Free markets. Real solutions.

R STREET POLICY STUDY NO. 77
December 2016

2016 INSURANCE REGULATION REPORT CARD

By R.J. Lehmann

CONTENTS

INTRODUCTION

Welcome to the fifth edition of the R Street Institute's Insurance Regulation Report Card, our annual examination of which states do the best job of regulating the business of insurance.

R Street is dedicated to the mantra: "Free markets. Real solutions." Toward that end, the approach we apply in this annual survey is to test which state regulatory systems best embody the principles of limited, effective and efficient government. We believe states should regulate only those market activities where government is best-positioned to act; that they should do so competently and with measurable results; and that their activities should lay the minimum possible financial burden on policyholders, companies and, ultimately, taxpayers.

There are three fundamental questions this report seeks to answer:

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 regulators largely have been preempted by federal law in recent decades, Congress reserved to the states the duty of overseeing the "business of insurance" as part of 1945's McCarran-Ferguson Act.

On balance, we believe states have done an effective job of encouraging competition and, at least since the broad adoption of risk-based capital requirements, of ensuring solvency. As a whole and in most individual states, U.S. personal lines markets are not overly concentrated. Insolvencies are relatively rare and, through the runoff process and guaranty fund protections enacted in nearly every state, generally quite manageable.

However, there are certainly ways in which the thicket of state-by-state regulations leads to inefficiencies, as well as particular 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), pure rate regulation remains commonplace in insurance. Some degree of rating and underwriting regulation persists in nearly every one of the 50 states. This is, to a large degree, 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 because of concerns of 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 relying on rate bureau recommendations.

Regulation also may, in some cases, hinder the speed with which new products are brought to market. We believe innovative new products could be more widespread if more states were to free their insurance markets by embracing regulatory modernization. An open and free insurance market maximizes the effectiveness of competition and best serves consumers.

For this year's report, we have sought to streamline our analysis and have shed a few categories that we'd previously employed in recent versions of the report card. Most notable among these are our analysis of the competitiveness of state workers' compensation markets and the metrics we'd developed to measure states' effectiveness in responding to consumer complaints and fraud. In the case of workers' comp, the divisions in policy choices—four states continue to maintain state-run monopoly systems and a handful of others are dominated by residual markets—ultimately left comparisons somewhat fraught. Monopoly states were strongly penalized on two separate metrics – their concentration and the size of their "residual" markets. Even comparing loss ratios proved near impossible where no private industry coverage was available to draw from. In this report, we preserve some acknowledgement of the undesirability of monopoly or otherwise large state funds under the now separate Residual Markets section, but otherwise limit our focus on market competitiveness to the more standard products of home and auto insurance.

The consumer protection and especially the antifraud metrics were thornier still. Both relied primarily on admittedly crude ratios of insurance department staff devoted to those particular functions to their purported caseloads – consumer complaints and inquiries for the former and questionable claims for the latter. In both cases, it was never fully clear that the comparisons were apt or that the ratios actually represented a progressive function, rather than serving as proxies for other immutable factors, like population and size of state government.

With the antifraud measure, there were two additional confounding factors. One for which prior editions of the report card attempted to correct is that those states that employ no-fault systems of auto insurance tend to experience much higher rates of fraud, and hence employ more fraud inspectors to deal with that problem. The other limitation is with the data itself – the National Insurance Crime Bureau no longer publishes annual state-by-state estimates of questionable claims.

Given these inherent limitations, the decision was made to excise these measurements from this year's edition of the report, though future editions may revisit the topics if more robust means of measuring which states achieve the greatest results in these areas can be found.

In compiling this year's report, attempts also were made to find more nuanced ways to examine such issues as how insurance regulators are chosen, the capitalization of state property-casualty insurance markets and how states apply underwriting and rate-setting regulations. Many variables also are measured with more granular separation of performance, rather than grouping sets of similar states together.

The changes no doubt alter the how some states would otherwise score, but a greater portion of the sometimes significant changes in this year's grades are a reflection of what appears to be notable shifts in the landscape of state insurance regulation. Perhaps most notable were the emergence of more significant federal interventions in insurance markets, highlighted by negotiations between the United States and European Union to reach a "covered agreement" that could ultimately pre-empt certain longstanding state insurance rules and the promulgation by the Federal Reserve of capital standards for two sets of insurance groups it oversees under terms of the Dodd-Frank Act – those deemed systemically significant and the somewhat larger group of insurers who own banks or thrifts.

Both developments prompted backlash from state lawmakers, insurance regulators and insurance trade associations that long have opposed federal intervention. How they will play out under a new administration that is notably less sanguine about both international trade and federal regulation will be among the most consequential questions of 2017.

At the state level, we continue to see progress in shrinking residual property insurance markets, which have fallen from $3.39 billion in premium and 3.32 percent of the market in 2011 to $2.20 billion in premium and 1.87 percent of the market in 2015. But the progress hasn't been even distributed. A startling comparison can be found between the states of Florida and North Carolina. In 2011, Florida's state-run Citizens Property Insurance Corp. wrote 14.28 percent of the market, while North Carolina's Beach Plan and FAIR Plan wrote 3.37 percent and 0.62 percent of that state's market, respectively. As of 2015, Citizens was down to just 5.0 percent of the market, while the North Carolina FAIR Plan was up to 2.16 percent and the North Carolina Beach Plan was up to 7.03 percent.

Not coincidentally, when R Street issued its first regulation report card in 2012, Florida ranked dead last and North Carolina was somewhere in the middle. This year, North Carolina is dead last and Florida is somewhere in the middle.

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

PART I – THE YEAR IN INSURANCE REGULATION

National and federal developments

- The U.S. House Transportation and Infrastructure Committee in February voted 32 to 26 to approve H.R.4441, the Aviation Innovation, Reform and Reauthorization Act of 2016, which would have loosened restrictions on property-casualty insurers to use unmanned aircraft systems—better known as "drones"—to survey affected areas following a natural disaster.[1] The measure has not received a floor vote to date. However, in June, the Federal Aviation Administration adopted a new UAS rule allowing continued use of drones by anyone with an appropriate 333 commercial waiver.[2]
- Beginning in February and continuing into November, representatives of the U.S. Treasury Department (including the Federal Insurance Office) and the Office of the U.S. Trade Representative conducted ongoing negotiations with their European Union counterparts on a covered agreement for prudential insurance and reinsurance issues, including such topics as "group supervision, exchange of confidential information between supervisory authorities on both sides, and reinsurance supervision, including collateral."[3] The status of such negotiations in a new Trump administration is difficult to predict.
- National Flood Insurance Program policies saw their second round of annual premium increases take effect April 1 under terms of the Homeowner Flood Insurance Affordability Act of 2014, which rolled back certain provisions of the Biggert-Waters Flood Insurance Reform Act of 2012.[4] The increases averaged about 9 percent for all policies, but could reach as much as 25 percent for nonresidential business properties. Base premium rates rose by 4 percent to 6 percent and the fee charged for the program's Reserve Fund rose from 10 percent to 15 percent for preferred risk policies (it remains at 15 percent for all other NFIP policies).
- The U.S. House in April passed legislation clarifying what sorts of privately underwritten flood insurance policies qualify for federal lending guidelines for purchase mandates imposed by Fannie Mae, Freddie Mac and federal lending regulators.[5] The measure has yet to see action in the U.S. Senate.
- The Federal Reserve Board in June approved an advance notice of proposed rulemaking for two different conceptual frameworks of capital standards that would apply to two different groups of federally supervised insurance entities: those deemed systemically important by the Financial Stability Oversight Council (a group that thus far includes American International Group, Prudential Financial and MetLife Inc.) and the somewhat larger group of just over a dozen insurance companies that own a bank or thrift.[6] Those discussions are ongoing, with the National Association of Insurance Commissioners inveighing in September that the board must guard against "inconsistencies with existing state based regulatory requirements…[that] could put an insurer in the untenable position of having to choose whether to comply with new federal requirements, or long-standing state requirements, and potentially result in the effective preemption of state law."[7]
- Acting under the authority it was granted by the Dodd-Frank Act to monitor the affordability of insurance products, the Federal Insurance Office in July detailed the methodology it would use to calculate whether auto insurance is affordable for underserved

1. 114th Congress, H.R.4441 - Aviation Innovation, Reform, and Reauthorization Act of 2016, Feb. 3, 2016. https://www.congress.gov/bill/114th-congress/house-bill/4441/

2. Federal Aviation Administration, "SUMMARY OF SMALL UNMANNED AIRCRAFT RULE (PART 107)," June 21, 2016. https://www.faa.gov/uas/media/Part_107_Summary.pdf

3. U.S. Treasury Department, "Joint Statement on U.S.- E.U. Negotiations for a Bilateral Agreement on Insurance and Reinsurance Measures," Nov. 7, 2016. https://www.treasury.gov/press-center/press-releases/Pages/jl0604.aspx

4. Keith T. Brown, "Changes are coming to NFIP on April 1. Are you ready for them?," *PropertyCasualty360*, March 24, 2016. http://www.propertycasualty360.com/2016/03/24/changes-are-coming-to-nfip-on-april-1-are-you-read

5. 114th Congress, H.R.2901 - Flood Insurance Market Parity and Modernization Act, May 9, 2016. https://www.congress.gov/bill/114th-congress/house-bill/2901

6. Board of Governors of the Federal Reserve System, "Press Release," June 3, 2016. https://www.federalreserve.gov/newsevents/press/bcreg/20160603a.htm

7. John M. Huff, Theodore K. Nickel, Julie Mix McPeak and Eric A. Cioppa, "Re: Docket No. R-1539 and RIN No. 7100 AE-53 Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities," National Association of Insurance Commissioners, Sept. 15, 2016. http://www.naic.org/documents/government_relations_160915_comment_letter_cap_requirements.pdf

and low-income populations.[8] The proposal earned jeers from property-casualty trade associations, with the American Insurance Association noting it amounted to "dividing the average annual personal automobile liability premium by the median household income for ZIP codes located in identified low and moderate income neighborhoods" without regard for such concerns as "state-based tort reform laws, consumer choice in levels of coverage and state minimum insurance requirement laws."[9]

State-by-state developments

ALABAMA – In January, Gov. Robert Bentley received the final report of the Coastal Insurance Working Group he created in June 2015. Among its recommendations were to convert the Alabama Wind Pool into a nonprofit, retitled the Alabama Coastal Insurance Authority, which would sell replacement cost wind-only policies and reduce rates 20 to 50 percent by relying on post-loss funding.[10]

In May, the Legislature passed S.B. 353, which became law without Bentley's signature, allowing premium finance companies to underwrite mitigation loans for homeowners insurance policyholders.[11]

ALASKA – Alaska Gov. Bill Walker in July vetoed S.B. 127, legislation supported by Insurance Director Lori Wing-Heier that would have allowed insurers to consider a consumer's credit information during policy renewals. Such information already may be used by insurers during initial underwriting and rate-setting. In his veto message, Walker said his view was that the bill "relies on notoriously unreliable credit score ratings and would adversely affect consumers, especially low-income consumers."[12]

CALIFORNIA – In January, California Insurance Commissioner Dave Jones issued an order that asks all insurers that do business in the state to "divest from thermal coal and to require insurance companies to disclose investments in the carbon economy."[13] Much more on this topic can be found in the R Street policy study "Coal divestment and the California insurance industry."[14]

Jones followed that up in March with a pair of auto-body regulations that would require insurance companies to inspect a damaged vehicle within six business days, forbid them from asking customers to travel more than 10 miles in urban areas and 25 miles in rural areas to have the vehicle inspected and strictly limit companies' freedom to comment about a particular auto-body repair shop where the effect might be to dissuade customers from choosing that shop.[15]

CONNECTICUT – Legislation requiring homeowners insurers to cover the peril of foundation collapse was approved by the General Assembly's Joint Insurance and Real Estate Committee, but never received a vote on the House floor.[16]

FLORIDA – The 2016 legislative session proved notably unproductive for insurance issues, as legislation to address common abuses in the assignment or transfer of property insurance rights died in the Senate Judiciary Committee.[17] One measure to address insurance concerns for transportation network companies managed to pass the state House, but died in the Senate Banking and Insurance Committee[18] while another successfully cleared three Senate committees but died on the calendar.[19]

The state's workers' comp market was shaken badly by a pair of decisions from the Florida Supreme Court that unraveled major pieces of Florida's 13-year-old reforms to the comp system. First, the court ruled in April that mandatory attorneys' fee schedules in workers' comp cases amounted to Due Process violations of both the Florida Constitution and the U.S. Constitution.[20] Two months later, the court handed

8. U.S. Treasury Department, "Monitoring Availability and Affordability of Automobile Insurance," *Federal Register*, July 13, 2016. https://www.federalregister.gov/documents/2016/07/13/2016-16536/monitoring-availability-and-affordability-of-automobile-insurance

9. American Insurance Association, "AIA Statement of FIO Auto Insurance Affordability Methodology," July 14, 2016. http://www.aiadc.org/media-center/all-news-releases/2016/july/aia-statement-of-fio-auto-insurance-affordability-methodology

10. Alabama Department of Insurance, "REPORT OF THE COASTAL INSURANCE WORKING GROUP," Jan. 20, 2016. http://aciir.culverhouse.ua.edu/wp-content/uploads/2016/02/AL-CIWG-final-report.pdf

11. Alabama Legislature, AL SB353, May 4, 2016. https://legiscan.com/AL/text/SB353/2016

12. Gov. Bill Walker, 2016-11-07 SENATE JOURNAL, July 20, 2016. http://www.akleg.gov/basis/Journal/Pages/29?Chamber=S&Bill=SB%20127&Page=03125#3125

13. Ray Lehmann, "Jones' Coal Divestment Call Is Irresponsible, Blatantly Political," *Insurance Journal*, Jan. 25, 2016. http://www.insurancejournal.com/blogs/right-street/2016/01/25/396284.htm

14. Steven Greenhut, "Coal divestment and the California insurance industry," R Street Institute, July 2016. http://www.rstreet.org/wp-content/uploads/2016/07/64.pdf

15. Steve Greenhut, "State quietly pushes cost-raising insurance regulations," *Flash Report*, March 16, 2016. http://www.flashreport.org/blog/2016/03/16/state-quietly-pushes-cost-raising-insurance-regulations/

16. Connecticut General Assembly, Raised H.B. No. 5522 Session Year 2016, March 30, 2016. https://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=HB-5522

17. Florida Senate, CS/SB 596: Assignment or Transfer of Property Insurance Rights, March 11, 2016. https://www.flsenate.gov/Session/Bill/2016/0596

18. Florida Senate, CS/CS/HB 509: Transportation Network Companies, March 11, 2016. https://www.flsenate.gov/Session/Bill/2016/0509

19. Florida Senate, CS/CS/SB 1118: Transportation Network Company Insurance, March 11, 2016. https://www.flsenate.gov/Session/Bill/2016/1118

20. Insurance Journal, "Florida Supreme Court Finds Attorney Fee Schedule Unconstitutional; Passes on Other Key Workers' Comp Case," April 28, 2016. http://www.insurancejournal.com/news/southeast/2016/04/28/406984.htm

down a 5-2 decision in *Westphal v. City of St. Petersburg*, striking down as unconstitutional the state's 104-week cap on temporary total disability benefits.[21]

The decisions prompted the first major crisis of newly appointed Insurance Commissioner David Altmaier's tenure in office. While pleading for a legislative fix, the National Council on Compensation Insurance noted that the decisions, in concert with the court's 2008 *Emma Murray* decision, created more than $1 billion in unfunded liabilities.[22] NCCI requested a 19.6 percent increase to take effect Oct. 1, but Altmaier rejected that request, approving a more modest 14.5 percent increase instead.[23] Complicating matters further, Leon County Circuit Judge Karen Gievers subsequently vacated even the Office of Insurance Regulation's granted 14.5 percent increase on grounds that NCCI violated the state's open meeting law in crafting its updated rate-increase request. At the time of this writing, the ruling was under appeal.[24]

ILLINOIS – Acting Insurance Director Anne Melissa Dowling broke from most other regulators in saying her office would not offer guidance limiting or eliminating the use of price optimization—a major topic of last year's report—because it was not satisfied that a definition of the practice had been established.[25]

MARYLAND – On the down side, the state Senate Finance Committee rejected a bill that proposed to crack down on staged auto accidents by requiring physical contact with another vehicle to verify an accident happened.[26] More promisingly, the House Economic Matters Committee rejected a bill that would have limited consumers' ability to use aftermarket crash parts when they need auto repairs.[27]

MINNESOTA – The state Senate Commerce Committee considered legislation that would have called for a radical rethinking of how auto insurance is regulated in the state.[28] Among its provisions were an across-the-board mandatory 20 percent rollback of rates, additional mandatory good driver discounts of at least 20 percent and complete exclusion of any rating factors except a driver's safety record, number of miles driven and years of driving experience. In effect, it would have been a ban on use of such factors as credit, education, occupation and any other factor in underwriting or rate setting. The bill received a committee hearing in March but was not passed to the floor.

MISSOURI – Insurance Director John Huff issued a bulletin warning that certain price optimization practices in personal lines might be considered discriminatory.[29]

NEBRASKA – The state's unicameral Legislature introduced and debated legislation to prohibit insurance rates that employed "price optimization" strategies, which had been a major topic of regulatory attention in 2015. Action on the measure was postponed indefinitely in April.[30]

OKLAHOMA – In a landmark 7-2 decision in September, the Oklahoma Supreme Court struck down the Oklahoma Employee Benefit Injury Act, a three-year-old statute allowing employers to opt out voluntarily from the state's workers' compensation program.[31] The ruling in *Vasquez v. Dillards* deemed the measure unconstitutional. When the law initially was passed, it marked Oklahoma joining its neighbor Texas as the only states in which workers' comp was not mandatory.

In February, the state Senate Insurance Committee passed S.B. 1497, legislation that would empower the insurance commissioner to create a state-administered earthquake reinsurance program.[32] It did not progress further on the Senate floor.

TENNESSEE – Gov. Bill Haslam in March signed S.B. 2062, requiring asbestos plaintiffs to disclose if there are any bankruptcy trust claims they have filed or could file and to file verified medical reports documenting that they have been diagnosed with an asbestos-related disease.[33]

---

21. Amy O' Connor, "Florida Supreme Court Strikes Down State Cap on Temporary Disability Benefits," *Insurance Journal*, June 9, 2016. http://www.insurancejournal.com/news/southeast/2016/06/09/411469.htm

22. National Council on Compensation Insurance, "Florida Supreme Court Decisions Create Workers' Compensation Unfunded Liability," Workers' Compensation Institute, Aug. 4, 2016. http://www.wci360.com/news/article/florida-supreme-court-decisions-create-workers-compensation-unfunded-liabil

23. Amy O' Connor, "Florida Approves 14.5% Workers' Comp Rate Hike in Response to Court Rulings," Insurance Journal, Sept. 27, 2016. http://www.insurancejournal.com/news/southeast/2016/09/27/427642.htm

24. Thomas Harman, "NCCI to Appeal Florida Ruling Voiding 14.5% Workers' Comp Rate Hike," BestWire, Nov. 29, 2016.

25. Thomas Harman, "Illinois Insurance Regulators Decline to Take Action on Price Optimization, Draw Fire From Consumer Groups," BestWire, Jan. 7, 2016.

26. General Assembly of Maryland, Uninsured Motor Vehicle Coverage – Exclusion, March 7, 2016. http://mgaleg.maryland.gov/webmga/frmMain.aspx?pid=billpage&stab=03&id=sb0854&tab=subject3&ys=2016rs

27. General Assembly of Maryland, Motor Vehicle Liability Insurance - Replacement Parts for Damaged Motor Vehicles, March 19, 2016. http://mgaleg.maryland.gov/webmga/frmMain.aspx?pid=billpage&stab=03&id=hb1258&tab=subject3&ys=2016RS

28. Minnesota State Legislature, SF 2770, March 14, 2016. https://www.revisor.mn.gov/bills/bill.php?b=senate&f=sf2770&ssn=0&y=2016

29. Thomas Harman, "Missouri Latest to Issue Bulletin Calling Price Optimization Aspects Discriminatory," BestWire, Jan. 13, 2016.

30. Nebraska Legislature, LB1041 - Provide for disapproval of certain insurance rate filings if they use price optimization, Jan. 20, 2016. http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=28948

31. Oklahoma Supreme Court, *Vasquez v. Dillard's Inc*., Sept. 13, 2016. http://law.justia.com/cases/oklahoma/supreme-court/2016/114.html

32. Oklahoma State Legislature, SB 1497 by Jolley and McDaniel, Feb. 29, 2016. http://www.oklegislature.gov/BillInfo.aspx?Bill=SB1497&Session=1600

33. Tennessee General Assembly, SENATE BILL 2062, March 24, 2016. http://www.capitol.tn.gov/Bills/109/Bill/SB2062.pdf

UTAH – Gov. Gary Herbert in late March signed H.B. 403, a measure requiring asbestos bankruptcy trust funds to disclose detailed claims information.[34] The bill seeks to address the problem of "double dipping," in which a plaintiff might simultaneously make asbestos-related claims both from a trust fund and through the traditional tort system, which generally involves claims ultimately paid by insurers.

VERMONT – Gov. Peter Shumlin in July appointed Michael Pieciak to replace Susan Donegan as commissioner of the Department of Financial Regulation.[35]

VIRGINIA – Insurance Commissioner Jacqueline Cunningham issued an administrative letter setting out that rates and supplementary rating information that use complex pricing mechanisms to determine price elasticity of demand are considered "price optimization," and inconsistent with the commonwealth's rate standards.[36]

PART II – METHODOLOGY

This report card represents our best attempt at an objective evaluation of the regulatory environments in each of the 50 states. It tracks seven broad categories, most consisting of several variables, to measure how well states avoid excess politicization and 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 adjust rates and employ rating criteria as they see fit.

Our emphasis is strongly on property-casualty insurance and particularly on the personal lines of business that have the most direct impact on 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 data from the most recent available year. 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' ability 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 of regulators in performing their core duties and the efficiency of a state in making use of its resources.

Because we are necessarily limited to those factors we can quantify for all 50 states, there are many important considerations that our report card will 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 NAIC does offer some data that could illuminate how quickly states act on rate-and-product filings,[37] the sheer volume of filings and associated difficulties in making apples-to-apples comparisons of states' speed-to-market environments both render attempts at comprehensive analysis of such factors across 50 states in multiple lines of business beyond the scope of this report.

POLITICIZATION (10 percent of total score)

Insurance regulation is a technical matter and, by and large, should be insulated from the political process and prevailing political concerns. It is necessary for insurance regulators to monitor that insurers and insurance producers deal with the public fairly and in good faith. It is necessary to apply risk-based capital rules to ensure insurance companies are responsibly and competently managing both their underwriting and their investment risks. Regulators also must be vigilant to stamp out fraud—whether by carriers, by agents and brokers or by insureds—wherever it rears its head.

None of these charges are inherently political in nature and 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 such oversight is properly exercised through the executive, legislative and judicial branches. Trained, professional regulators can much more effectively enforce the law, 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 the fickle winds of politics. We

34. Utah State Legislature, H.B. 403 Asbestos Litigation Transparency Act, Feb. 22, 2016. http://le.utah.gov/~2016/bills/static/HB0403.html

35. Frank Klimko, "Governor Appoints Vermont Insurance Commissioner," BestWire, July 6, 2016.

36. Thomas Harman, "Virginia Becomes 19th Jurisdiction to Limit Insurer Use of Price Optimization," BestWire, May 5, 2016.

37. 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 Institute, October 2015. http://www.rstreet.org/wp-content/uploads/2015/10/RSTREET43.pdf

TABLE I: POLITICIZATION

State	Commissioner	Actions	Raw	Points
AK	+1	-2	-1	5.7
AL	0	-1	-1	5.7
AR	0	0	0	6.4
AZ	+5	0	+5	10.0
CA	-5	-4	-9	0.0
CO	0	0	0	6.4
CT	0	0	0	6.4
DE	-5	0	-5	2.9
FL	+3	0	+3	8.6
GA	-5	0	-5	2.9
HI	+1	0	+1	7.1
IA	+5	0	+5	10.0
ID	+5	0	+5	10.0
IL	0	0	0	6.4
IN	0	0	0	6.4
KS	-5	0	-5	2.9
KY	+5	0	+5	10.0
LA	-5	0	-5	2.9
MA	0	0	0	6.4
MD	+5	0	+5	10.0
ME	+5	0	+5	10.0
MI	+5	0	+5	10.0
MN	0	0	0	6.4
MO	0	-1	-1	5.7
MS	-5	0	-5	2.9
MT	-5	0	-5	2.9
NC	-5	0	-5	2.9
ND	-5	0	-5	2.9
NE	0	0	0	6.4
NH	+5	0	+5	10.0
NJ	0	0	0	6.4
NM	+3	0	+3	8.6
NV	+1	0	+1	7.1
NY	0	0	0	6.4
OH	0	0	0	6.4
OK	-5	-1	-6	2.1
OR	+1	0	+1	7.1
PA	+5	0	+5	10.0
RI	0	0	0	6.4
SC	0	0	0	6.4
SD	+1	0	+1	7.1
TN	0	0	0	6.4
TX	+5	0	+5	10.0
UT	0	0	0	6.4
VA	+3	-1	+2	7.9
VT	+5	0	+5	10.0
WA	-5	0	-5	2.9
WI	0	0	0	6.4
WV	+5	0	+5	10.0
WY	0	0	0	6.4

SOURCES: NCSL, R Street analysis

identify five different systems for insurance commissioner authority and rate them accordingly.[38]

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 (0 points): The baseline structure is a commissioner who is appointed by and serves at the pleasure of the state's governor. There are 19 states with such structures, representing the most common form of insurance commissioner authority.

Administrative Appointment (+1 point): In five 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 in some cases to depoliticize some regulatory decisions. The five states with this structure are Alaska, Hawaii, Nevada, Oregon and South Dakota.

Commission Appointment (+3 points): In three states, the insurance commissioner is appointed by and answers to not a single figure, but a public board. These structures provide significant independence for the regulator. In New Mexico, insurance commissioners are appointed for four-year terms by the elected Public Regulation Commission, but ultimately serve at their pleasure. In Virginia, selection is made by the State Corporation Commission, whose three members are selected by the General Assembly for six-year terms. Florida's insurance commissioner can only be appointed or removed with a majority of the Financial Services Commission — whose members are the elected governor, chief financial officer, attorney general and agriculture commissioner.

38. National Conference of State Legislators, "Insurance State Regulators - Selection and Term Statutes," April 12, 2013. http://www.ncsl.org/research/financial-services-and-commerce/insurance-state-regulators-selection-and-term-stat.aspx

TABLE 2: FISCAL EFFICIENCY

State	Regulatory Surplus			Tax and Fee Burden			Total Points
	Raw (%)	Weighted	Points	Raw (%)	Weighted	Points	
AK	17.1	0.63	9.8	1.99	-1.28	0.9	10.7
AL	37.0	0.49	9.6	1.51	-0.45	1.9	11.5
AR	248.5	-0.99	7.0	1.64	-0.67	1.6	8.6
AZ	41.6	0.46	9.5	1.84	-1.02	1.2	10.7
CA	23.1	0.59	9.7	0.94	0.53	3.1	12.9
CO	0.0	0.75	10.0	0.87	0.66	3.3	13.3
CT	289.6	-1.28	6.5	0.63	1.08	3.8	10.3
DE	264.4	-1.11	6.8	0.19	1.82	4.7	11.5
FL	0.0	0.75	10.0	0.25	1.72	4.6	14.6
GA	159.2	-0.37	8.1	0.95	0.53	3.1	11.2
HI	0.0	0.75	10.0	1.44	-0.32	2.1	12.1
IA	99.0	0.05	8.8	0.48	1.33	4.1	12.9
ID	196.4	-0.63	7.6	1.58	-0.57	1.8	9.4
IL	46.5	0.42	9.4	0.60	1.12	3.9	13.3
IN	60.1	0.33	9.3	0.69	0.97	3.7	12.9
KS	71.2	0.25	9.1	1.23	0.04	2.5	11.7
KY	114.6	-0.06	8.6	0.74	0.87	3.6	12.2
LA	254.0	-1.03	6.9	1.91	-1.14	1.1	8.0
MA	826.8	-5.05	0.0	0.95	0.52	3.1	3.1
MD	0.0	0.75	10.0	1.50	-0.43	1.9	11.9
ME	0.0	0.75	10.0	1.35	-0.18	2.3	12.3
MI	0.0	0.75	10.0	0.06	2.05	5.0	15.0
MN	65.5	0.29	9.2	1.11	0.23	2.8	12.0
MO	13.4	0.65	9.8	0.93	0.55	3.2	13.0
MS	20.2	0.61	9.8	1.84	-1.02	1.2	11.0
MT	32.9	0.52	9.6	1.99	-1.27	0.9	10.5
NC	16.2	0.63	9.8	1.26	-0.02	2.5	12.3
ND	22.9	0.59	9.7	1.02	0.40	3.0	12.7
NE	36.0	0.50	9.6	0.86	0.67	3.3	12.9
NH	48.8	0.41	9.4	1.35	-0.18	2.3	11.7
NJ	169.3	-0.44	8.0	1.02	0.40	3.0	10.9
NM	139.5	-0.23	8.3	2.36	-1.92	0.1	8.4
NV	54.5	0.37	9.3	2.18	-1.60	0.5	9.8
NY	419.6	-2.19	4.9	1.40	-0.25	2.2	7.1
OH	38.0	0.48	9.5	0.76	0.85	3.5	13.1
OK	120.1	-0.09	8.5	1.76	-0.87	1.4	9.9
OR	0.0	0.75	10.0	0.34	1.58	4.4	14.4
PA	153.5	-0.33	8.1	0.84	0.71	3.3	11.5
RI	0.0	0.75	10.0	1.46	-0.37	2.0	12.0
SC	153.2	-0.33	8.1	1.14	0.19	2.7	10.9
SD	246.0	-0.98	7.0	1.54	-0.49	1.9	8.9
TN	0.0	0.75	10.0	2.16	-1.56	0.6	10.6
TX	109.7	-0.02	8.7	1.53	-0.49	1.9	10.5
UT	0.0	0.75	10.0	1.07	0.32	2.9	12.9
VA	189.5	-0.58	7.7	1.31	-0.10	2.4	10.1
VT	131.2	-0.17	8.4	2.42	-2.01	0.0	8.4
WA	33.6	0.51	9.6	1.58	-0.57	1.8	11.4
WI	135.8	-0.20	8.4	0.63	1.07	3.8	12.2
WV	234.2	-0.89	7.2	2.18	-1.61	0.5	7.7
WY	2.9	0.73	10.0	1.06	0.33	2.9	12.9

SOURCE: R Street analysis of NAIC data

Both the governor and CFO must vote with the majority for the motion to appoint or remove to prevail.

Independent Term (+5 points): In a dozen 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 the greatest political independence for the regulator. The 12 states with this structure are Arizona, Idaho, Iowa, Kentucky, Maine, Maryland, Michigan, New Hampshire, Pennsylvania, Texas, Vermont and West Virginia.

In addition, we make a handful of adjustments to acknowledge notable regulatory or legislative actions taken in calendar year 2016 that, in our judgment, politicized controversies in the business of insurance. For politicized actions with significant impact, we deduct -2 points, while deducting -1 point for those with more modest impact. The three instances where we deducted -2 points this year were:

- California Insurance Commissioner Dave Jones' coal divestment order;
- Jones' auto-body repair rules; and
- Alaska Gov. Bill Walker's veto message rhetoric about the use of credit information.

We deducted -1 point in recognition of:

- The Alabama Coastal Insurance Working Group's report;
- The Oklahoma Senate Insurance Committee's proposal to create a state-level earthquake reinsurer; and
- Regulatory orders from Missouri and Virginia on price optimization.

The results were then summed and weighted to grant states between 0.0 and 10.0 points for the category. A dozen states tied with 10.0 points, while California fared worst, as the most politicized market in the country.

FISCAL EFFICIENCY (15 percent of total score)

It's important that state insurance regulators not only do their jobs well, but that they perform them efficiently, with minimal cost to consumers, companies and taxpayers. Taxes and fees paid to support insurance regulation are passed on as part of the cost of insurance coverage.

States vary in how they allocate funding to their insurance departments. In 20 states and the District of Columbia, 100 percent of the department's revenues come from regulatory fees and assessments. Fees and assessments account for more than 90 percent of the budget in 14 other states and for more than 70 percent of the budget in an additional seven states. Other states draw on a combination of fees and assessments, fines and penalties, general funds and other sources. South Dakota is the only state whose insurance department currently does not directly draw any revenues from the fees and assessments it levies, although fees and assessments also account for less than 5 percent of the budget in North Carolina and Pennsylvania. In all three states, the bulk of the insurance department's operating funds come from the state's general fund.

Based on the NAIC's Insurance Department Resources Report, the 50 states, Puerto Rico and the District of Columbia spent $1.41 billion on insurance regulation in 2015, up from $1.33 billion a year earlier. But it's also important to note that state insurance departments collected more than double that amount, roughly $2.92 billion, in regulatory fees and assessments from the insurance industry. State insurance departments also collected $224.0 million in fines and penalties and another $1.18 billion in miscellaneous revenues. States separately collected $18.32 billion in insurance premium taxes. Altogether, of the $22.65 billion states collected from the insurance industry last year, only 6.2 percent was spent on insurance regulation.

Using this data, we have constructed two variables to measure departments' budget 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 to compensate victims of that behavior. Limiting the consideration just to those regulatory fees and assessments that are paid by insurers and insurance producers, states collected about $1.87 billion more in regulatory fees than they spend on regulation, up from $1.61 billion last year.

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

Ten states collected less in fees and assessments than they spent on insurance regulation, giving them a regulatory surplus of 0 percent. Expressed as a percentage of department budgets, the mean among the 50 states was a regulatory surplus equal to 106.7 percent of the budget, albeit with a large standard deviation of 142.6 percentage points. The states ranged from those 10 with no regulatory surplus all the way up to Massachusetts, whose regulatory surplus was more than eight times the size of the insurance department budget.

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. We then converted those weighted scores into a scale from 0.0 to 10.0 points.

Tax and Fee Burden: We also looked at the total of premium taxes, fees and assessments, and fines and penalties collected in each state, expressed as a percentage of the premiums written in that state. We call this measure the tax and fee burden, and it represents the overall government fiscal burden states place on insurance products.

The mean of the 50 states was a tax and fee burden of 1.25 percent, with a standard deviation of 0.58 percentage points. The results ranged from a low of 0.06 percent for Michigan—roughly two standard deviations below the mean—to a high of 2.42 percent for Vermont, which was roughly two standard deviations above 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. We then converted the weighted scores into our point system, from 0.0 points for Vermont up to 5.0 points for Michigan.

Taken together, states' scores in the Fiscal Efficiency category range from a high of 15.0 points, scored by Michigan, to a low of 3.1 points, scored by Massachusetts.

TABLE 3: SOLVENCY REGULATION

State	Financial Exams			Runoffs			Capitalization			Total Points
	Raw (%)	Weighted	Points	Raw (%)	Weighted	Points	Raw	Weighted	Points	
AK	129.0	-0.1	1.7	0.0	+0.4	5.0	486.2	+0.5	4.4	11.1
AL	116.7	-0.3	1.4	0.1	+0.4	5.0	514.2	+0.5	4.4	10.8
AR	83.6	-0.6	0.8	0.3	+0.4	5.0	446.4	+0.6	4.5	10.3
AZ	123.3	-0.2	1.6	8.7	-1.2	3.6	1261.5	-1.7	2.8	8.0
CA	128.8	-0.1	1.7	0.0	+0.4	5.0	464.5	+0.6	4.5	11.2
CO	89.5	-0.6	0.9	0.4	+0.3	4.9	581.3	+0.3	4.2	10.1
CT	106.9	-0.4	1.3	1.2	+0.2	4.8	929.5	-0.7	3.5	9.6
DE	138.0	0.0	1.9	5.9	-0.7	4.0	789.8	-0.3	3.8	9.7
FL	54.4	-0.9	0.2	1.1	+0.2	4.8	813.1	-0.4	3.8	8.8
GA	94.0	-0.5	1.0	0.0	+0.4	5.0	857.0	-0.5	3.7	9.7
HI	305.6	+1.8	5.2	0.1	+0.4	5.0	219.7	+1.3	5.0	15.2
IA	56.5	-0.9	0.3	0.0	+0.4	5.0	435.8	+0.7	4.6	9.8
ID	145.7	0.0	2.0	0.0	+0.4	5.0	567.7	+0.3	4.3	11.3
IL	122.0	-0.2	1.6	4.7	-0.4	4.2	512.1	+0.5	4.4	10.2
IN	109.4	-0.3	1.3	13.6	-2.1	2.8	514.2	+0.5	4.4	8.4
KS	103.1	-0.4	1.2	0.0	+0.4	5.0	549.0	+0.4	4.3	10.5
KY	288.6	+1.6	4.9	0.0	+0.4	5.0	681.7	0.0	4.0	13.9
LA	111.4	-0.3	1.3	0.8	+0.3	4.9	526.3	+0.4	4.4	10.6
MA	124.0	-0.2	1.6	0.8	+0.3	4.9	629.0	+0.1	4.2	10.6
MD	132.9	-0.1	1.8	0.8	+0.2	4.9	826.7	-0.4	3.7	10.4
ME	97.9	-0.5	1.1	0.0	+0.4	5.0	676.9	0.0	4.1	10.1
MI	180.6	+0.4	2.7	0.2	+0.4	5.0	609.8	+0.2	4.2	11.9
MN	44.1	-1.0	0.0	0.0	+0.4	5.0	464.5	+0.6	4.5	9.5
MO	101.5	-0.4	1.1	2.4	0.0	4.6	529.4	+0.4	4.4	10.1
MS	123.0	-0.2	1.6	1.0	+0.2	4.8	635.2	+0.1	4.1	10.6
MT	95.7	-0.5	1.0	0.1	+0.4	5.0	460.8	+0.6	4.5	10.5
NC	116.9	-0.3	1.5	1.9	+0.1	4.7	450.8	+0.6	4.5	10.7
ND	107.9	-0.4	1.3	0.0	+0.4	5.0	498.2	+0.5	4.4	10.7
NE	137.2	0.0	1.9	0.1	+0.4	5.0	563.2	+0.3	4.3	11.1
NH	118.1	-0.2	1.5	0.0	+0.4	5.0	919.7	-0.7	3.5	10.0
NJ	109.5	-0.3	1.3	0.5	+0.3	4.9	330.2	+1.0	4.8	11.0
NM	157.3	+0.2	2.3	0.0	+0.4	5.0	1293.9	-1.8	2.8	10.0
NV	463.6	+3.4	8.4	1.1	+0.2	4.8	783.7	-0.3	3.8	17.0
NY	65.5	-0.8	0.4	2.9	-0.1	4.5	807.2	-0.4	3.8	8.7
OH	92.4	-0.5	1.0	2.8	-0.1	4.5	653.1	+0.1	4.1	9.6
OK	126.5	-0.2	1.6	1.7	+0.1	4.7	640.4	+0.1	4.1	10.5
OR	180.8	+0.4	2.7	0.1	+0.4	5.0	746.3	-0.2	3.9	11.6
PA	157.9	+0.2	2.3	22.2	-3.6	1.3	820.9	-0.4	3.8	7.4
RI	88.9	-0.6	0.9	1.7	+0.1	4.7	804.5	-0.4	3.8	9.4
SC	70.4	-0.8	0.5	0.8	+0.3	4.9	698.7	-0.1	4.0	9.4
SD	87.2	-0.6	0.9	0.0	+0.4	5.0	406.3	+0.8	4.6	10.5
TN	265.0	+1.3	4.4	0.0	+0.4	5.0	587.2	+0.2	4.2	13.6
TX	161.9	+0.2	2.3	1.3	+0.2	4.8	2633.4	-5.6	0.0	7.1
UT	95.9	-0.5	1.0	1.1	+0.2	4.8	624.9	+0.1	4.2	10.0
VA	176.4	+0.4	2.6	0.1	+0.4	5.0	642.6	+0.1	4.1	11.7
VT	546.9	+4.3	10.0	30.0	-5.1	0.0	570.7	+0.3	4.3	14.3
WA	257.2	+1.2	4.2	0.1	+0.4	5.0	560.7	+0.3	4.3	13.5
WI	73.7	-0.7	0.6	0.0	+0.4	5.0	407.3	+0.8	4.6	10.2
WV	90.9	-0.5	0.9	0.0	+0.4	5.0	669.3	0.0	4.1	10.0
WY	104.3	-0.4	1.2	0.9	+0.2	4.8	464.1	+0.6	4.5	10.5

SOURCES: NAIC, SNL Financial

SOLVENCY REGULATION
(20 percent of total score)

There is no single duty more important for insurance regulators than monitoring the solvency of regulated insurers. Alas, the state-based system of solvency regulation has not always been held in particularly high esteem. A spate of liability insurer insolvencies in the late 1980s prompted a federal investigation that faulted the state regulatory system for failing to provide adequate oversight of insurers' underpricing, inadequate loss reserves and shaky reinsurance transactions.

Shortly after, the industry was hit again by another spate of insolvencies, this time in the life insurance sector, which was followed by a round of property insurance insolvencies following 1992's Hurricane Andrew. In response to both the public criticism and the threat of preemption, state regulators moved in 1994 through the National Association of Insurance Commissioners to create and implement a risk-based capital regime of solvency regulation. That regime has held up remarkably well, although the failure of American International Group during the 2008 financial crisis prompted a re-examination of states' oversight of complex insurance and financial services holding companies.

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 companies they regulate: financial exams, which look at a company's assets, liabilities and policyholder surplus, and market conduct exams, which look into 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 market to either type of exam. With financial exams, states overwhelmingly concentrate their attention on domestic insurers, and it is a regulatory rule of thumb that each domestic company should expect to be examined at least once every five years.

In this report, we attempt to gauge how well states are keeping 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 completing for domestic companies in each year from 2011 through 2015. We then compared those figures to the number of domestic companies listed as operating in the state for each of those five years, 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 34 of the 50 states met that minimum standard, although that necessarily means that 16 states did not. The mean percentage of domestic insurers examined was 141.2 percent, with a standard deviation of 93.6 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 one standard deviation below the mean, up to Vermont, which was 4.3 standard deviations above the mean. 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 good 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 doesn't 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 supervisory rehabilitation, a reorganization process that can include allowing 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 the total in-progress claims liability of insurers placed in runoff, supervision, conservation, receivership and liquidation for each state, as of Dec. 31, 2015. The totals ranged from Pennsylvania's $22.09 billion to 10 states that had no in-progress runoff claims liability at

TABLE 4: AUTO INSURANCE MARKET

State	Concentration		Avg Loss Ratio		Combined	Points
	HHI	Weighted	5-yr (%)	Weighted		
AK	1718.1	-3.1	56.9	-1.1	-4.1	2.2
AL	1197.3	-0.7	66.5	0.0	-0.7	7.1
AR	1084.5	-0.2	63.4	0.0	-0.2	7.9
AZ	868.3	0.8	64.9	0.0	0.8	9.2
CA	758.3	1.3	64.4	0.0	1.3	10.0
CO	947.2	0.5	73.6	-1.1	-0.6	7.2
CT	818.6	1.1	65.8	0.0	1.1	9.6
DE	1272.1	-1.0	64.8	0.0	-1.0	6.7
FL	1154.8	-0.5	66.6	0.0	-0.5	7.4
GA	1041.5	0.0	69.4	0.0	0.0	8.2
HI	1362.2	-1.4	54.3	-1.4	-2.8	4.1
IA	1018.4	0.2	61.4	0.0	0.2	8.3
ID	838.4	1.0	59.6	0.0	1.0	9.5
IL	1333.0	-1.3	62.4	0.0	-1.3	6.3
IN	954.3	0.4	62.8	0.0	0.4	8.7
KS	932.1	0.5	63.1	0.0	0.5	8.9
KY	1184.9	-0.6	67.1	0.0	-0.6	7.2
LA	1707.0	-3.0	68.8	0.0	-3.0	3.8
MA	1131.2	-0.4	63.3	0.0	-0.4	7.6
MD	1274.1	-1.0	66.2	0.0	-1.0	6.6
ME	759.4	1.3	59.2	0.0	1.3	10.0
MI	996.2	0.3	111.1	-6.0	-5.7	0.0
MN	1107.4	-0.3	60.0	0.0	-0.3	7.7
MO	1051.8	0.0	66.1	0.0	0.0	8.1
MS	1176.7	-0.6	66.8	0.0	-0.6	7.3
MT	1057.6	0.0	61.1	0.0	0.0	8.1
NC	898.9	0.7	64.9	0.0	0.7	9.0
ND	789.0	1.2	56.2	-1.2	0.0	8.2
NE	1027.9	0.1	68.3	0.0	0.1	8.2
NH	817.3	1.1	61.0	0.0	1.1	9.6
NJ	1009.5	0.2	66.0	0.0	0.2	8.4
NM	1042.7	0.0	64.1	0.0	0.0	8.2
NV	895.9	0.7	66.9	0.0	0.7	9.1
NY	1492.7	-2.0	67.6	0.0	-2.0	5.2
OH	871.8	0.8	61.2	0.0	0.8	9.3
OK	1063.2	-0.1	65.2	0.0	-0.1	8.0
OR	986.4	0.3	63.8	0.0	0.3	8.5
PA	1017.9	0.2	65.1	0.0	0.1	8.3
RI	998.9	0.2	70.3	0.0	0.2	8.4
SC	1170.8	-0.5	69.5	0.0	-0.5	7.3
SD	854.9	0.9	72.8	-1.0	-0.1	8.0
TN	1101.3	-0.2	66.7	0.0	-0.2	7.8
TX	859.5	0.9	66.5	0.0	0.9	9.3
UT	825.3	1.0	63.8	0.0	1.0	9.6
VA	1033.1	0.1	64.0	0.0	0.1	8.2
VT	779.8	1.2	61.2	0.0	1.2	9.9
WA	830.3	1.0	64.4	0.0	1.0	9.5
WI	960.5	0.4	64.7	0.0	0.4	8.7
WV	1297.3	-1.1	55.1	-1.3	-2.4	4.6
WY	1194.2	-0.7	62.6	0.0	-0.7	7.2

SOURCES: SNL Financial

all. We scored states based on the proportion of total 2015 net written premiums the outstanding runoff liabilities represented. States with a high proportion of runoff liabilities were downgraded.

Runoffs represented 2.2 percent of the average state's annual net written premium, with a standard deviation of 5.5 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. In addition to the 10 states with literally no claims liability, there were an additional six whose liabilities—expressed as a proportion of net written premiums—were sufficiently small that they rounded off to 0.0 percent. The states ranged up to Vermont, whose $1.05 billion of runoff liabilities represent about 30 percent of annual net written premiums, more than five standard deviations more than the mean. Those weighted scores were then converted into our point scale of 0.0 to 5.0.

Capitalization: The most basic test for how well states are monitoring insurer solvency can be found in the market itself: how much capital and surplus do firms doing business in that 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 dealing 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 spate of lawsuits could create mass insolvencies. This kind of stress event could pose challenges for the guaranty fund system and, in the extreme, holds the potential for 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.

Using 2015 statutory data from SNL Financial, 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 windpools and state compensation funds where such entities do not report policyholder surplus.)

We found a mean capitalization ratio of 671.19 across the 50 states, with a standard deviation of 348.13. There appears to be a trend toward thinly capitalized markets across the Southwest, with Arizona and New Mexico both demonstrating capitalization ratios that were more than one and a half standard deviations greater than the mean and Texas' ratio of 2,633 coming in more than five and a half standard deviations greater than the mean. The most strongly capitalized markets were found in Wisconsin, South Dakota, New Jersey and Hawaii, with the last of that bunch clocking in more than a full standard deviation 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 17.0 points, scored by Nevada, to a low of 7.1 points, scored by Texas.

AUTO INSURANCE MARKET (10 percent of total score)

As in past editions of this report, we examined empirical data on the competitiveness of states' auto and home insurance markets, with a particular focus on the concentration and market share of insurance groups within each market; and the long-term loss ratios reported 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 SNL Financial, we calculated the concentration of each state's auto insurance markets, as measured by the Herfindahl-Hirschman Index. The HHI, which is used by the Department of Justice and Federal Trade Commission 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 a number of separate operating units.

The DOJ and Federal Trade Commission 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 highly concentrated. On a nationwide basis, the auto insurance market last year had an HHI score of 755.6, while the mean HHI score of the 50 states was 1051.3, with a standard deviation of 218.1. Under the metrics used by the DOJ and FTC, Louisiana and Alaska 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 median HHI concentration score a value of 0.0 and weighted states by how many standard deviations they were above or below that baseline. Maine and California were the least concentrated auto insurance markets, with HHI scores that were 1.3 standard deviations less than the mean. Alaska was the most concentrated auto insurance market, with an HHI score 3.1 standard deviations greater than the mean.

Loss Ratios: In addition to looking at market concentrations in the 50 states, we also used SNL Financial data to analyze loss ratios — a key profitability metric. Excess profits indicate an insufficiently competitive market. Insufficient profits indicate one in which insurers can't charge enough to earn their cost of capital or, in the extreme, to pay policyholder claims.

Over the long run, the property-casualty industry as a whole 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 its premiums written—tended to run slightly above 100, indicating underwriting losses. As interest rates have plummeted the past decade and a half, modest underwriting profits have become more common, as there hasn't been sufficient investment income to make up the difference.

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

TABLE 5: HOMEOWNERS INSURANCE MARKET

State	Concentration		Avg Loss Ratio		Combined	Points
	HHI	Weighted	5-yr (%)	Weighted		
AK	2016.4	-3.4	48.4	0.0	-3.4	1.6
AL	1361.2	-1.1	74.5	-1.1	-2.2	3.6
AR	1203.2	-0.6	63.9	0.0	-0.6	6.3
AZ	923.4	0.4	59.0	0.0	0.4	7.9
CA	909.9	0.4	47.6	0.0	0.4	8.0
CO	1001.3	0.1	86.5	-1.9	-1.8	4.3
CT	598.7	1.5	60.7	0.0	1.5	9.8
DE	1150.4	-0.4	48.8	0.0	-0.4	6.6
FL	388.6	2.2	28.7	-2.1	0.1	7.4
GA	1213.2	-0.6	63.7	0.0	-0.6	6.2
HI	1593.3	-1.9	24.8	-2.4	-4.3	0.0
IA	1150.9	-0.4	64.9	0.0	-0.4	6.6
ID	850.4	0.6	57.6	0.0	0.6	8.3
IL	1491.0	-1.6	71.2	0.0	-1.6	4.6
IN	1061.9	-0.1	66.5	0.0	-0.1	7.1
KS	1024.4	0.0	65.9	0.0	0.0	7.3
KY	1320.6	-1.0	66.3	0.0	-1.0	5.6
LA	1120.0	-0.3	36.5	-1.6	-1.9	4.1
MA	595.9	1.5	58.9	0.0	1.5	9.8
MD	1019.8	0.0	62.0	0.0	0.0	7.3
ME	608.3	1.4	43.9	-1.1	0.4	7.9
MI	985.4	0.1	61.1	0.0	0.1	7.5
MN	1115.2	-0.3	55.6	0.0	-0.3	6.8
MO	1194.5	-0.6	72.0	0.0	-0.6	6.3
MS	1321.2	-1.0	56.8	0.0	-1.0	5.6
MT	1214.1	-0.6	78.4	-1.3	-2.0	4.0
NC	865.6	0.6	60.8	0.0	0.6	8.2
ND	807.4	0.8	38.1	-1.5	-0.7	6.1
NE	1145.5	-0.4	89.3	-2.1	-2.5	3.1
NH	621.7	1.4	48.4	0.0	1.4	9.6
NJ	558.8	1.6	69.3	0.0	1.6	10.0
NM	1186.4	-0.5	58.9	0.0	-0.5	6.4
NV	1004.8	0.1	47.5	0.0	0.1	7.4
NY	752.7	0.9	53.1	0.0	0.9	8.9
OH	879.6	0.5	64.0	0.0	0.5	8.2
OK	1342.3	-1.1	77.1	-1.2	-2.3	3.4
OR	1204.9	-0.6	46.8	0.0	-0.6	6.3
PA	1013.4	0.1	60.7	0.0	0.1	7.4
RI	725.8	1.0	54.4	0.0	1.0	9.0
SC	878.2	0.5	49.4	0.0	0.5	8.2
SD	857.6	0.6	95.9	-2.5	-2.0	4.0
TN	1224.0	-0.7	90.2	-2.1	-2.8	2.6
TX	977.5	0.2	54.3	0.0	0.2	7.6
UT	885.2	0.5	53.0	0.0	0.5	8.1
VA	956.9	0.2	48.7	0.0	0.2	7.7
VT	668.7	1.2	52.5	0.0	1.2	9.4
WA	955.7	0.2	52.1	0.0	0.2	7.7
WI	911.3	0.4	54.9	0.0	0.4	8.0
WV	1239.3	-0.7	59.3	0.0	-0.7	6.1
WY	1323.2	-1.0	65.4	0.0	-1.0	5.6

SOURCE: SNL Financial

agent commissions and other marketing and administrative expenses the industry incurs. To smooth any unusually active or inactive books of business, we relied on five-year averages.

However, 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 67.0. The mean of the 50 states was 65.2, with a standard deviation of 7.7.

For states whose average loss ratios fall within a standard deviation of the mean, we make no adjustment to their score. With those that are more than a standard deviation greater than the mean, we subtract an equivalent number of points from the state's overall auto insurance market competitiveness score.

Four states (Alaska, North Dakota, West Virginia and Hawaii) had five-year average loss ratios that were more than a standard deviation less than the mean. Three states (South Dakota, Colorado and Michigan) had loss ratios that were more than one standard deviation greater than the mean. In the case of Michigan—the only state in the country that requires auto insurers to provide unlimited lifetime medical benefits—the ratio was six standard deviations greater than the mean.

TABLE 6: RESIDUAL MARKETS

State	Auto		Homeowners		Other Plans	Combined	Points
	Share (%)	Weighted	Share (%)	Weighted			
AK	0.461	-1.2	0.00	0.0	0	-1.2	14.4
AL	0.000	0.0	1.11	-1.2	0	-1.2	14.4
AR	0.000	0.0	0.01	0.0	0	0.0	15.0
AZ	0.000	0.0	0.00	0.0	0	0.0	15.0
CA	0.001	0.0	0.72	-0.8	-5	-5.8	12.1
CO	0.000	0.0	0.00	0.0	-5	-5.0	12.5
CT	0.004	0.0	0.24	-0.3	0	-0.3	14.9
DE	0.000	0.0	0.12	-0.1	0	-0.1	14.9
FL	0.001	0.0	5.00	-5.4	-10	-15.4	7.3
GA	0.000	0.0	0.70	-0.8	0	-0.8	14.6
HI	0.358	-0.9	0.50	-0.5	-2.5	-4.0	13.0
IA	0.000	0.0	0.08	-0.1	0	-0.1	15.0
ID	0.000	0.0	0.00	0.0	-5	-5.0	12.5
IL	0.004	0.0	0.14	-0.2	0	-0.2	14.9
IN	0.000	0.0	0.09	-0.1	0	-0.1	15.0
KS	0.075	-0.2	0.56	-0.6	0	-0.8	14.6
KY	0.009	0.0	0.43	-0.5	-2.5	-3.0	13.5
LA	0.000	0.0	3.25	-3.5	0	-3.5	13.2
MA	1.424	-3.7	6.48	-7.1	0	-10.7	9.6
MD	1.054	-2.7	0.06	-0.1	0	-2.8	13.6
ME	0.000	0.0	0.00	0.0	0	0.0	15.0
MI	0.080	-0.2	0.59	-0.6	-10	-10.8	9.6
MN	0.000	0.0	0.15	-0.2	0	-0.2	14.9
MO	0.000	0.0	0.11	-0.1	0	-0.1	14.9
MS	0.000	0.0	2.86	-3.1	0	-3.1	13.4
MT	0.001	0.0	0.00	0.0	-5	-5.0	12.5
NC	30.073	-20.0	9.19	-10.0	0	-30.0	0.0
ND	0.000	0.0	0.00	0.0	-10	-10.0	10.0
NE	0.000	0.0	0.00	0.0	0	0.0	15.0
NH	0.018	0.0	0.00	0.0	0	0.0	15.0
NJ	0.423	-1.1	0.33	-0.4	0	-1.5	14.3
NM	0.000	0.0	0.75	-0.8	0	-0.8	14.6
NV	0.000	0.0	0.00	0.0	0	0.0	15.0
NY	0.442	-1.1	0.48	-0.5	-2.5	-4.2	12.9
OH	0.000	0.0	0.56	-0.6	-10	-10.6	9.7
OK	0.000	0.0	0.00	0.0	-2.5	-2.5	13.8
OR	0.000	0.0	0.12	-0.1	-5	-5.1	12.4
PA	0.079	-0.2	0.21	-0.2	0	-0.4	14.8
RI	1.931	-5.0	3.57	-3.9	-5	-13.9	8.1
SC	0.000	0.0	1.11	-1.2	0	-1.2	14.4
SD	0.000	0.0	0.00	0.0	0	0.0	15.0
TN	0.000	0.0	0.00	0.0	0	0.0	15.0
TX	0.018	0.0	5.28	-5.7	-2.5	-8.3	10.9
UT	0.000	0.0	0.00	0.0	0	0.0	15.0
VA	0.007	0.0	0.65	-0.7	0	-0.7	14.6
VT	0.008	0.0	0.00	0.0	0	0.0	15.0
WA	0.000	0.0	0.01	0.0	-10	-10.0	10.0
WI	0.000	0.0	0.15	-0.2	0	-0.2	14.9
WV	0.001	0.0	0.06	-0.1	0	-0.1	15.0
WY	0.000	0.0	0.00	0.0	-10	-10.0	10.0

SOURCES: AIPSO, PIPSO, SNL Financial

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 Auto Insurance Market category. The scores ranged from Michigan, which scored 0.0, to California and Maine, which tied at 10.0 for the most competitive markets.

HOMEOWNERS INSURANCE MARKET (10 percent of total score)

As with auto insurance markets, we also examined empirical data on the competitiveness of states' homeowners insurance markets, using similar metrics derived from SNL Financial data.

Market Concentration: On a nationwide basis, the homeowners insurance market last year had an HHI score of 641.5 and the mean of the 50 states was 1028.4, with a standard deviation of 292.8. Alaska and Hawaii were the only states with moderately concentrated homeowners insurance markets, as defined by DOJ and the FTC, and no state had a highly concentrated market.

We assigned the median 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 insurance market, with an HHI score that was 2.2 standard deviations less than the mean. Just as it was in the auto insurance market, Alaska was the most concentrated home insurance market, with an HHI score 3.4 standard deviations greater than the mean.

Loss Ratios: As this year's landfalls of Hurricane Hermine and Hurricane Matthew demonstrated, our reliance on five-year average loss ratios is even more important in the homeowners insurance market, where catastrophes can introduce outsized losses in any given year. The nationwide five-year average loss ratio was 56.3 and the mean of the 50 states was 59.4, with a standard deviation of 14.4.

Seven states had five-year loss ratios that were more than a standard deviation above the mean, topped by South Dakota, where the homeowners insurance loss ratio was 2.5 standard deviations above the mean. At the other end of the scale, five states had loss ratios that were more than a standard deviations below the mean, with Hawaii having the absolutely lowest loss ratio at 2.4 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 Hawaii, which scored 0.0, to New Jersey, which finished with 10.0 points, for the most competitive market.

RESIDUAL MARKETS (15 percent 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's 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. 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 and the Automobile Insurance Plans Service Office, respectively. In addition, we include in our analysis other unique state entities that function like residual markets (California's earthquake insurance pool, Florida's catastrophe fund, Michigan's catastrophe fund for auto insurance claims), as well as acknowledging the roles played by the largest state workers' compensation funds.

Residual Auto Market: In the business of insurance, there perhaps has been no greater victory of markets over command-and-control regulation than the massive reduction in the size of state residual auto insurance markets over the past 30 years. Where these entities once insured as much as half or, in some states, more than half of all private-passenger auto risks, they now represent less than 1 percent of what is a $199.95 billion nationwide market. According to AIPSO data, residual markets account for less than 0.001 percent of the market in 28 of the 50 states.

The incredible reduction of the residual auto market is due to two factors: regulatory liberalization and technological progress. Where once, nearly all states required auto-insurance rates be developed via collusive industry-run rate bureaus, the overwhelming majority of state markets today are competitive. As companies became more free to develop their own rating factors and discounts, they also invested heavily in advanced computer models that take advantage of deep troves of data on consumers' credit, driving history, occupations, education levels and where, when and how they drive, to craft rates bespoke to individual drivers. More recently, advances in technologies known collectively as "telematics" has permitted some companies to begin offering rates that are charged per-mile and that take into account drivers' real-time performance on the road to segment rates.

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. Where the residual markets in Maryland, Massachusetts and Rhode Island all account for less than 2 percent of the overall market, the North Carolina Reinsurance Facility accounts for more than 30 percent of that state's market.

Given North Carolina's extreme outlier status, we measured it separately from the other 49 states. For the 21 states that had roughly ordinary auto residual markets—from the 0.001 percent of the market in California, Florida, Montana and West Virginia to 1.93 percent of the market in Rhode Island—we assigned a penalty of between 0.0 and -5.0, weighted by market share. For North Carolina, we assigned a -20.0 penalty, actually understating how unusual it is.

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 plans, originally created primarily to serve urban consumers, particularly in areas where "redlining" practices made it difficult for homeowners to obtain coverage.

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

TABLE 7: RATE REGULATION

State	Homeowners	Auto	MedMal	Commercial	Combined
AK	1	1	0	2	4
AL	0	0	0	2	2
AR	2	2	0	5	9
AZ	3	3	3	3	12
CA	0	0	0	0	0
CO	2	2	2	2	8
CT	1	0	0	2	3
DE	0	0	0	0	0
FL	3	2	3	3	11
GA	2	0	2	2	6
HI	0	0	0	0	0
IA	2	2	0	0	4
ID	3	3	3	3	12
IL	5	5	3	5	18
IN	2	2	2	3	9
KS	1	1	0	2	4
KY	1	1	1	3	6
LA	2	2	2	2	8
MA	2	0	0	2	4
MD	2	2	0	2	6
ME	2	2	2	2	8
MI	2	2	0	5	9
MN	2	2	2	5	11
MO	3	3	2	3	11
MS	0	0	0	0	0
MT	2	2	2	2	8
NC	0	0	0	3	3
ND	0	0	0	3	3
NE	2	2	0	5	9
NH	2	2	0	3	7
NJ	0	0	1	3	4
NM	2	2	0	5	9
NV	0	0	0	2	2
NY	3	0	0	3	6
OH	3	3	3	3	12
OK	3	3	3	5	14
OR	2	2	1	2	7
PA	0	2	0	5	7
RI	2	2	0	5	9
SC	1	1	5	5	12
SD	2	2	2	5	11
TN	1	1	3	3	8
TX	2	2	2	2	8
UT	3	3	3	3	12
VA	2	2	2	2	8
VT	3	3	3	3	12
WA	0	0	0	3	3
WI	3	3	3	3	12
WV	0	0	0	2	2
WY	5	5	0	5	15

SOURCES: ISO State Filing Handbook

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 have prompted significant growth of state-sponsored insurance mechanisms, particularly in the wake of the record 2004 and 2005 hurricane seasons. But according to the Property Insurance Plans Service Office, earned premiums of the nation's FAIR and Beach plans continued to shrink as a percentage of the overall market to 1.87 percent in 2015, down from 2.38 percent in 2014, 2.74 percent in 2013, 3.14 percent in 2012 and 3.32 percent in 2011.[39]

Much of the improvement in recent years is attributable to the continued shrinking of Florida's Citizens Property Insurance Corp., which has dropped from 14.3 percent of the market in 2011 to just 5.0 percent of the market in 2015.

However, for the fourth straight year, North Carolina has seen growth in both its FAIR Plan and its Beach Plan. The FAIR Plan has grown from 0.62 percent of the market in 2011 to 2.16 percent in 2016. Meanwhile, the Beach Plan has exploded from 3.37 percent of the market in 2011 to 7.03 percent in 2014. Combined, the two plans now account for 9.19 percent of the market, nearly doubling that of Florida's Citizens.

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 16 states that have no residual property insurance plan.

Other Plans – We also assigned penalties for a handful of other state-sponsored insurance mechanisms that damper competition in the private market. The breakdown is as follows:

39. Property Insurance Plans Services Office Inc., "2015 FAIR and Beach Plan Underwriting Results and Market Penetration Report," June 2016.

- -2.5 points were deducted for five states whose workers' comp funds account for more than a quarter of the market: Hawaii, Kentucky, New York, Oklahoma and Texas.
- -5 points were deducted for the California Earthquake Authority, which writes nearly 40 percent of that state's earthquake insurance market, and for the state funds in five other states that write more than half of the workers' comp market: Colorado, Idaho, Montana, Oregon and Rhode Island.
- -10 points were deducted for two state-operated reinsurers to whom primary insurers are required by law to cede significant volumes of premium: the Florida Hurricane Catastrophe Fund and the Michigan Catastrophic Claims Association. -10 points were also deducted from the four states that continue to operate monopoly workers' comp systems: Ohio, North Dakota, Washington and Wyoming.

We summed the weighted home and auto scores with the adjustments for other plans to reach a raw score, which then was weighted on a scale from 0.0 points, scored by North Carolina, to 15.0 points, scored by 13 states with no significant residual markets.

UNDERWRITING FREEDOM (20 percent 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 impose controls on 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.

Based on rate-filing system descriptions from the 2015 ISO State Filing Handbook, we examine the processes states employ to review rates in four key property-casualty insurance markets: private auto, homeowners, medical liability and general commercial lines. 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 narrow "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 (as expected) that Illinois has the most liberal rate-regulation rules, followed by Wyoming and Oklahoma. At the other end of the spectrum are four states (California, Delaware, Hawaii and Mississippi) that employ prior approval systems across the board.

Desk drawer rules – But while those are the states' systems as they exist "on the books," matters aren't 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 creates a lack of clarity. Based on informal discussions with experts who work in regulatory compliance, we evaluated the breadth and severity on a scale of 0 to 3. We received no reports of significant desk drawer rules in 27 of the 50 states, while six states (Arkansas, California, Florida, Georgia, New Hampshire and New York) 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 have 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. This is despite studies by, among others, the Federal Trade Commission and the Texas Department of Insurance demonstrating conclusively that credit factors are predictive of future claims.[40]

40. Federal Trade Commission, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," 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

TABLE 8: UNDERWRITING FREEDOM

State	Rate Regulation	Desk Drawer	Credit Scoring	Territory	Personal	Price Elasticity	Combined	Points
AK	4	-2	0	0	0	-1	1	7.3
AL	2	-2	0	0	0	0	0	6.7
AR	9	-3	0	0	0	0	6	10.7
AZ	12	0	0	0	0	0	12	14.7
CA	0	-3	-2	-2	-2	-1	-10	0.0
CO	8	0	0	-2	0	-1	5	10.0
CT	3	-2	0	-2	0	-1	-2	5.3
DE	0	-2	0	0	0	-1	-3	4.7
FL	11	-3	0	-2	0	-1	5	10.0
GA	6	-3	0	0	0	0	3	8.7
HI	0	-2	-2	0	-2	0	-6	2.7
IA	4	0	0	0	0	0	4	9.3
ID	12	0	0	0	0	0	12	14.7
IL	18	0	0	0	0	2	20	20.0
IN	9	0	0	0	0	-1	8	12.0
KS	4	-2	0	0	0	0	2	8.0
KY	6	0	0	0	0	0	6	10.7
LA	8	0	0	0	0	0	8	12.0
MA	4	-1	-2	0	-2	0	-1	6.0
MD	6	-2	-2	-2	0	-1	-1	6.0
ME	8	0	0	0	0	-1	7	11.3
MI	9	0	0	0	-2	0	7	11.3
MN	11	0	0	0	0	-1	10	13.3
MO	11	0	0	-2	0	-1	8	12.0
MS	0	-1	0	0	0	0	-1	6.0
MT	8	-2	0	0	-2	-1	3	8.7
NC	3	0	0	0	-2	0	1	7.3
ND	3	-2	0	0	0	0	1	7.3
NE	9	0	0	0	0	0	9	12.7
NH	7	-3	0	-2	0	0	2	8.0
NJ	4	-1	0	-2	0	0	1	7.3
NM	9	0	0	0	0	2	11	14.0
NV	2	-2	0	0	0	0	0	6.7
NY	6	-3	0	0	0	0	3	8.7
OH	12	0	0	0	0	-1	11	14.0
OK	14	0	0	0	0	0	14	16.0
OR	7	0	0	0	0	0	7	11.3
PA	7	-2	0	0	-1	-1	3	8.7
RI	9	0	0	0	0	-1	8	12.0
SC	12	-1	0	0	0	0	11	14.0
SD	11	0	0	-2	0	0	9	12.7
TN	8	0	0	0	0	0	8	12.0
TX	8	0	0	0	0	0	8	12.0
UT	12	0	0	0	0	0	12	14.7
VA	8	-1	0	0	0	-1	6	10.7
VT	12	0	0	0	0	-1	11	14.0
WA	3	-2	-2	0	0	-1	-2	5.3
WI	12	0	0	0	0	0	12	14.7
WV	2	0	0	0	0	0	2	8.0
WY	15	0	0	0	0	0	15	16.7

In fact, 2016 saw the publication of new major research that goes further than other prior studies have in untangling causation from correlation in this area. A common charge levied against the use of credit information is that it is serving merely as a proxy for income. Though prior studies have cast doubt on this claim, they have been limited by the available data and forced to rely on aggregate measures like the median income in a policyholder's ZIP code or census tract. But in a forthcoming paper in the *Journal of Empirical Legal Studies*, researchers Darcy Steeg Morris of the U.S. Census Bureau, Daniel Schwarcz of the University of Minnesota-Twin Cities and Joshua Teitelbaum of Georgetown University Law Center look instead at policyholders who purchased both home and auto policies from the same insurer. This allowed them to compare insured home values at the level of individual policyholders. Their study found that "insurance score does not act as proxy for income in a standard actuarial model of auto claim risk."[41]

While most states restrict insurers from using credit as a lone underwriting variable, there are six states that go beyond that to ban it altogether. Hawaii explicitly bans the use of credit in auto insurance underwriting and ratemaking, while California and Massachusetts disallow its use under their current regulatory regimes. Maryland has banned its use in homeowners insurance, while Washington state significantly proscribes its consideration in cancellations and nonrenewals and Alaska does not allow use of credit information in the renewal process whatsoever. We deducted -2 points for each of the six states with restrictive credit-scoring rules.

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

The states of California, Hawaii, Massachusetts, Michigan, Montana, North Carolina and Pennsylvania prohibit the use of gender as an underwriting variables, regardless of actuarial validity. California, Hawaii, Massachusetts and North Carolina also prohibit the use of age, while Michigan and Montana prohibit the use of marital status. We deducted -1 point for each of these personal markers barred as an underwriting factor.

Finally, we deducted -1 point from each of 18 states that have taken regulatory action to bar the use of pricing models that take into account the elasticity of consumer demand, otherwise known as price optimization. Conversely, we granted a +2 bonus to two states—Illinois and New Mexico—that acknowledge there is nothing illegal about the practice.

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

PART III – 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 66.0 and the standard deviation was 7.4. States were graded as follows:

More than two standard deviations above the mean: A+
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

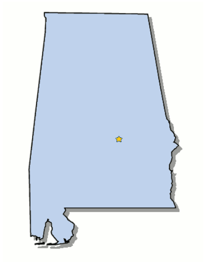
We awarded pluses and minuses to recognize states that were at the cusp of the nearest grade range.

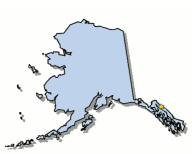
For the third straight year and fourth time in the five years we've compiled this report, Vermont had the best insurance regulatory environment in the United States. North Carolina had the worst score for the second year in a row and received a failing grade for the third year in a row.

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

41. Darcy Steeg Morris, Daniel Schwarcz and Joshua C. Teitelbaum, "Do Credit-Based Insurance Scores Proxy for Income in Predicting Auto Claim Risk?," *Journal of Empirical Legal Studies*, Aug. 16, 2016. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2685304

STATE CAPSULE REPORTS

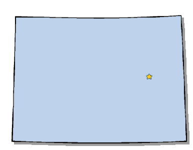
ALABAMA	2015 Grade	2016 Grade
	C	C-
	Score	Rank
	59.8	39
Strengths:	No special strengths	
Weaknesses	Concentrated home insurance market, very high homeowners loss ratio, large homeowners residual market, little underwriting freedom, high tax and fee burden.	

ALASKA	2015 Grade	2016 Grade
	C	D-
	Score	Rank
	53.1	49
Strengths:	No runoff liabilities	
Weaknesses	Concentrated auto insurance market, very low auto loss ratio, concentrated home insurance market, little underwriting freedom	

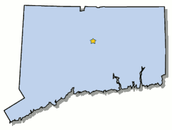
ARIZONA	2015 Grade	2016 Grade
	B	A
	Score	Rank
	75.5	6
Strengths:	Low politicization, no significant residual markets, underwriting freedom	
Weaknesses	Large runoff liabilities, thinly capitalized	

ARKANSAS	2015 Grade	2016 Grade
	B	C+
	Score	Rank
	65.2	31
Strengths:	No significant residual markets	
Weaknesses	Large regulatory surplus, behind on financial exams, desk drawer rules,	

CALIFORNIA	2015 Grade	2016 Grade
	D	D
	Score	Rank
	54.1	47
Strengths:	Competitive auto insurance market	
Weaknesses	Highly politicized, desk drawer rules, little underwriting freedom	

COLORADO	2015 Grade	2016 Grade
	B	C
	Score	Rank
	63.8	33 (tie)
Strengths:	No regulatory surplus	
Weaknesses	Behind on financial exams, very high auto loss ratio, very high homeowners loss ratio, large workers' comp fund	

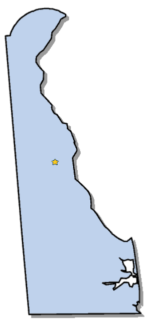
CONNECTICUT



2015 Grade	2016 Grade
B	C+
Score	**Rank**
65.9	27 (tie)

Strengths:	Competitive auto insurance market, competitive home insurance market
Weaknesses	Large regulatory surplus, thinly capitalized, little underwriting freedom

DELAWARE



2015 Grade	2016 Grade
C	D
Score	**Rank**
57.0	43

Strengths:	Low tax and fee burden.
Weaknesses	Highly politicized, large regulatory surplus, large runoff liabilities, concentrated auto insurance market, little underwriting freedom

FLORIDA

2015 Grade	2016 Grade
D	C
Score	**Rank**
64.1	32

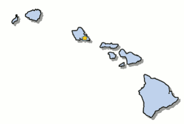
Strengths:	No regulatory surplus, competitive home insurance market, low tax and fee burden
Weaknesses	Behind on financial exams, very low homeowners loss ratio, large homeowners residual market, desk drawer rules

GEORGIA

2015 Grade	2016 Grade
C	C
Score	**Rank**
61.4	36 (tie)

Strengths:	No runoff liabilities
Weaknesses	Highly politicized, desk drawer rules

HAWAII



2015 Grade	2016 Grade
D	D
Score	**Rank**
54.2	46

Strengths:	No regulatory surplus, ahead on financial exams, strongly capitalized
Weaknesses	Concentrated auto insurance market, very low auto loss ratio, concentrated home insurance market, very low homeowners loss ratio, large workers' comp fund, little underwriting freedom

IDAHO

2015 Grade	2016 Grade
B	A
Score	**Rank**
75.7	5

Strengths:	Low politicization, no runoff liabilities, competitive auto insurance market, underwriting freedom
Weaknesses	Large workers' comp fund

ILLINOIS

2015 Grade	2016 Grade
B	A
Score	Rank
75.7	4

Strengths:	Underwriting freedom
Weaknesses	Large runoff liabilities, concentrated auto insurance market, concentrated home insurance market

INDIANA

2015 Grade	2016 Grade
C+	B
Score	Rank
70.6	15 (tie)

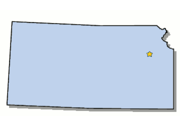
Strengths:	No significant residual markets
Weaknesses	Large runoff liabilities

IOWA

2015 Grade	2016 Grade
A	B+
Score	Rank
71.9	11

Strengths:	Low politicization, no runoff liabilities, strongly capitalized, no significant residual markets, low tax and fee burden.
Weaknesses	Behind on financial exams

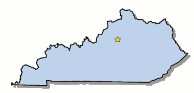
KANSAS



2015 Grade	2016 Grade
C+	C
Score	Rank
63.8	33 (tie)

Strengths:	No special strengths
Weaknesses	Highly politicized

KENTUCKY



2015 Grade	2016 Grade
A	A-
Score	Rank
73.1	9

Strengths:	Low politicization, ahead on financial exams, no runoff liabilities
Weaknesses	Concentrated home insurance market, large workers' comp fund

LOUISIANA

2015 Grade	2016 Grade
D	D
Score	Rank
54.6	45

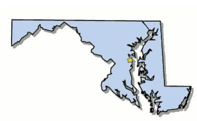
Strengths:	No special strengths
Weaknesses	Highly politicized, large regulatory surplus, concentrated auto insurance market, very low homeowners loss ratio, large homeowners residual market

MAINE

2015 Grade	2016 Grade
B	A
Score	Rank
76.6	3

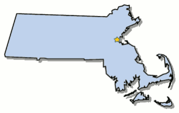
Strengths:	Low politicization, no regulatory surplus, no runoff liabilities, competitive auto insurance market, competitive home insurance market, no significant residual markets
Weaknesses	Very low homeowners loss ratio

MARYLAND



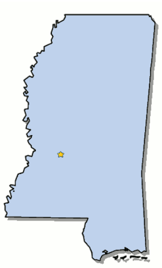
2015 Grade	2016 Grade
B	C+
Score	Rank
65.9	27 (tie)

Strengths:	Low politicization, no regulatory surplus
Weaknesses	Concentrated auto insurance market, large auto residual market, little underwriting freedom

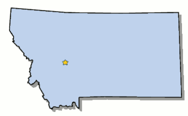
MASSACHUSETTS 	2015 Grade	2016 Grade
	C	D-
	Score	Rank
	53.2	48
Strengths:	Competitive home insurance market	
Weaknesses	Large regulatory surplus, large auto residual market, large homeowners residual market, little underwriting freedom	

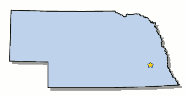
MICHIGAN 	2015 Grade	2016 Grade
	C	C+
	Score	Rank
	65.3	30
Strengths:	Low politicization, no regulatory surplus, ahead on financial exams, low tax and fee burden.	
Weaknesses	Very high auto loss ratio	

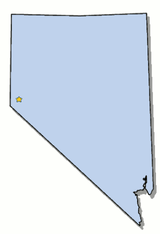
MINNESOTA 	2015 Grade	2016 Grade
	C+	B
	Score	Rank
	70.7	14
Strengths:	No special strengths	
Weaknesses	Behind on financial exams	

MISSISSIPPI 	2015 Grade	2016 Grade
	D+	D
	Score	Rank
	56.7	44
Strengths:	No special strengths	
Weaknesses	Highly politicized, concentrated home insurance market, large homeowners residual market, little underwriting freedom	

MISSOURI 	2015 Grade	2016 Grade
	B	B
	Score	Rank
	70.2	17 (tie)
Strengths:	No special strengths	
Weaknesses	Large runoff liabilities	

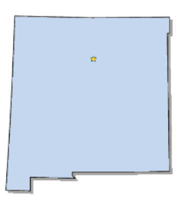
MONTANA 	2015 Grade	2016 Grade
	D	D
	Score	Rank
	57.1	42
Strengths:	No special strengths	
Weaknesses	Highly politicized, very high homeowners loss ratio, large workers' comp fund. high tax and fee burden.	

NEBRASKA 	2015 Grade	2016 Grade
	A-	B
	Score	Rank
	69.5	20
Strengths:	No special strengths	
Weaknesses	Very high homeowners loss ratio	

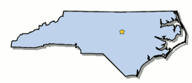
NEVADA 	2015 Grade	2016 Grade
	B+	B+
	Score	Rank
	72.2	10
Strengths:	Ahead on financial exams, no significant residual markets	
Weaknesses	Little underwriting freedom, high tax and fee burden.	

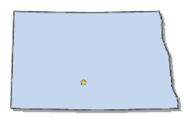
NEW HAMPSHIRE	2015 Grade	2016 Grade
	B	A-
	Score	Rank
	73.9	8
Strengths:	Low politicization, competitive auto insurance market, competitive home insurance market, no significant residual markets	
Weaknesses	Thinly capitalized, desk drawer rules	

NEW JERSEY	2015 Grade	2016 Grade
	B	B-
	Score	Rank
	68.3	22
Strengths:	Strongly capitalized, competitive home insurance market	
Weaknesses	Little underwriting freedom	

NEW MEXICO	2015 Grade	2016 Grade
	B	B
	Score	Rank
	70.2	17 (tie)
Strengths:	No runoff liabilities, underwriting freedom	
Weaknesses	Thinly capitalized, high tax and fee burden.	

NEW YORK	2015 Grade	2016 Grade
	D	D+
	Score	Rank
	57.9	40
Strengths:	No special strengths	
Weaknesses	Large regulatory surplus, behind on financial exams, large runoff liabilities, concentrated auto insurance market, large workers' comp fund, desk drawer rules	

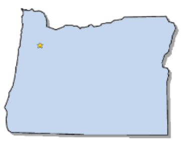
NORTH CAROLINA	2015 Grade	2016 Grade
	F	F
	Score	Rank
	50.4	50
Strengths:	No special strengths	
Weaknesses	Highly politicized, large auto residual market, large homeowners residual market, little underwriting freedom	

NORTH DAKOTA	2015 Grade	2016 Grade
	C	D+
	Score	Rank
	57.8	41
Strengths:	No runoff liabilities, competitive auto insurance market	
Weaknesses	Highly politicized, very low auto loss ratio, very low homeowners loss ratio, monopoly workers comp system, little underwriting freedom	

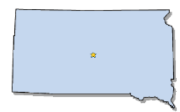
OHIO	2015 Grade	2016 Grade
	B	B
	Score	Rank
	70.2	17 (tie)
Strengths:	Underwriting freedom	
Weaknesses	Large runoff liabilities, monopoly workers comp system	

OKLAHOMA	2015 Grade	2016 Grade
	C	C
	Score	Rank
	63.8	33
Strengths:	Underwriting freedom	
Weaknesses	Highly politicized, concentrated home insurance market, very high homeowners loss ratio, large workers' comp fund	

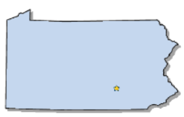
SOUTH CAROLINA	2015 Grade	2016 Grade
	A-	B
	Score	Rank
	70.6	15 (tie)
Strengths:	Underwriting freedom	
Weaknesses	Behind on financial exams, large homeowners residual market	



OREGON	2015 Grade	2016 Grade
	B	B+
	Score	Rank
	71.8	12
Strengths:	No regulatory surplus, ahead on financial exams, low tax and fee burden.	
Weaknesses	Large workers' comp fund	



SOUTH DAKOTA	2015 Grade	2016 Grade
	B+	B-
	Score	Rank
	66.1	26
Strengths:	No runoff liabilities, strongly capitalized, no significant residual markets	
Weaknesses	Large regulatory surplus, behind on financial exams, very high auto loss ratio, very high homeowners loss ratio	

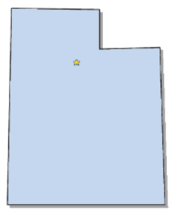


PENNSYLVANIA	2015 Grade	2016 Grade
	C	B-
	Score	Rank
	68.0	23 (tie)
Strengths:	Low politicization	
Weaknesses	Large runoff liabilities	

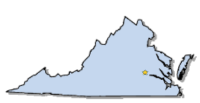
TENNESSEE	2015 Grade	2016 Grade
	A-	B-
	Score	Rank
	68.0	23 (tie)
Strengths:	No regulatory surplus, ahead on financial exams	
Weaknesses	Very high auto homeowners ratio, high tax and fee burden.	

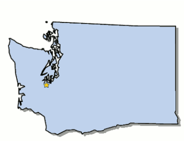
RHODE ISLAND	2015 Grade	2016 Grade
	C+	C+
	Score	Rank
	65.4	29
Strengths:	No regulatory surplus, competitive home insurance market	
Weaknesses	Behind on financial exams, large auto residual market, large homeowners residual market, large workers' comp fund	

TEXAS	2015 Grade	2016 Grade
	D	B-
	Score	Rank
	67.5	25
Strengths:	Low politicization, ahead on financial exams	
Weaknesses	Thinly capitalized, large homeowners residual market, large workers' comp fund	

UTAH	2015 Grade	2016 Grade
	A	A
	Score	Rank
	76.7	2
Strengths:	No regulatory surplus, competitive auto insurance market, no significant residual markets, underwriting freedom	
Weaknesses	No special weaknesses	

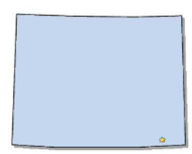
VERMONT	2015 Grade	2016 Grade
	A	A+
	Score	Rank
	80.9	1
Strengths:	Low politicization, ahead on financial exams, competitive auto insurance market, competitive home insurance market, no significant residual markets, underwriting freedom	
Weaknesses	Large runoff liabilities, high tax and fee burden.	

VIRGINIA	2015 Grade	2016 Grade
	A	B
	Score	Rank
	70.9	13
Strengths:	Ahead on financial exams	
Weaknesses	No special weaknesses	

WASHINGTON	2015 Grade	2016 Grade
	C	C-
	Score	Rank
	60.3	38
Strengths:	Ahead on financial exams, competitive auto insurance market	
Weaknesses	Highly politicized, monopoly workers comp system, little underwriting freedom	

WEST VIRGINIA	2015 Grade	2016 Grade
	C	C
	Score	Rank
	61.4	36 (tie)
Strengths:	Low politicization, no runoff liabilities, no significant residual markets	
Weaknesses	Large regulatory surplus, concentrated auto insurance market, very low auto loss ratio, high tax and fee burden.	

WISCONSIN	2015 Grade	2016 Grade
	B	A-
	Score	Rank
	75.0	7
Strengths:	Strongly capitalized, underwriting freedom	
Weaknesses	Behind on financial exams	

WYOMING	2015 Grade	2016 Grade
	B+	B
	Score	Rank
	69.3	21
Strengths:	No regulatory surplus, underwriting freedom	
Weaknesses	Concentrated home insurance market, monopoly workers comp system	

In conclusion, we are hopeful that R Street's fifth 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 look forward to steadily improve 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	10.0	8.4	14.3	9.9	9.4	15.0	14.0	80.9	A+
UT	6.4	12.9	10.0	9.6	8.1	15.0	14.7	76.7	A
ME	10.0	12.3	10.1	10.0	7.9	15.0	11.3	76.6	A
IL	6.4	13.3	10.2	6.3	4.6	14.9	20.0	75.7	A
ID	10.0	9.4	11.3	9.5	8.3	12.5	14.7	75.7	A
AZ	10.0	10.7	8.0	9.2	7.9	15.0	14.7	75.5	A
WI	6.4	12.2	10.2	8.7	8.0	14.9	14.7	75.0	A-
NH	10.0	11.7	10.0	9.6	9.6	15.0	8.0	73.9	A-
KY	10.0	12.2	13.9	7.2	5.6	13.5	10.7	73.1	A-
NV	7.1	9.8	17.0	9.1	7.4	15.0	6.7	72.2	B+
IA	10.0	12.9	9.8	8.3	6.6	15.0	9.3	71.9	B+
OR	7.1	14.4	11.6	8.5	6.3	12.4	11.3	71.8	B+
VA	7.9	10.1	11.7	8.2	7.7	14.6	10.7	70.9	B
MN	6.4	12.0	9.5	7.7	6.8	14.9	13.3	70.7	B
IN	6.4	12.9	8.4	8.7	7.1	15.0	12.0	70.6	B
SC	6.4	10.9	9.4	7.3	8.2	14.4	14.0	70.6	B
OH	6.4	13.1	9.6	9.3	8.2	9.7	14.0	70.2	B
MO	5.7	13.0	10.1	8.1	6.3	14.9	12.0	70.2	B
NM	8.6	8.4	10.0	8.2	6.4	14.6	14.0	70.2	B
NE	6.4	12.9	11.1	8.2	3.1	15.0	12.7	69.5	B
WY	6.4	12.9	10.5	7.2	5.6	10.0	16.7	69.3	B
NJ	6.4	10.9	11.0	8.4	10.0	14.3	7.3	68.3	B-
PA	10.0	11.5	7.4	8.3	7.4	14.8	8.7	68.0	B-
TN	6.4	10.6	13.6	7.8	2.6	15.0	12.0	68.0	B-
TX	10.0	10.5	7.1	9.3	7.6	10.9	12.0	67.5	B-
SD	7.1	8.9	10.5	8.0	4.0	15.0	12.7	66.1	B-
MD	10.0	11.9	10.4	6.6	7.3	13.6	6.0	65.9	C+
CT	6.4	10.3	9.6	9.6	9.8	14.9	5.3	65.9	C+
RI	6.4	12.0	9.4	8.4	9.0	8.1	12.0	65.4	C+
MI	10.0	15.0	11.9	0.0	7.5	9.6	11.3	65.3	C+
AR	6.4	8.6	10.3	7.9	6.3	15.0	10.7	65.2	C+
FL	8.6	14.6	8.8	7.4	7.4	7.3	10.0	64.1	C
CO	6.4	13.3	10.1	7.2	4.3	12.5	10.0	63.8	C
KS	2.9	11.7	10.5	8.9	7.3	14.6	8.0	63.8	C
OK	2.1	9.9	10.5	8.0	3.4	13.8	16.0	63.8	C
GA	2.9	11.2	9.7	8.2	6.2	14.6	8.7	61.4	C
WV	10.0	7.7	10.0	4.6	6.1	15.0	8.0	61.4	C
WA	2.9	11.4	13.5	9.5	7.7	10.0	5.3	60.3	C-
AL	5.7	11.5	10.8	7.1	3.6	14.4	6.7	59.8	C-
NY	6.4	7.1	8.7	5.2	8.9	12.9	8.7	57.9	D+
ND	2.9	12.7	10.7	8.2	6.1	10.0	7.3	57.8	D+
MT	2.9	10.5	10.5	8.1	4.0	12.5	8.7	57.1	D
DE	2.9	11.5	9.7	6.7	6.6	14.9	4.7	57.0	D
MS	2.9	11.0	10.6	7.3	5.6	13.4	6.0	56.7	D
LA	2.9	8.0	10.6	3.8	4.1	13.2	12.0	54.6	D
HI	7.1	12.1	15.2	4.1	0.0	13.0	2.7	54.2	D
CA	0.0	12.9	11.2	10.0	8.0	12.1	0.0	54.1	D
MA	6.4	3.1	10.6	7.6	9.8	9.6	6.0	53.2	D-
AK	5.7	10.7	11.1	2.2	1.6	14.4	7.3	53.1	D-
NC	2.9	12.3	10.7	9.0	8.2	0.0	7.3	50.4	F

ABOUT THE AUTHOR

R.J. Lehmann is senior fellow, editor-in-chief and co-founder of the R Street Institute. He is the author of numerous R Street policy papers, including the 2012 to 2016 editions of R Street's Insurance Regulation Report Card.

Before joining R Street, he served as deputy director of the Heartland Institute's Center on Finance, Insurance and Real Estate. He previously he was an award-winning business journalist who spent nine years covering the insurance, banking and securities industries, including as senior industry editor with SNL Financial, leading the news service's coverage of the drafting of the Dodd-Frank Act, the Patient Protection and Affordable Care Act and legislative and regulatory developments at both the state and federal level. Before that, he spent six years with the A.M. Best Co. as manager of their Washington bureau.

He is a three-time award winner from the American Society of Business Publication Editors and was the youngest-ever winner of a first place prize from the New Jersey Press Association. He also is the former public affairs director of the Independent Institute in Oakland, California, and the former state chapters coordinator of the Republican Liberty Caucus.

His writings have appeared in the San Francisco Chronicle, Wall Street Journal, Roll Call, CQ, The Hill, Townhall.com, Reason, The American Spectator, Orlando Sentinel, Travel Weekly and Folio magazine, among other publications.