 8: UNDERWRITING FREEDOM

State	Rate Regulation	Desk Drawer	Credit Scoring	Territory	Combined	Points
AK	3	-2	0	0	1	5.9
AL	2	-2	0	0	0	5.2
AR	9	-3	0	0	6	9.6
AZ	14	0	0	0	14	15.6
CA	0	-3	-2	-2	-7	0.0
CO	11	-3	0	-2	6	9.6
CT	8	-2	0	-2	4	8.1
DE	10	-2	0	-2	6	9.6
FL	9	-2	0	0	7	10.4
GA	13	-3	0	0	10	12.6
HI	0	-2	-2	0	-4	2.2
IA	6	0	0	0	6	9.6
ID	12	0	0	0	12	14.1
IL	17	0	0	0	17	17.8
IN	13	0	0	0	13	14.8
KS	11	-2	0	0	9	11.9
KY	15	0	0	0	15	16.3
LA	5	0	0	0	5	8.9
MA	6	-1	-2	0	3	7.4
MD	4	-2	-2	-2	-2	3.7
ME	10	-3	0	0	7	10.4
MI	8	0	-2	-2	4	8.1
MN	8	0	-2	0	6	9.6
MO	16	0	0	-2	14	15.6
MS	0	-1	0	0	-1	4.4
MT	10	-1	0	0	9	11.9
NC	2	0	0	0	2	6.7
ND	0	-1	0	0	-1	4.4
NE	8	0	0	0	8	11.1
NH	12	0	0	-2	10	12.6
NJ	3	-3	0	-2	-2	3.7
NM	11	0	0	0	11	13.3
NV	8	-2	0	0	6	9.6
NY	2	-3	0	-2	-3	3.0
OH	8	0	0	0	8	11.1
OK	15	0	0	-2	13	14.8
OR	11	0	0	0	11	13.3
PA	7	-2	0	0	5	8.9
RI	10	0	0	0	10	12.6
SC	0	-1	0	0	-1	4.4
SD	5	0	0	-2	3	7.4
TN	6	0	0	0	6	9.6
TX	10	0	0	0	10	12.6
UT	14	0	0	0	14	15.6
VA	11	-1	0	0	10	12.6
VT	12	0	0	0	12	14.1
WA	3	-3	0	0	0	5.2
WI	12	0	0	0	12	14.1
WV	2	0	0	0	2	6.7
WY	20	0	0	0	20	20.0

SOURCES: NAIC Compendium of State Laws on Insurance Topics, R Street analysis

REPORT CARD GRADES

Grading and Results

We calculated scores for every state by adding the weighted results from all seven variables and calculating a standard deviation from the mean. The mean was 61.5 and the standard deviation was 8.8. States were graded as follows:

Above the mean by more than one standard deviation: A range

Above the mean by less than one standard deviation: B range

Below the mean by less than one standard deviation: C range

Below the mean by more than one standard deviation: D range

Below the mean by more than two standard deviations: F

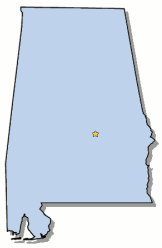
We awarded pluses and minuses to recognize states that were at the cusp of the nearest grade range.

For the sixth straight year and the seventh time in the eight years we have compiled this report, Vermont had the best insurance regulatory environment in the United States. For the second year in a row, Louisiana had the worst score in the country, edging out second-to-worst New York.

The biggest improvements were seen in Florida (from a B to an A-), Montana (from a D to a C-) and New Mexico (from a B- to a B+). The biggest declines were seen in Colorado (from a C to a D+), Maine (from an A- to a B) and Oregon (from a B to a C+).

Capsule summaries of results for each of the 50 states follow:

State Capsule Reports

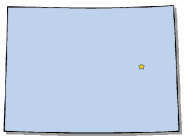
Alabama	2018 Grade	2019 Grade
	C	C
	Score	Rank
	57.8	36
Strengths:	No special strengths.	
Weaknesses:	Concentrated homeowners market, little underwriting freedom.	

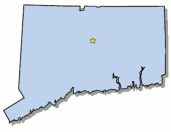
Alaska	2018 Grade	2019 Grade
	D	D
	Score	Rank
	50.2	46
Strengths:	No runoff obligations, small residual markets.	
Weaknesses:	High tax and fee burden, concentrated auto market, concentrated homeowners market, little underwriting freedom.	

Arizona	2018 Grade	2019 Grade
	A	A-
	Score	Rank
	70.1	7
Strengths:	No regulatory surplus, significant underwriting freedom.	
Weaknesses:	Large runoff obligations, thinly capitalized markets.	

Arkansas	2018 Grade	2019 Grade
	B-	B-
	Score	Rank
	61.7	24
Strengths:	Well-capitalized markets, small residual markets.	
Weaknesses:	High tax and fee burden, desk drawer rules.	

California	2018 Grade	2019 Grade
	D	D
	Score	Rank
	50.6	45
Strengths:	Competitive auto market.	
Weaknesses:	Politicized market, very high homeowners loss ratio, little underwriting freedom, desk drawer rules, credit scoring restrictions, territorial restrictions.	

Colorado	2018 Grade	2019 Grade
	C	D+
	Score	Rank
	53.4	41
Strengths:	No regulatory surplus, no runoff obligations.	
Weaknesses:	Very high auto loss ratio, very high homeowners loss ratio, large workers' comp state fund, desk drawer rules.	

Connecticut	2018 Grade	2019 Grade
	B	B
	Score	Rank
	65.7	19
Strengths:	Low tax and fee burden, competitive auto market, competitive homeowners market, small residual markets.	
Weaknesses:	Large regulatory surplus, territorial restrictions.	

Delaware	2018 Grade	2019 Grade
	C	C+
	Score	Rank
	60.6	28
Strengths:	Low tax and fee burden, small residual markets.	
Weaknesses:	Politicized market, concentrated auto market, territorial restrictions.	

Florida	2018 Grade	2019 Grade
	B	A-
	Score	Rank
	70.1	7
Strengths:	Low politicization, no regulatory surplus, low tax and fee burden, competitive homeowners market.	
Weaknesses:	Behind on financial exams, concentrated auto market, large homeowners residual market.	

Georgia	2018 Grade	2019 Grade
	C-	C+
	Score	Rank
	60.4	29
Strengths:	No runoff obligations, significant underwriting freedom.	
Weaknesses:	Politicized market, very high auto loss ratio, desk drawer rules.	

Hawaii	2018 Grade	2019 Grade
	D	D+
	Score	Rank
	52.0	42
Strengths:	Ahead on financial exams, well-capitalized markets.	
Weaknesses:	Excess auto profits, concentrated auto market, excess homeowners profits, concentrated homeowners market, little underwriting freedom, credit scoring restrictions.	

Idaho	2018 Grade	2019 Grade
	A-	B+
	Score	Rank
	67.9	12
Strengths:	No runoff obligations, competitive auto market.	
Weaknesses:	Very high homeowners loss ratio, large workers' comp state fund.	

Illinois	2018 Grade	2019 Grade
	B+	B+
	Score	Rank
	69.2	10
Strengths:	Low tax and fee burden, significant underwriting freedom.	
Weaknesses:	Concentrated homeowners market.	

Indiana	2018 Grade	2019 Grade
	A-	A
	Score	Rank
	71.1	4
Strengths:	Low tax and fee burden, small residual markets, significant underwriting freedom.	
Weaknesses:	Large runoff obligations.	

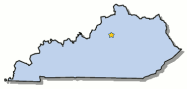
Iowa

2018 Grade	2019 Grade
B	B
Score	**Rank**
66.0	17
Strengths:	Low tax and fee burden, no runoff obligations, well-capitalized markets, small residual markets.
Weaknesses:	Behind on financial exams.

Kansas

2018 Grade	2019 Grade
B-	B
Score	**Rank**
64.2	22
Strengths:	No runoff obligations.
Weaknesses:	Politicized market.

Kentucky



2018 Grade	2019 Grade
A	A
Score	**Rank**
73.3	3
Strengths:	Ahead on financial exams, significant underwriting freedom.
Weaknesses:	Concentrated homeowners market.

Louisiana

2018 Grade	2019 Grade
F	F
Score	**Rank**
44.9	50
Strengths:	No special strengths.
Weaknesses:	Politicized market, large regulatory surplus, high tax and fee burden, very high auto loss ratio, concentrated auto market, excess homeowners profits, large homeowners residual market.

Maine

2018 Grade	2019 Grade
A-	B
Score	**Rank**
65.8	18
Strengths:	Low politicization, competitive auto market, competitive homeowners market.
Weaknesses:	Excess auto profits, excess homeowners profits, large workers' comp state fund, desk drawer rules.

Maryland

2018 Grade	2019 Grade
C	C
Score	**Rank**
56.5	38
Strengths:	No regulatory surplus.
Weaknesses:	Concentrated auto market, large auto residual market, credit scoring restrictions, territorial restrictions.

Massachusetts

2018 Grade	2019 Grade
D	D
Score	**Rank**
48.4	47
Strengths:	Competitive homeowners market.
Weaknesses:	Large regulatory surplus, large auto residual market, large homeowners residual market, credit scoring restrictions.

Michigan

2018 Grade	2019 Grade
B	B-
Score	**Rank**
62.0	23
Strengths:	No regulatory surplus, ahead on financial exams.
Weaknesses:	Very high auto loss ratio, credit scoring restrictions, territorial restrictions.

Minnesota

2018 Grade	2019 Grade
C+	C
Score	**Rank**
59.4	31
Strengths:	No special strengths.
Weaknesses:	Behind on financial exams, excess auto profits, credit scoring restrictions.

Mississippi

2018 Grade	2019 Grade
D	D
Score	Rank
50.8	44
Strengths:	No special strengths.
Weaknesses:	Politicized market, high tax and fee burden, large homeowners residual market, little underwriting freedom.

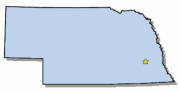
Missouri

2018 Grade	2019 Grade
B+	B+
Score	Rank
68.3	11
Strengths:	Significant underwriting freedom.
Weaknesses:	Territorial restrictions.

Montana

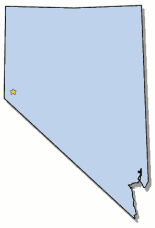
2018 Grade	2019 Grade
D	C-
Score	Rank
55.4	40
Strengths:	No special strengths.
Weaknesses:	Politicized market, high tax and fee burden, very high homeowners loss ratio, large workers' comp state fund.

Nebraska



2018 Grade	2019 Grade
B-	B
Score	Rank
65.2	21
Strengths:	Small residual markets.
Weaknesses:	Very high homeowners loss ratio.

Nevada



2018 Grade	2019 Grade
A	A-
Score	Rank
70.3	6
Strengths:	Low tax and fee burden, ahead on financial exams, small residual markets.
Weaknesses:	Very high auto loss ratio.

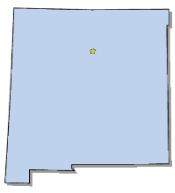
New Hampshire

2018 Grade	2019 Grade
B+	B+
Score	Rank
67.6	13
Strengths:	Low politicization, competitive auto market, competitive homeowners market, small residual markets.
Weaknesses:	Large runoff obligations, thinly capitalized markets, excess auto profits, territorial restrictions.

New Jersey

2018 Grade	2019 Grade
C+	C
Score	Rank
59.3	32
Strengths:	Well-capitalized markets, competitive homeowners market.
Weaknesses:	Little underwriting freedom, desk drawer rules, territorial restrictions.

New Mexico



2018 Grade	2019 Grade
B-	B+
Score	Rank
67.5	15
Strengths:	Low politicization, no runoff obligations.
Weaknesses:	High tax and fee burden, thinly capitalized markets, large workers' comp state fund.

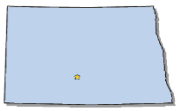
New York

2018 Grade	2019 Grade
D	D-
Score	**Rank**
46.0	49.0
Strengths:	No special strengths.
Weaknesses:	Large regulatory surplus, concentrated auto market, large workers' comp state fund, little underwriting freedom, territorial restrictions.

North Carolina

2018 Grade	2019 Grade
D	D-
Score	**Rank**
47.6	48
Strengths:	No special strengths.
Weaknesses:	Politicized market, large runoff obligations, large auto residual market, large homeowners residual market.

North Dakota



2018 Grade	2019 Grade
D	D
Score	**Rank**
50.9	43
Strengths:	No runoff obligations, well-capitalized markets, competitive auto market.
Weaknesses:	Politicized market, excess auto profits, monopoly workers' comp state fund, little underwriting freedom.

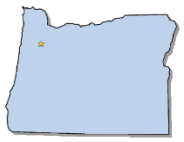
Ohio

2018 Grade	2019 Grade
C	C
Score	**Rank**
58.4	34
Strengths:	No special strengths.
Weaknesses:	Excess auto profits, monopoly workers' comp state fund.

Oklahoma

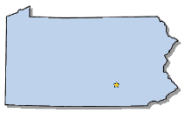
2018 Grade	2019 Grade
C	C
Score	**Rank**
58.6	33
Strengths:	Significant underwriting freedom.
Weaknesses:	Politicized market, excess auto profits, excess homeowners profits, large workers' comp state fund, territorial restrictions.

Oregon



2018 Grade	2019 Grade
B	C+
Score	**Rank**
61.1	27
Strengths:	Low tax and fee burden.
Weaknesses:	Large regulatory surplus, large workers' comp state fund.

Pennsylvania



2017 Grade	2018 Grade
B	B
Score	**Rank**
67.1	16
Strengths:	No special strengths.
Weaknesses:	Large runoff obligations.

Rhode Island

2018 Grade	2019 Grade
C	C+
Score	**Rank**
61.4	25
Strengths:	No regulatory surplus, low tax and fee burden.
Weaknesses:	Large auto residual market, large homeowners residual market, large workers' comp state fund.

South Carolina

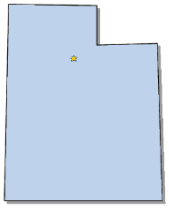
2018 Grade	2019 Grade
C	C
Score	**Rank**
56.3	39
Strengths:	No special strengths.
Weaknesses:	Very high auto loss ratio, little underwriting freedom.

South Dakota

2018 Grade	2019 Grade
C	C+
Score	**Rank**
61.3	26
Strengths:	No runoff obligations, well-capitalized markets, competitive auto market, small residual markets.
Weaknesses:	Large regulatory surplus, very high homeowners ratio, territorial restrictions.

Tennessee	2018 Grade	2019 Grade
	B	B+
	Score	Rank
	67.5	14
Strengths:	No regulatory surplus, ahead on financial exams, no runoff obligations, small residual markets.	
Weaknesses:	High tax and fee burden, concentrated homeowners market.	

Texas	2018 Grade	2019 Grade
	C+	C
	Score	Rank
	58.2	35
Strengths:	No special strengths.	
Weaknesses:	Thinly capitalized markets, large homeowners residual market, large workers' comp state fund.	

Utah	2018 Grade	2019 Grade
	A-	A-
	Score	Rank
	69.8	8
Strengths:	Competitive auto market, significant underwriting freedom.	
Weaknesses:	Behind on financial exams, large workers' comp state fund.	

Vermont	2018 Grade	2019 Grade
	A+	A+
	Score	Rank
	76.7	1
Strengths:	Ahead on financial exams, small residual markets.	

Weaknesses:	High tax and fee burden, excess auto profits.

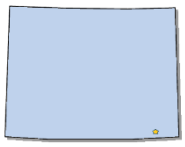
Virginia	2018 Grade	2019 Grade
	A-	A
	Score	Rank
	74.6	2
Strengths:	Low politicization.	
Weaknesses:	No special weaknesses.	

Washington	2018 Grade	2019 Grade
	C	C+
	Score	Rank
	60.1	30
Strengths:	Ahead on financial exams, no runoff obligations.	
Weaknesses:	Politicized market, monopoly workers' comp state fund, little underwriting freedom, desk drawer rules.	

West Virginia	2018 Grade	2019 Grade
	C	C
	Score	Rank
	56.6	37
Strengths:	Low politicization, no runoff obligations, small residual markets.	
Weaknesses:	High tax and fee burden, excess auto profits, concentrated auto market, concentrated homeowners market, little underwriting freedom.	

Wisconsin	2018 Grade	2019 Grade
	A-	A-
	Score	Rank
	69.4	9
Strengths:	Low tax and fee burden, well-capitalized markets, small residual markets.	

Weaknesses:	Behind on financial exams.

Wyoming	2018 Grade	2019 Grade
	B	B
	Score	Rank
	65.2	20
Strengths:	No runoff obligations, significant underwriting freedom.	
Weaknesses:	Very high homeowners ratio, monopoly workers' comp state fund.	

In conclusion, we hope R Street's eighth annual Insurance Regulation Report Card proves helpful and informative for consumers, lawmakers, regulators, the insurance industry and the general public. We welcome comments and constructive criticism as we look forward to improving the report next year and in the years ahead.

TABLE 9: 50 STATES RANKED BY TOTAL SCORE

State	Politicization	Efficiency	Solvency	Auto	Home	Residual	Underwriting	Score	Grade
VT	5.0	10.4	18.2	6.9	7.2	14.9	14.1	76.7	A+
VA	7.5	11.6	14.0	7.3	7.0	14.6	12.6	74.6	A
KY	2.5	12.3	19.4	6.8	3.4	12.7	16.3	73.3	A
IN	3.0	13.4	10.3	7.8	6.9	14.9	14.8	71.1	A
AZ	2.5	11.9	11.0	8.8	7.4	13.3	15.6	70.5	A-
NV	3.5	13.9	14.8	6.6	7.0	15.0	9.6	70.3	A-
FL	10.0	14.9	9.4	3.5	10.0	11.8	10.4	70.1	A-
UT	2.5	13.4	9.2	10.0	7.8	11.3	15.6	69.8	A-
WI	2.5	13.0	9.6	7.8	7.5	14.9	14.1	69.4	A-
IL	2.5	13.6	11.9	5.8	3.0	14.7	17.8	69.2	B+
MO	2.5	13.4	10.2	7.9	5.9	13.0	15.6	68.3	B+
ID	5.5	11.0	11.8	9.3	5.7	10.6	14.1	67.9	B+
NH	6.0	12.8	6.1	7.4	7.8	14.9	12.6	67.6	B+
TN	3.0	11.3	16.1	7.6	5.0	15.0	9.6	67.5	B+
NM	8.5	8.2	13.3	7.2	5.3	11.7	13.3	67.5	B+
PA	5.5	12.5	10.8	7.9	6.9	14.4	8.9	67.1	B
IA	5.5	13.5	10.1	6.6	5.8	14.9	9.6	66.0	B
ME	6.0	12.7	11.5	8.0	7.4	9.9	10.4	65.8	B
CT	3.0	10.7	11.5	9.5	8.1	14.9	8.1	65.7	B
WY	2.5	13.9	11.3	6.4	3.6	7.5	20.0	65.2	B
NE	2.5	13.8	12.4	8.1	2.4	15.0	11.1	65.2	B
KS	0.0	12.9	11.6	7.5	5.9	14.5	11.9	64.2	B
MI	5.5	13.6	14.5	0.5	7.0	12.8	8.1	62.0	B-
AR	2.5	9.7	11.9	7.2	5.7	15.0	9.6	61.7	B-
RI	3.5	14.3	9.9	6.2	7.9	7.0	12.6	61.4	C+

SD	3.5	10.1	11.0	8.2	6.2	15.0	7.4	61.3	C+
OR	3.5	8.5	12.0	7.9	6.3	9.6	13.3	61.1	C+
DE	0.0	13.0	12.7	5.2	5.2	14.9	9.6	60.6	C+
GA	0.0	12.6	10.2	5.6	4.8	14.6	12.6	60.4	C+
WA	0.0	12.0	19.2	9.0	7.2	7.5	5.2	60.1	C+
MN	2.5	12.7	9.6	4.7	6.3	14.0	9.6	59.4	C
NJ	2.5	12.1	11.5	7.1	7.9	14.5	3.7	59.3	C
OK	0.0	10.8	11.8	4.8	3.7	12.7	14.8	58.6	C
OH	2.5	13.8	10.7	6.9	6.3	7.2	11.1	58.4	C
TX	5.0	11.4	6.8	7.4	6.6	8.3	12.6	58.2	C
AL	3.0	12.0	11.5	6.7	5.0	14.5	5.2	57.8	C
WV	6.5	9.6	11.5	2.2	5.2	14.9	6.7	56.6	C
MD	5.5	12.5	11.5	4.0	6.7	12.6	3.7	56.5	C
SC	2.5	13.0	11.0	4.9	6.8	13.7	4.4	56.3	C
MT	0.0	11.2	10.7	7.3	3.9	10.5	11.9	55.4	C-
CO	2.5	13.8	11.4	2.7	2.8	10.7	9.6	53.4	D+
HI	3.5	12.9	17.6	1.5	1.4	12.9	2.2	52.0	D+
ND	0.0	12.9	11.9	6.8	7.4	7.5	4.4	50.9	D
MS	0.0	10.8	10.8	6.9	4.2	13.7	4.4	50.8	D
CA	0.0	13.6	11.9	9.8	1.7	13.6	0.0	50.6	D
AK	3.5	11.7	14.1	0.0	0.0	15.0	5.9	50.2	D
MA	3.0	3.5	11.6	6.2	8.9	7.8	7.4	48.4	D
NC	0.0	13.1	11.2	8.9	7.7	0.0	6.7	47.6	D-
NY	2.5	9.7	9.6	2.9	7.0	11.4	3.0	46.0	D-
LA	0.0	7.8	11.8	0.5	3.8	12.0	8.9	44.9	F

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R.J. Lehmann is a senior fellow and director of finance, insurance and trade policy for the R Street Institute, overseeing the institute's research into effective and efficient regulation of financial services and the benefits of the international rules-based trading system.

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