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2013 INSURANCE REGULATION REPORT CARD

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INTRODUCTION

Welcome to the R Street Institute's 2013 Insurance Regulation Report Card, our annual examination of which states are doing 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 is to test which state regulatory systems best embody the principles of limited, effective and efficient government. In this context, that means 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, the same questions we asked last year:

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, police fraud and foster competitive, private insurance markets?

For this year's report, we have adjusted the weightings of some categories and incorporated new data sets into our analysis. In addition to examining market concentrations and residual markets in the private passenger automobile and homeowners insurance lines of business, we have added analysis of the workers' compensation markets in each of the 50 states. While commercial property/casualty insurance tends to be less stringently regulated than personal lines, workers' comp is similar to home and auto insurance in that many states exercise explicit rate controls and operate large residual markets. In fact, in four states – North Dakota, Ohio, Washington state and Wyoming – the state government serves as the monopoly source of workers' comp coverage, completely displacing the private market. Given the role workers' comp plays in the broader economy, and the potential for workers' comp costs to impact what has been an excruciatingly slow jobs recovery, we felt it essential to more deeply examine how states are performing in this essential marketplace. We also have added analysis of loss ratio data from each of the 50 states in the three targeted lines of business.

Reviewing the data on insurance in 2013, we see continued modest trends toward greater consumer and business freedom in the personal lines and workers' comp markets, as well as real efforts in some states to scale back, or otherwise place on more sound financial footing, residual insurance markets and state-run insurance entities.

Progress did not come evenly, and certain positive trends were offset by other negative ones. Among the major events in 2013:

- In May, Florida Gov. Rick Scott signed legislation (based in part on R Street proposals) lowering the maximum coverage Citizens Property Insurance Corp. can write to $700,000; creating a clearinghouse to verify the eligibility of policies coming in to Citizens; and barring Citizens from insuring new construction in areas seaward of the Coastal Construction Control Line.

- In June, the New York State Assembly adopted a package of bills to deal with homeowners insurance issues that arose following Superstorm Sandy, including banning anti-concurrent causation clauses in policies and adopting tougher standards and penalties for prompt claims investigation and settlement arising from a state of emergency. [1]

- Connecticut, which set off a trend of states moving toward more flexible rate-making when it adopted a "flex band" system in 2006, back-tracked considerably with legislation that narrowed the band from 6 percent to just 3 percent. The legislation was signed by Gov. Dannel Malloy in June.[2]

- Petitioners in Nevada succeeded in placing a referendum on the November 2014 ballot that would subject all businesses with more than $1 million of revenues in the state to a 2 percent tax on net margins, raising the potential for double-taxation of insurers, whose premium taxes already account for more than 8.1 percent of state revenues. [3]

- Oregon lawmakers introduced a slew of bills to make it easier to bring bad faith lawsuits against insurers. One of those measures – H.B. 3160, which would include insurance as a service subject to penalties for unlawful trade practices – passed the state House of Representatives, but not the Senate.[4]

- In July, Rhode Island Gov. Lincoln Chafee signed legislation, H.B. 5263, limiting when an insurer can declare a vehicle a total loss.[5]

- The Illinois House Committee on State Government Administration passed H.B. 2919, which would have created a state-run workers' compensation insurance fund.[6] It did not ultimately clear the full General Assembly.

- The California Office of Administrative Law in January gave the green light to new California Department of Insurance regulations restricting insurers' ability to negotiate auto body repair shop estimates.[7]

- The North Carolina House and Senate considered, but did not pass, legislation that would have allowed some insurers to develop rates and products outside of the state Rate Bureau system.

- During its regular biannual legislative session, the Texas Legislature considered, but did not act on, S.B. 19, a bill that would have replaced the Texas FAIR Plan Association and the financially fraught Texas Windstorm Insurance Association with an unprecedented, and even

1. Michael S. Savett, Susan T. Stead and Marie S. Reilly, "New York Assembly Approves Post-Sandy Insurance Rules," Nelson Levine de Luca & Hamilton, June 7, 2013. http://www.nldhlaw.com/publications/new-york-assembly-approves-post-sandy-insurance-rules/

2. HB 5926, Connecticut General Assembly, June 21, 2013. http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=5926&which_year=2013&SUBMIT1.x=0&SUBMIT1.y=0

3. Deloitte, " Nevada Legislature Takes No Action on Margin Tax Initiative, thus Placing the Measure on the 2014 Ballot; Revisions to Taxation of Mining also Proposed," Multistate Tax External Alert, March 19, 2013. http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/Tax/us_tax_multistate_Nevada_Alert_3-19-2013.pdf

4. HB 3160 Engrossed, Oregon Legislature, March 28, 2013. https://olis.leg.state.or.us/liz/2013R1/Measures/Text/HB3160/A-Engrossed

5. H 5263, Rhode Island General Assembly, July 17, 2013. http://legiscan.com/RI/text/H5263/id/724410/Rhode_Island-2013-H5263-Introduced.pdf

6. HB2919 Engrossed, Illinois House of Representatives. http://www.ilga.gov/legislation/98/HB/PDF/09800HB2919lv.pdf

7. Press release, "ACIC Cautions New Aftermarket Parts Regulations Could Increase Consumer Costs," Association of California Insurance Companies, Jan. 9, 2013. http://www.pciaa.net/LegTrack/web/NAIIPublications.nsf/lookupwebcontent/D81221D479C1793D86257AEE00745BD

more onerous, statewide assigned-risk plan.[8] After not passing the regular session, TWIA reform more broadly came up during again repeatedly during each of the Legislature's three subsequent special sessions.

- With the backing of Gov. Rick Snyder, the Michigan Legislature considered, but did not ultimately pass, H.B. 4612, legislation to reform that state's no-fault auto insurance system. The bill would set a fee schedule to address runaway costs and cap benefits at $1 million, which would be the highest such cap in the nation by a large margin. Michigan is currently the only state that requires uncapped personal injury protection benefits.

- In June, the Financial Stability Oversight Council designated insurers Prudential Financial and American International Group as part of an initial set of nonbanks financial firms deemed to be "systemically important financial institutions."[9] Later in the year, the G-20's Financial Stability Board issued its own list of "global systemically important insurers."

- In January, Congress approved a $9.7 billion increase in the National Flood Insurance Program's borrowing authority, as claims from Superstorm Sandy exhausted the NFIP's existing limit of $20.775 billion.[10] As of November 2013, the program's debt was estimated at more than $24 billion.[11]

- In May, Indiana Gov. Mike Pence signed H.B. 1320, putting into place a workers' compensation hospital fee schedule at 200 percent of Medicare and limiting pricing for repackaged drugs to the wholesale rate.[12]

- In September, the Missouri Legislature overrode Gov. Jay Nixon's veto of legislation barring uninsured motorists from being able to collect noneconomic damages for pain and suffering.[13]

- As part of his annual budget proposal, New York Gov. Andrew Cuomo in January introduced a package of proposals to streamline the state's workers' compensation system. [14]

- The Texas Senate Business and Commerce Committee considered, but did not pass, legislation that would prohibit insurers from using credit-based insurance scores.[15]

- In February, the Department of Housing and Urban Development promulgated rules that would make it more difficult for insurers to consider credit the history, occupation or education of homeowners insurance applicants if such practices have a "disparate impact" on minorities, lower-income consumers or other protected classes.

- In April, Tennessee Gov. Bill Haslam signed workers' comp reform legislation that moves to an administrative court system, adopts treatment guidelines and changes the method for calculating permanent partial disability benefits. [16]

- In September, the U.S. House passed the National Association of Registered Agents and Brokers Act, streamlining the system for cross-border licensing of insurance agents and brokers.

- In June, New York Financial Services Superintendent Benjamin Lawsky sent letters threatening to ban from doing business in the state any reinsurer, including non-U.S. companies, that accepted premiums from any insurer that covered shipments to or from Iran.[17]

The study consists of three sections: This introduction, which outlines the purpose of this annual study and a review of major developments of the past year in insurance regulation; an explanation of our methodology; and finally, the state rankings.

We consider this annual report the R Street Institute's flagship publication. As a state-regulated business, the insurance market offers a perfect illustration of how differing

8. Stephanie K. Jones, "Bill Proposing Property Assigned Risk Plan Filed in Texas," Insurance Journal, March 5, 2013. http://www.insurancejournal.com/news/southcentral/2013/03/05/283615.htm

9. Ian Katz & Zachary Tracer, "AIG, Prudential Named Systemically Important by Panel," Bloomberg, June 4, 2013. http://www.bloomberg.com/news/2013-06-03/u-s-regulators-vote-to-label-some-non-banks-systemically-risky.html

10. Arthur D. Postal, "Congress Passes NFIP Borrowing Authority Increase Amid Calls for Reforms," PropertyCasualty360, Jan. 4, 2013. http://www.propertycasualty360.com/2013/01/04/congress-passes-nfip-borrowing-authority-increase

11. Press Release, "Biggert-Waters Flood Insurance Reform Reviewed at Subcommittee Hearing," House Financial Services Committee, Nov. 19, 2013. http://financialservices.house.gov/news/documentsingle.aspx?DocumentID=362225

12. Chad Hemenway, "Indiana Governor Signs Workers Comp Reform," PropertyCasualty360, May 14, 2013. http://www.propertycasualty360.com/2013/05/14/indiana-governor-signs-workers-comp-reform

13. Elizabeth Crisp, "Missouri Legislature chips away at lawsuits with veto overrides," St. Louis Post-Dispatch, Sept. 15, 2013. http://www.stltoday.com/news/local/govt-and-politics/missouri-legislature-chips-away-at-lawsuits-with-veto-overrides/article_47e49050-dcb1-5342-9274-968b9f83e166.html

14. Andrew Cuomo, "2013-14 New York State Executive Budget," Office of the Governor, January 2013. http://publications.budget.ny.gov/eBudget1314/fy1314artVIIbills/PPGGArticleVII.pdf

15. Texas Senate Journal, Jan. 28, 2013. http://www.journals.senate.state.tx.us/sjrnl/83r/pdf/83RSJ01-28-F.PDF#page=7

16. Arthur D. Postal, "Tennessee Gov. Signs Workers Comp Reform," PropertyCasualty360, May 1, 2013. http://www.propertycasualty360.com/2013/05/01/tennessee-gov-signs-workers-comp-reform

17. Shayndi Rice, "Insurers Warned on Links to Iran," Wall Street Journal, June 30, 2013. http://online.wsj.com/news/articles/SB10001424127887324251504578577781499883210

approaches across what U.S. Supreme Court Justice Louis Brandeis called the 50 different "laboratories of democracy" can result in very different outcomes for consumers, for industry and for taxpayers. We hope that an objective look at state regulation will encourage states to adopt policies that promote freer markets, more efficient government processes and a deeper commitment to both consumer choice and consumer protection.

INSURANCE AND GOVERNMENT REGULATION

The insurance market is both the largest and most significant portion of the financial services industry – and, arguably, the economy as a whole – to be regulated almost entirely at the state level. While state banking and securities regulators have largely 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. U.S. personal lines and workers' compensation markets are, as a whole and in most particular states, unconcentrated.

Insolvencies are also relatively rare and, through the run-off process and guaranty fund protections enacted in nearly every state, generally quite manageable. According to figures kept by the National Conference of Insurance Guaranty Funds, after accounting for recoveries, the total net cost of the ten largest property/casualty insurance insolvencies of the past quarter century is only $5.03 billion, compared to $484.18 billion of U.S. property/casualty insurance premium written in 2012 alone.

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 -- and of particular concern in the property/casualty markets we focus on here -- 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 exists 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. In that earlier era, individual insurers generally were too small and decentralized to be able to collect sufficient data to make credible actuarial projections. McCarran-Ferguson charged states with reviewing the rates submitted by these bureaus because of concerns – justifiable, at the time – of anticompetitive collusion.

Rate bureaus still exist, but they are now, for the most part, independent consultants. With the notable exception of North Carolina, the 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.

While monopolistic practices are no longer a major concern in rate-making and underwriting, there could be a justifiable role for states to exercise rate regulation to ensure that rates are sufficient. Academics who study the property/casualty underwriting "cycle" have long noted that, in times of robust investment returns, there is competitive pressure on insurers to underprice their products in an effort to grab market share. These so-called "soft" pricing cycles typically turn harder when a major catastrophe – such as an earthquake, hurricane or terrorist event – depletes companies' surplus.

But such concerns are more appropriately handled by monitoring firms' risk-based capital, of which rates are just one of many considerations. Moreover, in practice, it is nearly unheard of for a regulator to reject a rate for being too low. Instead, often driven by political concerns about the cost of coverage, regulators frequently respond to rising rates with restrictions. Sometimes, these come in the way of explicit prior approval rules that prohibitit insurers from charging the rates they consider necessary. Other times, the restrictions are more subtle, such as disallowing primary insurers' rates to reflect rising reinsurance costs or dictating which catastrophe modeling software an insurer is permitted to use in assessing its risks. The inevitable result of these attempts at rate suppression is to drive capacity out of state, and to increase pressure on residual market mechanisms.

While the general trend of insurance markets has been toward greater rate-making and underwriting freedom, certain hot button issues – such as the use of consumer credit information – continue to evoke politically responses that perpetually threaten to undo past progress. Regulation also may, in some cases, hinder the speed with which new products are brought to market. It long has been a truism of the industry that property/casualty insurers have not introduced a new major product since the introduction of homeowners insurance in the late 1950s. This isn't, strictly speaking, true. Pet insurance has been a new and rapidly growing product. Various forms of coverage for loss or damage to cellular phones, or to guard against identity theft, likewise have emerged in recent years. And insurers have introduced new features, like accident forgiveness and pay-per-mile pricing in auto insurance, that ought to be considered, effectively, new products. It is nonetheless also true that there are ways in which insurance innovation lags other segments of the financial services industry when it comes to introducing new products and services.

We believe such innovations could be more widespread if more states were to free their insurance markets. An open and free insurance market maximizes the effectiveness of competition and best serves consumers.

METHODOLOGY

The report card represents our best attempt at an objective evaluation of the regulatory environments in each of the 50 states. It makes use of 19 variables that measure how well states are monitoring insurer solvency and policing fraud; how efficiently they are spending the insurance taxes and fees they collect; how competitive their home, auto and workers' comp insurance markets are; the degree to which they permit insurers to adjust rates and employ rating criteria as they see fit, and finally, the transparency and politicization of insurance regulation in the states. For each of the 19 variables, we use the most recent year's data available.

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. For most variables, a plurality of states are assigned a baseline score of zero, earning points for demonstrating they are especially efficient, especially effective, or especially pro-market. Points are detracted for states that demonstrate notable inefficiency, ineffectiveness or especially stringent controls on rates and underwriting.

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. The greatest weight is given to variables that matter most to consumers, such as the competitiveness of markets, while giving relatively less weight to matters primarily of interest to companies, such as how politicized or transparent a state's insurance regulatory system is.

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. For example, the ability to bring insurance products to market in a relatively timely manner is tremendously important to effective and efficient regulation, but there is little available data on which to compare the states on this score. We also lack good measures of how well states regulate forms, how responsive they are to consumer inquiries, and the level of competition in local markets for insurance agents and brokers.

SOLVENCY REGULATION

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.

Following a spate of liability insurer insolvencies in the late 1980s, then-House Commerce Committee Chairman John Dingell, D-Mich., produced a 1990 report, titled "Failed Promises," 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 release of Dingell's report, 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 insurer insolvencies following 1992's Hurricane Andrew. These trends helped give a political boost to legislation sponsored by Dingell in the early 1990s to create a Federal Insurance Solvency Commission and preempt many state regulatory powers.

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 ever since, with few major insolvencies, even following such events as the terrorist attacks of September 11, 2001, the record hurricane seasons of 2004 and 2005 and the financial crisis of 2008 and 2009.

As part of our report, we have chosen two variables to monitor how well states are responding to their duty to regulate insurer solvency, both based primarily on data reported by insurance departments in the NAIC's annual Insurance Department Resources Report.

FINANCIAL EXAMS (-10 TO 10 POINTS)

Under the state-based system of insurance regulation, no matter how many states an insurer operates in, primary responsibility for monitoring that insurer's solvency lies with the state in which it is domiciled.

This may strike some as inequitable. After all, states vary greatly in both size and number of domestic insurers. Indeed, Iowa and Mississippi both have populations of about 3 million residents, but the latter has 41 domestic insurers, while the former has 213.

However, the burden is not so disproportionate as it would appear. Because insurance departments are funded primarily by fees paid by regulated insurers and insurance producers, those with an unusually large number of domestic companies

TABLE I: SOLVENCY REGULATION

	Domestic Companies Examined, 2008-2012		Runoff Claims Liability to Total Premium		Total Points Solvency Regulation
State	(%)	Score	(%)	Score	
AK	191.1	5	0.0	10	15
AL	122.6	-5	0.1	5	0
AR	80.6	-5	0.4	5	0
AZ	94.6	-5	18.2	-5	-10
CA	152.3	0	4.9	0	0
CO	95.2	-5	0.0	5	0
CT	114.5	-5	1.6	5	0
DE	140.6	0	11.0	0	0
FL	89.0	-5	2.4	5	0
GA	105.0	-5	0.0	10	5
HI	122.0	-5	0.2	5	0
IA	56.4	-10	0.0	10	0
ID	145.4	0	0.2	5	5
IL	116.5	-5	4.8	0	-5
IN	115.6	-5	19.6	-5	-10
KS	118.5	-5	0.1	5	0
KY	124.2	-5	0.3	5	0
LA	103.6	-5	0.1	5	0
MA	128.4	0	0.8	5	5
MD	146.3	0	1.0	5	5
ME	85.7	-5	0.0	10	5
MI	173.8	5	0.0	5	10
MN	36.5	-10	0.0	5	-5
MO	100.5	-5	0.9	5	0
MS	154.9	0	1.9	5	5
MT	94.4	-5	0.0	10	5
NC	120.7	-5	5.0	0	-5
ND	113.6	-5	0.0	10	5
NE	124.8	-5	4.8	0	-5
NH	121.4	-5	61.5	-10	-15
NJ	120.0	-5	2.3	5	0
NM	159.4	0	0.0	10	10
NV	278.4	10	0.2	5	15
NY	80.5	-5	6.3	0	-5
OH	106.8	-5	4.2	0	-5
OK	168.8	0	2.3	5	5
OR	163.6	0	0.0	10	10
PA	157.2	0	24.5	-10	-10
RI	82.8	-5	3.2	5	0
SC	50.3	-10	1.0	5	-5
SD	91.2	-5	0.0	5	0
TN	224.1	5	0.0	10	15
TX	150.8	0	2.1	5	5
UT	51.2	-10	1.5	5	-5
VA	202.7	5	0.6	5	10
VT	267.0	10	18.4	-5	5
WA	185.0	5	0.1	5	10
WI	75.5	-10	2.0	5	-5
WV	95.8	-5	0.0	10	5
WY	106.7	-5	0.0	10	5

Source: NAIC Insurance Department Resources Report

also reap the windfall of unusually large resources. In fact, as will be discussed in greater detail later in this report, for most states, insurance regulation is, in effect, 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 the company is treating 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 in 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 2008 through 2012. 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 35 of the 50 states met that minimum standard, although that necessarily means that 15 states did not. The mean percentage of domestic insurers examined was 126.1 percent.

For scoring purposes, we deducted -5 points for any department that fell below the mean and -10 points for five departments (Wisconsin, Iowa, Utah, South Carolina and Minnesota) that fell more than a standard deviation below the mean. We awarded +5 points to five departments that scored more than one standard deviation above the mean and awarded +10 point to two departments (Nevada and Vermont) that managed to score more than two standard deviations above the mean.

RUN-OFFS (-10 TO 10 POINTS)

Measuring financial exams completed offers a good quantitative assessment of how robust a state's solvency regulation regime is, but there is a need for a qualitative assessment, 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 could find to assess the quality of solvency regulation is to look at regulatory run-offs, where an insurer has ceased writing new business and instead chosen to wind down its remaining obligations over time. While run-offs are often voluntary, when a company becomes financially impaired, a department may have to intervene by placing the 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 run-off, supervision, conservation, receivership and liquidation for each state, as of Dec. 31, 2012. The totals ranged from Pennsylvania's roughly $23.5 billion to 11 states that had no in-progress claims liability at all. States were scored on the proportion of total 2012 net written premiums the outstanding run-off liabilities represented.

We found a mean of 4.2 percent for all states, but a relatively high standard deviation of 9.9 percentage points. We awarded +10 points to each of the 11 states with no regulatory run-off liabilities at all. We also awarded +5 points for each of 27 states whose run-off liabilities were below the mean of 4.2 percent. We deducted -5 points from three departments – Arizona, Indiana and Vermont – whose liabilities were more than a standard deviation higher than the mean and deducted -10 points from two departments, New Hampshire and Pennsylvania, whose liabilities were more than two standard deviations above the mean.

FRAUD (-10 TO 10 POINTS)

After solvency regulation, perhaps the next most important duty of insurance regulators is to police fraud. Particularly in casualty lines of business like auto insurance and workers' compensation, where claims are frequently tied to medical treatment, fraud is a costly problem that can impose significant burdens on consumers and force companies to withdraw from markets.

In 2007, the Insurance Information Institute estimated insurance fraud accounted for about 10 percent of the property/casualty industry's incurred losses and loss adjustment expenses.[18] A report earlier this year from the Aite Group estimated the volume of property/casualty fraud in 2012 at $64 billion, with auto insurance fraud representing $26 billion of that total.[19] The National Insurance Crime Bureau reported receiving 116,171 questionable claims referred by NICB member companies in 2012, up 16 percent from the 100,201 reported in 2011.[20]

It is exceedingly difficult to assess how well states handle the challenge of policing insurance fraud. However, there is significant variation in the tools and resources that states have granted their insurance departments to tackle the problem, and it is those variations that we have chosen to measure as part of this report card.

+2 points were assigned to each of the 39 states that maintain a separate criminal fraud unit.

+2 points were assigned to each of the 32 states where insurance fraud investigators are empowered as officers of the peace. (In Rhode Island, where powers vary depending on the investigator and type of crime, we awarded +1 point.)

+1 point was assigned to each of the 33 states in which there are no limits to the kinds of insurance fraud that can be investigated.

In addition, we looked at the percentage of total full-time equivalent staff and contract workers within each department who are dedicated to antifraud enforcement. We found a mean across the states of 7.1 percent of staff devoted to antifraud activities. We awarded +5 points to four departments – New Jersey, California, Florida and Minnesota – whose antifraud staffing was more than a standard deviation greater than the mean. We deducted -5 points from one department, Illinois, whose staffing fell more than a standard deviation

18. Ralph Burnham, "Are Insurers Winning or Losing the Fraud Game," Claims Journal, April 15, 2013. http://www.claimsjournal.com/magazines/idea-exchange/2013/04/15/226656.htm

19. Stephen Applebaum, " The Escalating War on Insurance Fraud: P&C Carriers and Fraudsters Up Their Games," Aite Group, April 3, 2013. http://www.aitegroup.com/report/escalating-war-insurance-fraud-pc-carriers-and-fraudsters-their-games#sthash.OWC5aXsc.dpuf

20. Press Release, "NICB: Questionable Claims in the United States," National Insurance Crime Bureau, May 16, 2013. https://www.nicb.org/newsroom/news-releases/u-s--questionable-claims-report

TABLE 2: ANTIFRAUD

[State]	Antifraud Staff as Percentage Total (%)	Criminal Fraud Unit	Peace Power	Limited Fraud Types	Total Points Antifraud
AK	7.9	Yes	Yes	No	5
AL	1.3	Yes	Yes	No	3
AR	7.6	Yes	Yes	No	5
AZ	7.3	Yes	Yes	No	5
CA	27.2	Yes	Yes	No	10
CO	7.5	Yes	Yes	No	5
CT	4.7	Yes	Yes	Yes	4
DE	5.7	No	No	No	1
FL	22.4	Yes	Yes	No	10
GA	4.7	Yes	Yes	Yes	4
HI	9.9	Yes	Yes	Yes	4
IA	4.8	Yes	Yes	No	5
ID	7.0	Yes	No	No	3
IL	0.4	Yes	No	Yes	-3
IN	3.4	No	No	_	0
KS	2.0	Yes	No	No	3
KY	9.6	Yes	Yes	No	5
LA	1.4	Yes	Yes	No	5
MA	7.3	Yes	Yes	No	5
MD	11.7	Yes	No	No	3
ME	0.0	No	No	_	-10
MI	0.0	No	No	No	-9
MN	19.9	Yes	Yes	No	10
MO	6.9	No	No	No	1
MS	3.1	Yes	Yes	No	5
MT	8.1	Yes	No	No	3
NC	5.0	Yes	Yes	No	5
ND	4.0	Yes	Yes	No	5
NE	5.0	Yes	Yes	No	5
NH	8.5	Yes	No	No	3
NJ	30.4	Yes	Yes	No	10
NM	11.2	Yes	Yes	No	5
NV	5.5	Yes	Yes	No	5
NY	5.9	Yes	Yes	No	5
OH	7.3	No	No	No	1
OK	7.1	Yes	Yes	No	5
OR	4.0	No	No	_	0
PA	5.0	Yes	Yes	Yes	4
RI	2.0	Yes	Varies	No	4
SC	0.0	Yes	Yes	No	-5
SD	10.5	Yes	Yes	No	5
TN	6.1	Yes	No	No	3
TX	3.1	Yes	Yes	No	5
UT	11.3	Yes	Yes	No	5
VA	10.3	Yes	Yes	Yes	4
VT	0.0	Yes	No	_	-8
WA	7.0	Yes	Yes	Yes	4
WI	0.0	No	No	_	-10
WV	12.7	Yes	No	No	3
WY	0.0	No	No	No	-9

Source: Insurance Department Resources Report

below the mean and deducted -10 points from six other departments who reported effectively no full-time antifraud staff.

POLITICIZATION (-30 TO 0 POINTS)

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 ensure 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 ugly 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 elected governors and legislators. 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 property and casualty insurance is a hot button political issue, as well as those where legislation that would restrict insurance market freedom gained traction in 2013. Penalties were assessed in the following ways.

- The 11 states in which the insurance commissioner is an elected position automatically received a -10.

Those states are California, Delaware, Georgia, Kansas, Louisiana, Mississippi, Montana, North Carolina, North Dakota, Oklahoma and Washington state. In Florida, where insurance producers are regulated by the elected chief financial officer and the Office of Insurance Regulation is incorporated as part of the CFO's Department of Financial Services, we deducted -5 points.

- In states in which property and casualty insurance regulation was a major campaign topic of at least one statewide ballot between 2010 and 2013, a score of -5 was assigned. We have identified three races that meet these criteria:

1. Florida's 2010 gubernatorial race between Rick Scott and Alex Sink, which focused heavily on property insurance issues.

2. Michigan's 2010 gubernatorial election, in which reform of the state's no fault auto insurance system was a campaign topic.

3. California's 2012 ballot initiative over whether drivers should be eligible to get auto insurance discounts on the basis of continuous coverage.

For each 2013 bill that significantly restricts market freedom or adds significantly to the cost of doing business in property/casualty insurance markets that passed at least one house of the legislature or the insurance committees in both houses, -5 points were deducted. We identified these four key pieces of legislation, as well as one regulatory decision, all of which are outlined in the introductory section of the paper.

1. Oregon bad faith legislation

2. Rhode Island total loss legislation

3. New York post-Sandy rules

4. Connecticut flex band narrowing

5. California auto body repair regulations

REGULATORY CLARITY (-10 TO 10 POINTS)

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.

Where we received reports from more than one source of a state using "desk drawer rules," we assigned a score of -10. Those states were: California, Connecticut, Georgia, Iowa, New Jersey, New York, Pennsylvania, Texas and Washington state.

However, we also assigned +10 points to any state that at least two sources identified as being notably transparent in their rule-making and implementation process. Those states were: Illinois, Louisiana, North Carolina, Ohio, South Carolina, Vermont and Virginia.

FISCAL EFFICIENCY

We feel it is important that state insurance regulators not only do their jobs well, but that they do 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 23 states, 100 percent of the department's revenues comes from regulatory fees and assessments. Fees and assessments account for more than 90 percent of the budget in nine other states, and for more than 80 percent of the budget in an additional four states. Other states draw on a combination of fees and assessments, fines and penalties, general funds and other sources. Georgia and Pennsylvania are the only states that do not directly draw any of their revenues from the fees and assessments they levy, in each case drawing the bulk of their operating funds 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 $1.29 billion on insurance regulation in 2012 but collected more than double that amount, $2.69 billion, in regulatory fees and assessments from the insurance industry. State insurance departments also collected $137.6 million in fines and penalties and another $1.03 billion in miscellaneous revenues. States separately collected $15.64 billion in insurance premium taxes. Altogether, of the $19.5 billion states collected from the insurance industry last year, only 6.6 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.

TABLE 3: FISCAL EFFICIENCY

	Taxes/Fees to Total Premiums		Fee Income to Total Budget		Total Fiscal Efficiency
State	(%)	Score	(%)	Score	
AK	1.88	-5	121.3	5	0
AL	1.55	0	127.9	5	5
AR	1.67	0	171.5	5	5
AZ	1.95	-5	164.1	5	0
CA	1.08	5	115.7	5	10
CO	0.78	5	72.2	10	15
CT	0.37	10	94.9	10	20
DE	0.31	10	310.8	0	10
FL	0.26	10	80.3	10	20
GA	0.80	5	156.7	5	10
HI	1.33	0	61.0	10	10
IA	0.45	10	215.5	0	10
ID	1.37	0	266.2	0	0
IL	0.63	10	94.1	10	20
IN	0.76	5	212.4	0	5
KS	1.20	5	136.1	5	10
KY	0.95	5	184.1	5	10
LA	1.96	-5	330.4	0	-5
MA	1.00	5	1141.7	-10	-5
MD	1.04	5	99.7	10	15
ME	1.57	0	169.1	5	5
MI	0.06	10	86.7	10	20
MN	1.17	5	171.6	5	10
MO	0.80	5	100.0	10	15
MS	2.06	-5	108.6	5	0
MT	1.93	-5	354.1	0	-5
NC	1.31	0	152.1	5	5
ND	0.98	5	115.9	5	10
NE	0.89	5	102.0	5	10
NH	1.26	0	128.7	5	5
NJ	1.07	5	279.7	0	5
NM	1.81	-5	457.0	-5	-10
NV	2.27	-5	127.8	5	0
NY	1.28	0	534.3	-5	-5
OH	0.86	5	185.8	5	10
OK	1.43	0	119.1	5	5
OR	0.32	10	90.1	10	20
PA	0.86	5	228.6	0	5
RI	1.36	0	33.0	10	10
SC	1.03	5	151.5	5	10
SD	1.46	0	362.1	0	0
TN	2.19	-5	78.8	10	5
TX	1.40	0	207.5	0	0
UT	1.20	5	85.6	10	15
VA	1.17	5	283.7	0	5
VT	2.07	-5	121.2	5	0
WA	1.38	0	127.8	5	5
WI	0.62	10	235.5	0	10
WV	2.52	-10	372.0	-5	-15
WY	0.63	10	77.2	10	20

Source: Insurance Department Resources Report

TAX AND FEE BURDEN (-10 TO 10 POINTS)

First, we look 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 the state. This is the tax and fee burden, and the results range from a low of 0.06 percent for Michigan to a high of roughly 2.5 percent for West Virginia. The mean was 1.206 percent. We awarded +5 points to states that were below the mean and +10 points to states that were more than standard deviation below the mean. States that were more than a standard deviation above the mean had -5 points deducted. West Virginia, which was more than two standard deviations above the mean, saw -10 deducted.

REGULATORY SURPLUS (-10 TO 10 POINTS)

As mentioned above, 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 collect about $1.4 billion more in regulatory fees than they spend on regulation.

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 programs, but often, they do not. In essence, by collecting this regulatory surplus from insurance fees, states are laying a stealth tax on insurance consumers to fund what should be general obligations.

For this variable, we awarded +10 to 13 states with no regulatory surplus. States that had some regulatory surplus, but whose fees were less than the mean of 196.1 percent of their budget, received +5 points. We deducted -5 for those states whose regulatory surplus was more than a standard deviation greater than the mean and -10 points for the one state, Massachusetts, that was more than two standard deviations greater than the mean.

RESIDUAL MARKETS

Residual automobile, homeowners and workers' compensation 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 is typically an implicit assumption that states will stand behind the pool 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 one-half of 1 percent of the market would have serious consequences for automobile insurance prices in any state or affect consumers outside of it.

But where residual markets grow large, it is evidence that regulatory restrictions have prevented the market 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, auto and workers' comp insurance using 2012 data from the Automobile Insurance Plans Service Office, the Property Insurance Plans Service Office, NCCI Holdings, and SNL Financial, or more recent figures, where they were available.

TABLE 4: AUTO INSURANCE MARKETS

	Residual Market		Market Concentration		5-Year Avg. Loss Ratio		Auto Market Total
State	(%)	Score	HHI	Score	(%)	Score	
AK	0.0	0	1693	-10	56.76	0	-10
AL	0.0	0	1155	0	62.35	0	0
AR	0.0	0	1028	0	64.35	0	0
AZ	0.0	0	859.1	5	60.56	0	5
CA	1.0	-1	772.1	10	59.75	0	9
CO	0.0	0	951	5	64.52	0	5
CT	0.0	0	742.6	10	61.63	0	10
DE	1.0	-1	1251	-5	67.26	0	-6
FL	1.0	-1	1054	0	67.76	0	-1
GA	0.0	0	1021	5	63.27	0	5
HI	1.0	-1	1302	-5	48.8	-5	-11
IA	0.0	0	986.4	5	60.39	0	5
ID	0.0	0	832.8	5	54.53	0	5
IL	0.0	0	1238	-5	61.91	0	-5
IN	0.0	0	923.2	5	62.12	0	5
KS	0.0	0	959.6	5	63.7	0	5
KY	0.0	0	1130	0	69.14	0	0
LA	0.0	0	1565	-10	63.01	0	-10
MA	2.6	-3	1232	-5	62.05	0	-8
MD	1.8	-2	1248	-5	65.84	0	-7
ME	0.0	0	706.7	10	53.99	-5	5
MI	17.1	-17	1003	5	117.5	-10	-22
MN	1.0	-1	1030	0	60.56	0	-1
MO	1.0	-1	1014	5	64.15	0	4
MS	0.0	0	1165	0	61.85	0	0
MT	0.0	0	1018	5	59.92	0	5
NC	17.3	-17	920.2	5	64.12	0	-12
ND	0.0	0	794.4	10	56.55	0	10
NE	0.0	0	1020	5	65.49	0	5
NH	1.0	-1	757.9	10	57.38	0	9
NJ	0.0	0	956.6	5	68.3	0	5
NM	0.0	0	1037	0	60.19	0	0
NV	0.0	0	839.5	5	61.86	0	5
NY	1.0	-1	1333	-5	67.58	0	-6
OH	0.0	0	839.1	5	59.86	0	5
OK	0.0	0	1012	5	68.41	0	5
OR	0.0	0	1050	0	61.8	0	0
PA	0.0	0	997.4	5	61.86	0	5
RI	2.0	-2	951.6	5	64.15	0	3
SC	0.0	0	1168	0	64.41	0	0
SD	0.0	0	843.2	5	63.74	0	5
TN	1.0	-1	1145	0	67.43	0	-1
TX	1.0	-1	903.1	5	63.51	0	4
UT	0.0	0	822.3	5	59.97	0	5
VA	0.0	0	1014	5	62.74	0	5
VT	1.0	-1	730.2	10	56.65	0	9
WA	0.0	0	791.1	10	60.65	0	10
WI	0.0	0	951.3	5	61.71	0	5
WV	0.0	0	1307	-5	57.77	0	-5
WY	0.0	0	1206	0	62.36	0	0

Sources: AIPSO, SNL Financial

RESIDUAL AUTO MARKET (-17 TO 0 POINTS)

In all the business of insurance, there has perhaps 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, as of 2012, they represent only about 0.8 percent of what is a $172.28 billion nationwide market.

The incredible shrinking 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, today, only North Carolina maintains a pure rate bureau system. 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 a deep troves of data on consumers' credit, driving history, occupations, education levels, and where, when, how, and how they drive to craft rates that are individually tailored to individual drivers. More recently, advances in technology known as "telematics" has permitted some companies to begin offering rates that charge per-mile and take into account drivers' real-time performance on the road to segment rates.

Today, 45 jurisdictions maintain assigned risk "Automobile Insurance Plans" for applicants who can't find coverage in the voluntary market. In an assigned risk AIP, residual market risks are shared equitably among all carriers licensed to write business in the state. Most are exceedingly small, although Rhode Island's accounts for about 2 percent of its market and AIPs account for about 1 percent of the market in states such as California, Delaware, Tennessee, Texas and Vermont.

The list of assigned risk states now also includes Missouri, which switched to an AIP in September 2008 when it placed the Missouri Joint Underwriting Association into run-off, and Massachusetts, which created the Massachusetts Automobile Insurance Plan, also in 2008, to replace the Commonwealth Auto Reinsurers mechanism. Massachusetts has the largest AIP in the market, at about 3 percent of its market, but that's less than half the market share CAR had when the state initiated its "managed competition" program five years ago. Four other states – Florida, Hawaii, Minnesota and New York – continue to operate joint underwriting authorities, each representing about 1 percent of the market. In addition, Maryland has a state fund mechanism, Maryland Automobile Insurance Fund, to provide automobile insurance to about the 2 percent of applicants who cannot obtain coverage in the voluntary market.

Two other states – New Hampshire and North Carolina – maintain automobile reinsurance facilities through which auto insurers provide coverage and service claims. Policies are initially written by private carriers, but an insurer operating in those states then chooses whether it wishes to retain the risks or cede them to the reinsurance pool. New Hampshire's reinsurance facility is relatively small, while the $787 million of premium ceded last year to the North Carolina Reinsurance Facility represented about 17 percent of the premium written in the state.

While not technically a residual market mechanism, we also included in this section the Michigan Catastrophic Claims Association. An outgrowth of Michigan's unique law that every carrier must provide uncapped lifetime personal injury protection benefits, the MCCA is a state-backed reinsurance facility to which Michigan auto insurers cede the risk of PIP claims that exceed $500,000. It took in $1.14 billion in ceded premium in 2012, which, like, the North Carolina Reinsurance Facility, represented about 17 percent of the premiums written in the state.[21]

For this metric, we deducted -1 point for every percentage of market share (or, in the case of the reinsurance funds, ceded premiums as a percentage of total premiums) the residual mechanisms represented.

RESIDUAL HOMEOWNERS MARKET (-23 TO 0)

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 lower-income 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 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 California sponsors a privately financed, government-run pool solely to cover earthquake risk.

While most FAIR plans are quite small, excessive price controls in some states have prompted huge increases in the total loss exposure of state-sponsored insurance mechanisms. According to the Property Insurance Plans Service Office, total exposure of the nation's FAIR and beach plans nearly

21. Annual Statement of the Michigan Catastrophic Claims Association, June 30, 2013. http://www.michigancatastrophic.com/LinkClick.aspx?fileticket=TsTweY3jCGA%3d&tabid=2935

doubled from $419.5 billion in 2005 to $818.1 billion in 2012 and has surged by 1,396 percent since 1990.[22]

For this section, we relied on PIPSO data for FAIR and beach plans, deducting -1 point for each percentage point of market share controlled by the residual market mechanisms. Florida's Citizens Property Insurance Corp. is the single-largest residual market mechanism, with about 14 percent of the market, while Louisiana Citizens has about 4 percent of the market. The largest FAIR plans include the Massachusetts Property Insurance Underwriting Association, with about 7 percent of the market, and the Rhode Island Joint Reinsurance Association, with about 4 percent of the market. The largest beach plans are the Texas Windstorm Insurance Association and the North Carolina Insurance Underwriting Association, both with about 4 percent of the market.

In addition, we assigned scores for premiums written by the California Earthquake Authority and premiums ceded to the Florida Hurricane Catastrophe Fund, the only general purpose property reinsurer sponsored by a state entity. Less $222.82 million of premiums it ceded back to private reinsurance markets, the CEA's $346.42 million of 2012 net premiums would represent about 5 percent of the state's homeowners market, were earthquake premiums to be included in the size of that market. In Florida's case, to avoid double counting, we deducted the $475 of premium ceded by Citizens to the Cat Fund,[23] with the remaining $779.2 million of Cat Fund premiums accounting for about 9 percent of the market.

RESIDUAL WORKERS' COMP MARKET (-20 TO 0)

In 48 states and the District of Columbia, all employers are required to compensate employees for workplace-related accidents and illnesses on a no-fault basis. (Texas and Oklahoma permit employers to opt out into the tort system on a voluntary basis.) As such, workers' compensation insurance is one of the most crucial coverages offered in the commercial property/casualty market. Given its intimate link with labor issues and the broader economy, it also tends to be one of the most politically charged and heavily regulated.

While states tend to permit greater rate-making and underwriting freedom for most commercial insurance rates, given the presumption of competent parties with roughly equal bargaining power, workers' comp rates are in many states just as regulated as the so-called "personal lines" of home and auto. This fact is attested to in the significant role played by residual market entities in many workers' comp markets.

22. Property Insurance Plans Service Office, "PIPSO Reports – 2013," June 2013.

23. Citizens Property Insurance Corp. "2013 Operating Budget," Board of Governors meeting, Dec. 14, 2012. https://www.citizensfla.com/shared/corpfinance/2013Budget.pdf

In fact, four states – Ohio, North Dakota, Washington and Wyoming – operate monopolistic workers' comp markets in which the state itself is the only available source of coverage, except for qualified self-insured plans. In addition, 15 states operate competitive workers' comp funds that serve as a market of last resort, although in several of those states, it is the leading or even dominant provider. Most other states operate assigned risk plans, with 19 such plans administered by the National Council on Compensation Insurance. Twelve other state plans are administered by a different third party. For this section, using data provided by SNL Financial, NCCI and other plan administrators, we deducted -1 point for every five points of market share held by the residual market entity, up to -20 points for the four monopolistic states.

MARKET CONCENTRATION

"Free" markets are a theoretical abstraction. Competitive markets are a measurable reality.

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, homeowners and workers' comp markets, as measured by the 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 firm with just one monopolistic firm, the HHI would be 10,000.

The DOJ and Federal Trade 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.

AUTO INSURANCE CONCENTRATION (-10 TO 10 POINTS)

On a nationwide basis, the auto insurance market in 2012 had an HHI score of 711.2. Louisiana and Alaska were the only states with markets that would be considered moderately concentrated and no state would be considered highly concentrated.

We assigned +5 points to every state with an HHI below the mean of 1025.4, and +10 points to seven states that were more than a standard deviation below the mean. Seven other states that were more than a standard deviation above the mean got -5 points and the two states that were more than two standard deviations above the mean got -10 points.

TABLE 5: HOMEOWNERS INSURANCE MARKETS

	Residual Market		Market Concentration		5-Year Avg. Loss Ratio		Home Market Total
state	(%)	Score	HHI	Score	(%)	Score	
AK	0.0	0	2071	-10	52.37	0	-10
AL	1.6	-2	1370	-5	92.59	-5	-12
AR	0.0	0	1181	0	96.11	-5	-5
AZ	0.0	0	942.7	5	76.13	0	5
CA	5.7	-6	1020	5	43.72	-5	-6
CO	0.0	0	1050	0	97.54	-5	-5
CT	0.3	0	617.7	10	61.94	0	10
DE	0.2	0	1207	0	48.45	0	0
FL	23.0	-23	678.8	10	34.85	-5	-18
GA	0.6	-1	1273	-5	91.47	-5	-11
HI	0.0	0	1804	-10	16.75	-10	-20
IA	0.1	0	1180	0	81.14	0	0
ID	0.0	0	847.7	5	57.46	0	5
IL	0.1	0	1456	-10	76.05	0	-10
IN	0.1	0	1045	0	79.66	0	0
KS	0.4	0	1050	0	82.91	0	0
KY	0.4	0	1327	-5	97.4	-5	-10
LA	4.0	-4	1172	0	53.46	0	-4
MA	6.9	-7	727	10	46.87	-5	-2
MD	0.1	0	1065	0	66.68	0	0
ME	0.0	0	559.9	10	48.6	0	10
MI	0.9	-1	996.5	5	65.26	0	4
MN	0.2	0	1082	0	79.78	0	0
MO	0.1	0	1163	0	82.44	0	0
MS	2.6	-3	1317	-5	57.65	0	-8
MT	0.0	0	1190	0	78.28	0	0
NC	4.2	-4	896.1	5	68.58	0	1
ND	0.0	0	844.8	5	46.86	-5	0
NE	0.0	0	1198	0	82.13	0	0
NH	0.0	0	610.4	10	56.16	0	10
NJ	0.4	0	586.4	10	77.31	0	10
NM	0.7	-1	1234	-5	60.56	0	-6
NV	0.0	0	1003	5	44.79	-5	0
NY	0.5	-1	782.1	5	54.1	0	4
OH	0.6	-1	880.4	5	88.5	0	4
OK	0.0	0	1287	-5	115.58	-10	-15
OR	0.1	0	1247	-5	49.08	0	-5
PA	0.2	0	1046	0	67.13	0	0
RI	3.6	-4	764	10	43.72	-5	1
SC	0.5	-1	943.6	5	55.29	0	4
SD	0.0	0	849.7	5	80.28	0	5
TN	0.0	0	1282	-5	113.89	-10	-15
TX	5.1	-5	1168	0	73.78	0	-5
UT	0.0	0	944.6	5	57.73	0	5
VA	0.5	-1	996.9	5	56.83	0	4
VT	0.0	0	665.4	10	48.86	0	10
WA	0.0	0	965.4	5	52.27	0	5
WI	0.1	0	876.2	5	69.33	0	5
WV	0.1	0	1206	0	68.33	0	0
WY	0.0	0	1317	-5	75.3	0	-5

Sources: PIPSO, SNL Financial

HOMEOWNERS INSURANCE CONCENTRATION (-10 TO 10 POINTS)

On a nationwide basis, the auto insurance market in 2012 had an HHI score of 667.2. Hawaii and Alaska were the only states with moderately concentrated homeowners insurance markets and no state had a highly concentrated market.

We assigned +5 points to states whose HHI scores were below the mean of 1059.7, and +10 points to eight states that were more than a standard deviation below the mean. States that were more than a standard deviation above the mean were assigned -5, and three states that were more than two standard deviations above the mean (Hawaii and Alaska, plus Illinois) got -10.

WORKERS' COMP CONCENTRATION (-10 TO 10 POINTS)

The concentrations of state workers' comp markets vary much more widely than do those of home and auto insurance. Evidence of this can be seen in the fact that, while the nationwide HHI is 317.5, indicating a very competitive market, the mean of the 50 state markets was 1234.8.

For weighting purposes, we excluded from consideration the four states with monopolistic state funds, assigning them each -10 points. That score was also assigned to eight other states – Oregon, Maine, Montana, Rhode Island, Colorado, Idaho, West Virginia and Utah – whose HHI scores were greater than 2,500 and would thus qualify as "highly concentrated."

Three other states with moderately concentrated markets – Texas, Alaska and New York – were given scores of -5. We awarded +5 points to ten states whose HHI was below 500 and +10 points to three states – Illinois, Indiana and Pennsylvania – whose HHI was below 400.

LOSS RATIOS (-30 TO 0 POINTS)

In addition to looking at market concentrations in the 50 states, we also used SNL Financial data to analyze a key profitability metric of home, auto and workers' comp insurance markets. Excess profits indicate an insufficiently competitive market. Insufficient profits indicate one that isn't charging enough to attract entrants 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" – that is, its losses and expenses expressed as a percentage of its underwriting income – tended to run slightly above 100, indicating underwriting losses. As interest rates have plummeted over the past decade, modest underwriting profits have become more common, as there hasn't been enough investment income to make up the difference.

We looked at the loss ratios of the three key property/casualty segments in each of the 50 states. A company's loss ratio includes its claims paid and the cost of adjusters, but excludes agent commissions and other marketing expenses the industry incurs. Because catastrophes can introduce outsized losses in any given year, we relied on five-year averages. However, loss ratios are not simply a measure of the propensity of a state to experience large losses. 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 loss ratios would remain stable either way.

Insurance regulators are charged with ensuring that rates are neither excessive nor insufficient (also, that they are not discriminatory). In line with that goal, we deducted -5 points from any state whose five-year average loss ratio was either greater than or less than the mean of all states by more than a standard deviation. Where the five-year average was greater than or less than the mean by more than two standard deviations, we deducted -10 points.

In the auto insurance market, the nationwide five-year average loss ratio was 65.16 and the mean of the 50 states was 63.12. Hawaii and Maine had five-year average loss ratios that were more than a standard deviation below the mean, while Michigan's five-year average of 117.53 was more than two standard deviations above the mean.
In the homeowners insurance market, the nationwide five-year average loss ratio was 65.03 and the mean of the 50 states was 67.44. Massachusetts, North Dakota, Nevada, California, Rhode Island and Florida had five-year loss ratios that were more than a standard deviation below the mean, while Hawaii's five-year average of 16.75 was more than two standard deviations below the mean. Colorado, Kentucky, Arkansas, Alabama and Georgia had five-year loss ratios that were more than a standard deviation above the mean, while the five-year averages in Oklahoma and Tennessee of 115.58 and 113.89, respectively, were more than two standard deviations above the mean.

In the workers' comp market, the nationwide five-year average loss ratio was 67.69 and the mean of the 50 states was 65.4. Arkansas, Florida, Hawaii, Texas and Nevada had five-year loss ratios that were more than a standard deviation below the mean, while Wyoming's 34.39 and North Dakota's 17.7 were both more than two standard deviations below the mean. Delaware, New York, Oklahoma, Arizona, Illinois and Maryland all had five-year loss ratios that were more than a standard deviation above the mean, while Ohio's five-year average of 90.88 was more than two standard deviations above the mean.

UNDERWRITING FREEDOM

We should admit our biases upfront: when it comes to prices, we believe markets regulate themselves. States impose a variety of schemes to impose controls on how quickly or how sharply premium rates can rise, but ultimately, it is not possible to force an insurer to sell coverage at levels below what they deem to be acceptable risk-adjusted returns.

Leaving the futility of rate controls to the side, it is important to note that not all rate regulation systems are created equal. Based on a synthesis of both statutory rules compiled by the NAIC, and analysis of how certain states apply the rules on the books, we have classified rate regulation systems into six categories, from most to least restrictive and distortionary.

RATE REGULATION (-20 TO 20 POINTS)

State-Made Rates: (-20 points) Just one state, Florida, is classified as practicing "state-made rates." The reason for this is that rates set by the state-run Citizens Property Insurance Corp., which were rolled back and frozen in 2007 and have been permitted to rise just 10 percent annually since 2010, effectively act as the ceiling on rates that private insurers can charge. Citizens is required by law to accept any applicant who can produce a quote from even one insurer who charges at least 15 percent more for a similar policy. Thus, private companies are effectively limited in their ability to charge rates to 15 percent more than the rates of a government agency that is, by design, charging far less than actuaries recommend.

TABLE 6: WORKERS' COMP MARKETS

	Residual Market		Market Concentration		5-Year Avg. Loss Ratio		Comp Market Total
State	(%)	Score	HHI	Score	(%)	Score	
AK	4.0	-1	1688	-5	53.66	0	-6
AL	1.7	0	585	0	64.09	0	0
AR	3.9	-1	653.8	0	52.61	-5	-6
AZ	28.8	-6	1186	0	79.82	-5	-11
CA	10.0	-2	461.2	5	66.82	0	3
CO	58.5	-12	3551	-10	65.86	0	-22
CT	3.1	-1	839.4	0	77.97	0	-1
DE	0.6	0	650.1	0	85.22	-5	-5
FL	0.8	0	653.3	0	51.28	-5	-5
GA	0.2	0	411	5	65.14	0	5
HI	18.4	-4	1034	0	50.53	-5	-9
IA	2.2	0	405.6	5	74.48	0	5
ID	53.8	-11	3202	-10	73.42	0	-21
IL	1.8	0	380.4	10	79.25	-5	5
IN	3.0	-1	389.7	10	65.6	0	9
KS	3.1	-1	520.4	0	63.96	0	-1
KY	26.7	-5	1135	0	69.93	0	-5
LA	21.1	-4	906.1	0	61.94	0	-4
MA	16.8	-3	777.1	0	64.61	0	-3
MD	23.3	-5	955	0	79.13	-5	-10
ME	62.3	-12	4014	-10	63.73	0	-22
MI	0.0	0	777.1	0	60.06	0	0
MN	12.7	-3	452.1	5	69.58	0	2
MO	17.8	-4	712.2	0	62.39	0	-4
MS	0.8	0	657.7	0	63.81	0	0
MT	59.3	-12	3760	-10	75.24	0	-22
NC	1.1	0	422.9	5	71.3	0	5
ND	100.0	-20	10000	-10	17.7	-10	-40
NE	0.0	0	509.7	0	64.45	0	0
NH	3.3	-1	669.8	0	64.97	0	-1
NJ	0.8	0	910.4	0	70.48	0	0
NM	31.5	-6	1329	0	74.44	0	-6
NV	4.9	-1	525.6	0	41.54	-5	-6
NY	40.9	-8	1939	-5	82.96	-5	-18
OH	100.0	-20	10000	-10	90.88	-10	-40
OK	29.0	-6	1174	0	82.36	-5	-11
OR	63.4	-13	4287	-10	77.64	0	-23
PA	7.6	-2	387.7	10	68.82	0	8
RI	59.3	-12	3662	-10	63.3	0	-22
SC	2.1	0	499.5	5	63.8	0	5
SD	2.4	0	459.2	5	63.86	0	5
TN	0.0	0	468.6	5	65.76	0	5
TX	37.1	-7	1639	-5	46.58	-5	-17
UT	50.0	-10	2675	-10	62.82	0	-20
VA	3.6	-1	451.9	5	64.82	0	4
VT	2.4	0	843.9	0	66.75	0	0
WA	100.0	-20	10000	-10	70.26	0	-30
WI	0.0	0	465.5	5	66.41	0	5
WV	50.0	-10	2722	-10	53.58	0	-20
WY	100.0	-20	10000	-10	34.39	-10	-40

Source: SNL Financial, NCCI Holdings, Misc. funds

Low Flexibility: (-10 points) Most of the states falling into the low-flexibility category have prior approval rating systems, in which the regulator must explicitly approve each rate or rating change before an insurer is permitted to deploy it in the market. In theory, Texas has a "file-and-use" law, but insurers report that filings prove so burdensome that it functions similarly to a prior approval system.

Below-Average Flexibility: (-5 points) States with more flexible prior approval systems or with relatively inflexible file-and-use systems were categorized as below average. States that fall into this category have rules for rate changes that are relatively transparent and predictable, but nonetheless, unnecessarily stringent. No state with a prior approval system for property/casualty insurance scored better than this category's -5 points.

Moderate Flexibility: (0 points) The baseline rating of 0 points was reserved for states that maintain conventionally administered file-and-use and flex rating systems. These systems generally allow the market to set rates, but reserves additional scrutiny for larger rate changes.

Above-Average Flexibility: (5 points) Some states maintain use-and-file or file-and-use systems that are only lightly administered. Insurance commissioners retain the authority to disapprove rates or delay their implementation, but typically only exercise that authority in particularly extreme cases.

High Flexibility: (10 points) A handful of states have use-and-file systems where interventions to disallow a filed rate is limited to cases either where the rating system may have a discriminatory impact, or where it is likely to prove inadequate and endanger the company's solvency. These states were judged to have high flexibility and received 10 points.

No File: (20 points) Illinois is unique in that insurers generally do not have to file rates at all, although they must keep documentation of their rates available for regulators to review. This system's nearly pure free market in insurance rates was awarded with 20 points.

TABLE 7: UNDERWRITING FREEDOM

State	Rate Controls	Credit Scoring	Territorial Rating	Underwriting Freedom
AK	0	0	0	0
AL	-10	0	0	-10
AR	0	0	0	0
AZ	5	0	0	5
CA	-10	-10	-10	-30
CO	-5	0	-10	-15
CT	-10	0	-10	-20
DE	0	0	0	0
FL	-20	0	-10	-30
GA	0	0	0	0
HI	-5	-10	0	-15
IA	-5	0	0	-5
ID	0	0	0	0
IL	20	0	0	20
IN	0	0	0	0
KS	-5	0	0	-5
KY	5	0	0	5
LA	0	0	0	0
MA	-5	-10	0	-15
MD	5	-10	-10	-15
ME	0	0	0	0
MI	-5	0	0	-5
MN	0	0	0	0
MO	10	0	-10	0
MS	-5	0	0	-5
MT	0	0	0	0
NC	-10	0	0	-10
ND	-5	0	0	-5
NE	0	0	0	0
NH	5	0	-10	-5
NJ	-5	0	-10	-15
NM	0	0	0	0
NV	-5	0	0	-5
NY	-10	0	0	-10
OH	10	0	0	10
OK	5	0	0	5
OR	-5	0	0	-5
PA	0	0	0	0
RI	0	0	0	0
SC	5	0	0	5
SD	0	0	-10	-10
TN	10	0	0	10
TX	-10	0	0	-10
UT	5	0	0	5
VA	5	0	0	5
VT	10	0	0	10
WA	-10	0	0	-10
WI	5	0	0	5
WV	-5	0	0	-5
WY	10	0	0	10

Source: NCOIL, NAIC

CREDIT SCORING (-10 TO 0 POINTS)

The evolution of credit-based insurance scoring has arguably been the biggest factor in massive depopulation of state residual auto insurance markets. In the past, auto insurers had only a limited number of rating factors on which to base their underwriting and rate-setting decisions, and only a limited number of consumers could qualify for preferred standard rates. The discovery of actuarially credible variables tied to credit information has allowed insurers to construct tremendously innovative proprietary rating models that can assign a proper rate to virtually any potential insured.

However, the use of credit in insurance has periodically proven to be politically controversial. 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, some politicians and much of the general public have remained skeptical.

Responding to concerns about the disparate impact credit-based insurance scoring could have on certain protected populations, roughly half the states have passed a model regulation promulgated by the National Conference of Insurance Legislators that bars insurers from using credit scores as the sole factor in determining insurance rates. While reasonable and well-meaning, such regulations are also largely irrelevant, as no insurers use credit scores as their only underwriting variable.

However, a few states have moved beyond the NCOIL model to explicitly ban credit scoring in personal insurance. California, Hawaii and Massachusetts all have banned the use of credit in auto insurance underwriting and rate-making, while Maryland has banned its use in homeowners insurance.

We deducted -10 points for each of the four states with active credit scoring bans.

TERRITORIAL RATING (-10 TO 0 POINTS)

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. States generally recognize this reality, and permit insurers to consider location as a factor in their underwriting and rate-setting decisions.

Like the use of credit, most states generally prohibit insurers from making territory the sole factor in determining whether and at what price to insure cars and homes. However, in some states, regulators enforce restrictions on the use of territory that are much more stringent than the norm. For those states, we have deducted -10 points.

GRADING AND RESULTS

We calculated scores for every state by adding all variables and calculating a standard deviation from the mean. (The mean was -3.92.) States were graded as follows:

More than two standard deviations above the mean: A+
More than one standard deviation above the mean: A
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 but less than two standard deviations: D range
Below the mean by more than two standard deviations: F

We awarded pluses and minuses to recognize states at the top and bottom end of each grade range.

Virginia and Vermont had the best property/casualty insurance regulatory environments in the United States this year, both earning an 'A+' for rating more than two standard deviations above the mean. The best state, Virginia, scored 47 out of a maximum possible score of 110. It scored solidly across the board with no glaring weaknesses and with particularly good marks as a strong regulator of solvency with a high degree of underwriting freedom, transparency and a lack of politicization.

Other states receiving an 'A,' as their score were more than a standard deviation above the mean, include Illinois, South Carolina, Tennessee, Missouri and Minnesota.

Only one state, New York, received a failing grade, falling more than two standard deviations below the mean. New York scored a -50, compared to a minimum possible score of -230. Among the categories where New York underperformed were its large regulatory surplus, relatively concentrated auto insurance market, desk drawer rules and lack of underwriting freedom.

Other states that scored more than one standard deviation below the mean – enough to earn a 'D' in our rating system -- include Hawaii, West Virginia, Florida, California, Texas, Washington, North Dakota and Montana.

In conclusion, we are hopeful that R Street's second 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.

ABOUT THE AUTHOR

R.J. Lehmann is senior fellow, public affairs director and co-founder of the R Street Institute. He is author of the R Street policy papers "Government sources of systemic insurable risk," "Ten reforms to fix Florida's property insurance marketplace — without raising rates," "The value of conservation compliance to hunters and anglers," "Reforming Michigan's auto insurance market," "Medical cost containment in the Wisconsin workers' compensation market" and the 2012 edition of R Street's Insurance Regulation Report Card.

Prior to joining R Street, he was an award-winning business journalist who spent nine years covering the insurance, banking and securities industries. He served as deputy director of the Heartland Institute's Center on Finance, Insurance and Real Estate. He previously was senior industry editor with SNL Financial, leading the news service's coverage of the Dodd-Frank Act, the Patient Protection and Affordable Care Act and legislative and regulatory developments at both the state and federal level. Prior to 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, Calif., and the former state chapters coordinator of the Republican Liberty Caucus.

His writings have appeared in the *San Francisco Chronicle*, *Wall Street Journal*, *Townhall.com*, *RealClearPolicy*, *American Spectator*, *Travel Weekly*, the *South Florida Business Journal*, and *Folio* magazine, among other publications.

TABLE 8: REPORT CARD – RANKED BY SCORE

State	Grade	Solvency	Antifraud	Political	Clarity	Efficiency	Auto	Home	Comp	Freedom	Total
VA	A+	10	4	0	10	5	5	4	4	5	47
VT	A+	5	-8	0	10	0	9	10	0	10	36
IL	A	-5	-3	0	10	20	-5	-10	5	20	32
SC	A	-5	-5	0	10	10	0	4	5	5	24
TN	A	15	3	0	0	5	-1	-15	5	10	22
MN	A-	-5	10	0	0	10	-1	0	2	0	16
MO	A-	0	1	0	0	15	4	0	-4	0	16
NE	B+	-5	5	0	0	10	5	0	0	0	15
WI	B+	-5	-10	0	0	10	5	5	5	5	15
NV	B	15	5	0	0	0	5	0	-6	-5	14
IA	B	0	5	0	-10	10	5	0	5	-5	10
SD	B	0	5	0	0	0	5	5	5	-10	10
UT	B	-5	5	0	0	15	5	5	-20	5	10
IN	B	-10	0	0	0	5	5	0	9	0	9
CT	B	0	4	-5	-10	20	10	10	-1	-20	8
NH	B	-15	3	0	0	5	9	10	-1	-5	6
KY	B	0	5	0	0	10	0	-10	-5	5	5
NJ	B	0	10	0	-10	5	5	10	0	-15	5
KS	B	0	3	-10	0	10	5	0	-1	-5	2
PA	B	-10	4	0	-10	5	5	0	8	0	2
AZ	B	-10	5	0	0	0	5	5	-11	5	-1
AR	B	0	5	0	0	5	0	-5	-6	0	-1
GA	B	5	4	-10	-10	10	5	-11	5	0	-2
ID	B-	5	3	0	0	0	5	5	-21	0	-3
OH	C+	-5	1	0	10	10	5	4	-40	10	-5
AK	C	15	5	0	0	0	-10	-10	-6	0	-6
ME	C	5	-10	0	0	5	5	10	-22	0	-7
MI	C	10	-9	-5	0	20	-22	4	0	-5	-7
NM	C	10	5	0	0	-10	0	-6	-6	0	-7
OR	C	10	0	-5	0	20	0	-5	-23	-5	-8
MD	C	5	3	0	0	15	-7	0	-10	-15	-9
RI	C	0	4	-5	0	10	3	1	-22	0	-9
DE	C	0	1	-10	0	10	-6	0	-5	0	-10
NC	C	-5	5	-10	10	5	-12	1	5	-10	-11
OK	C	5	5	-10	0	5	5	-15	-11	5	-11
MS	C	5	5	-10	0	0	0	-8	0	-5	-13
AL	C	0	3	0	0	5	0	-12	0	-10	-14
CO	C	0	5	0	0	15	5	-5	-22	-15	-17
LA	C	0	5	-10	10	-5	-10	-4	-4	0	-18
WY	C	5	-9	0	0	20	0	-5	-40	10	-19
MA	C-	5	5	0	0	-5	-8	-2	-3	-15	-23

MT	D+	5	3	-10	0	-5	5	0	-22	0	-24
ND	D	5	5	-10	0	10	10	0	-40	-5	-25
WA	D	10	4	-10	-10	5	10	5	-30	-10	-26
TX	D	5	5	0	-10	0	4	-5	-17	-10	-28
CA	D	0	10	-20	-10	10	9	-6	3	-30	-34
FL	D	0	10	-10	0	20	-1	-18	-5	-30	-34
WV	D	5	3	0	0	-15	-5	0	-20	-5	-37
HI	D	0	4	0	0	10	-11	-20	-9	-15	-41
NY	F	-5	5	-5	-10	-5	-6	4	-18	-10	-50

TABLE 9: REPORT CARD – ALPHABETICAL ORDER

State	Grade	Solvency	Antifraud	Political	Clarity	Efficiency	Auto	Home	Comp	Freedom	Total
AK	C	15	5	0	0	0	-10	-10	-6	0	-6
AL	C	0	3	0	0	5	0	-12	0	-10	-14
AR	B	0	5	0	0	5	0	-5	-6	0	-1
AZ	B	-10	5	0	0	0	5	5	-11	5	-1
CA	D	0	10	-20	-10	10	9	-6	3	-30	-34
CO	C	0	5	0	0	15	5	-5	-22	-15	-17
CT	B	0	4	-5	-10	20	10	10	-1	-20	8
DE	C	0	1	-10	0	10	-6	0	-5	0	-10
FL	D	0	10	-10	0	20	-1	-18	-5	-30	-34
GA	B	5	4	-10	-10	10	5	-11	5	0	-2
HI	D	0	4	0	0	10	-11	-20	-9	-15	-41
IA	B	0	5	0	-10	10	5	0	5	-5	10
ID	B-	5	3	0	0	0	5	5	-21	0	-3
IL	A	-5	-3	0	10	20	-5	-10	5	20	32
IN	B	-10	0	0	0	5	5	0	9	0	9
KS	B	0	3	-10	0	10	5	0	-1	-5	2
KY	B	0	5	0	0	10	0	-10	-5	5	5
LA	C	0	5	-10	10	-5	-10	-4	-4	0	-18
MA	C-	5	5	0	0	-5	-8	-2	-3	-15	-23
MD	C	5	3	0	0	15	-7	0	-10	-15	-9
ME	C	5	-10	0	0	5	5	10	-22	0	-7
MI	C	10	-9	-5	0	20	-22	4	0	-5	-7
MN	A-	-5	10	0	0	10	-1	0	2	0	16
MO	A-	0	1	0	0	15	4	0	-4	0	16
MS	C	5	5	-10	0	0	0	-8	0	-5	-13
MT	D+	5	3	-10	0	-5	5	0	-22	0	-24
NC	C	-5	5	-10	10	5	-12	1	5	-10	-11
ND	D	5	5	-10	0	10	10	0	-40	-5	-25
NE	B+	-5	5	0	0	10	5	0	0	0	15
NH	B	-15	3	0	0	5	9	10	-1	-5	6

NJ	B	0	10	0	-10	5	5	10	0	-15	5
NM	C	10	5	0	0	-10	0	-6	-6	0	-7
NV	B	15	5	0	0	0	5	0	-6	-5	14
NY	F	-5	5	-5	-10	-5	-6	4	-18	-10	-50
OH	C+	-5	1	0	10	10	5	4	-40	10	-5
OK	C	5	5	-10	0	5	5	-15	-11	5	-11
OR	C	10	0	-5	0	20	0	-5	-23	-5	-8
PA	B	-10	4	0	-10	5	5	0	8	0	2
RI	C	0	4	-5	0	10	3	1	-22	0	-9
SC	A	-5	-5	0	10	10	0	4	5	5	24
SD	B	0	5	0	0	0	5	5	5	-10	10
TN	A	15	3	0	0	5	-1	-15	5	10	22
TX	D	5	5	0	-10	0	4	-5	-17	-10	-28
UT	B	-5	5	0	0	15	5	5	-20	5	10
VA	A+	10	4	0	10	5	5	4	4	5	47
VT	A+	5	-8	0	10	0	9	10	0	10	36
WA	D	10	4	-10	-10	5	10	5	-30	-10	-26
WI	B+	-5	-10	0	0	10	5	5	5	5	15
WV	D	5	3	0	0	-15	-5	0	-20	-5	-37
WY	C	5	-9	0	0	20	0	-5	-40	10	-19