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2014 INSURANCE REGULATION REPORT CARD

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INTRODUCTION

Since it opened its doors two years ago, R Street has issued an annual Insurance Regulation Report Card. This is the third edition of 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 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:

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 consumer abuse 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. Most notably, we have added new sections analyzing the resources state insurance departments set aside to respond to consumer complaints, as well as states' efforts to modernize their regulatory apparatus through such efforts as reform of reinsurance collateral rules and participation in the Interstate Insurance Product Regulation Commission. We also have refined our analysis of states' fraud-fighting resources to better measure the degree to which they are prepared to respond to levels of suspected fraud reported in each state. Finally, both in order to more equitably balance the 12 macro rating categories this report tracks, and to provide more intuitive final scores, we have weighted the categories so as to track with a scale of zero to 100.

Reviewing the data on insurance in 2014, we see mostly stable trends in consumer and business freedom in the personal lines and workers' comp markets, and in some states (notably, Florida) real efforts were made to scale back, or otherwise place on more sound financial footing, residual insurance markets and state-run insurance entities. On the whole, however, relatively few state legislatures took up bills this year that would move the needle of business and consumer freedom appreciably. And finally, some states (notably, North Carolina) appear to be heading in the wrong direction, seeing growth in their residual market property insurance entities.

Among the major events relevant to insurance regulation in 2014:

- In March, President Barack Obama signed into law the Homeowner Flood Insurance Affordability Act (also known as Grimm-Waters), which rolled back some reforms to the National Flood Insurance Program passed by Congress in 2012 as part of the Biggert-Waters Flood Insurance Reform Act. [1] R Street and the smartersafer.org coalition helped craft Biggert-Waters and opposed this bill.

- The U.S. Senate, in June, passed S. 2270, the Insurance Capital Standards Clarification Act, which amends the Dodd-Frank Act to clarify that insurers designated for supervision by the Federal Reserve Board of Governors will not be subject to minimum leverage and minimum risk-based capital requirements designed for banks. Among other tweaks, such insurers would be allowed to report their financials in accordance with Statutory Accounting Principles, rather than Generally Accepted Accounting Principles.[2] In September, the U.S. House passed the related, but not identical, H.R.5461. The measures had not yet been reconciled as of the time of this report.[3]

- Florida Gov. Rick Scott in June signed legislation creating a regulatory framework for private sector insurers to offer flood insurance coverage.[4] The measure was based, in part, on an R Street proposal.[5]

- Also in Florida, the Office of Insurance Regulation in July announced that assessments that had been levied on nearly every property insurance policy in the state since 2007 to support the state-sponsored Florida Hurricane Catastrophe Fund would be eliminated as of January 2015, 18 months ahead of schedule.[6] Earlier in the year, the state Senate Community Affairs Committee and the Banking and Insurance Committee approved a measure to scale back the size of the Cat Fund, but it failed to move forward in the Senate Appropriations Committee.[7]

- In September, California Gov. Jerry Brown signed legislation establishing a regulatory framework, including basic insurance requirements, for transportation network companies.[8] The measure was the result of a lengthy legislative debate and ultimately represented a workable compromise between the insurance and ride-sharing industries.

- Colorado Gov. John Hickenlooper signed a similar bill in June, allowing TNCs to continue operating in

1. Clint Durrett, "Obama signs bill into law preventing flood insurance rate hikes," WDSU, March 21, 2014. http://www.wdsu.com/news/local-news/new-orleans/obama-signs-bill-into-law-preventing-flood-insurance-rate-hikes/25093406

2. U.S. Senate, "S.2270 - Insurance Capital Standards Clarification Act of 2014," Congress.gov, Accessed Nov. 6, 2014. https://www.congress.gov/bill/113th-congress/senate-bill/2270

3. U.S. House of Representatives, "H.R.5461 - To clarify the application of certain leverage and risk-based requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act, to improve upon the definitions provided for points and fees in connection with a mortgage transaction, and for other purposes," Congress.gov, Accessed Nov. 6, 2014.

4. Florida Senate, S.B. 542, June 13, 2014. http://www.flsenate.gov/Session/Bill/2014/0542

5. Christian Cámara, "A state approach to flood insurance reform in Florida," R Street Institute, Nov. 5, 2014. http://www.rstreet.org/policy-study/a-state-approach-to-flood-insurance-reform-in-florida/

6. Press release, "Office Issues Orders Terminating Certain Cat Fund Emergency Assessments," Florida Office of Insurance Regulation, July 22, 2014. http://www.floir.com/PressReleases/viewmediarelease.aspx?id=2069

7. Florida Senate, S.B. 482, May 2, 2014. http://www.flsenate.gov/Session/Bill/2014/0482

8.California Legislature, A.B. 2293, Sept. 17, 2014. http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_2251-2300/ab_2293_bill_20140922_status.html the state and requiring them to provide their drivers primary insurance coverage.[9] The measure also calls on the Division of Insurance to study the market and make recommendations for ways insurers could better cover these emerging risks.

- In June, Connecticut Gov. Dannel Malloy signed legislation barring property insurers from requiring policyholders at heightened risk of windstorm damage to install storm shutters. The measure also extends the period for policyholders to bring post-claim suits against their insurers from 18 to 24 months.[10]

- In Hawaii, a number of bills gained traction that likely would have negative consequences for workers' comp rates in the state. The state House committees on Finance; Consumer Protection & Commerce; and Labor & Public Employment all approved legislation changing the process for approving independent medical examinations and permanent impairment rating examinations for workers' compensation claims, raising concerns about added administrative costs and increased conflicts between employers and their employees.[11] However, the measure didn't move to the House floor. The state Senate Committee on Judiciary and Labor passed legislation penalizing employers who do not pay temporary partial disability benefits within 14 calendar days, but the measure did not pass the Committee on Ways and Means.[12] Finally, both chambers passed slightly varying versions of legislation calling for annual updates to the state's workers' comp fee schedule in ways that would exceed the current statutory ceiling of 110 percent of the fees prescribed by Medicare. Ultimately, a conference committee was unable to reconcile difference between the two versions.[13]

This introduction outlines the purpose of this annual study and a review of major developments of the past year in insurance regulation. Subsequent sections will offer explanations of our methodology and, finally, the state-by-state report card results.

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 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 U.S. economy as a whole – 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 and workers' compensation 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. 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 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

9. Colorado General Assembly, SB14-125, June 5, 2014. http://www.leg.state.co.us/CLICS/CLICS2014A/csl.nsf/BillFoldersSenate?openFrameset

10. Connecticut General Assembly, H.B. 5502, Session Year 2014. http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=hb5502&which_year=2014&SUBMIT1.x=0&SUBMIT1.y=0

11. Hawaii State Legislature, HB1961 HD2, 27th Legislature, 2014. http://www.capitol.hawaii.gov/measure_indiv.aspx?billtype=HB&billnumber=1961&year=2014

12. Hawaii State Legislature, SB2127 SD1, 27th Legislature, 2014. http://www.capitol.hawaii.gov/measure_indiv.aspx?billtype=SB&billnumber=2127

13. Hawaii State Legislature, HB1974 HD2 SD1, 27th Legislature, 2014. http://www.capitol.hawaii.gov/measure_indiv.aspx?billtype=HB&billnumber=1974

proprietary formulas, rather than relying on rate bureau recommendations.

In theory, there could be a justifiable role for states to exercise rate regulation to ensure that rates are sufficient. 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. 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. 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.

METHODOLOGY

The report card represents our best attempt at an objective evaluation of the regulatory environments in each of the 50 states.

It tracks 12 broad categories, most consisting of several variables, to measure how well states: monitor insurer solvency; police fraud; respond to consumer complaints; how efficiently they spend 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; the transparency and politicization of insurance regulation in the states; and finally, states' willingness to take part in cutting-edge regulatory modernization initiatives. For each of the 12 categories, 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. Significant changes in the most heavily weighted variables 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 forms and the level of competition in local markets for insurance agents and brokers.

I. SOLVENCY REGULATION (7.5 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 insurer 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 reexamination of their oversight of complex insurance and financial services holding companies.

Financial Exams: The first metric we examine is how frequently each department examines the financial strength of companies domiciled within their borders. States vary greatly in both size and number of domestic insurers. Under the state-based system of insurance regulation, each domiciliary state is charged with primary responsibility for monitoring their respective domestic insurers' solvency.

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 will be discussed in greater detail later in 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 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 2009 through 2013. 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 37 of the 50 states met that minimum standard, although that necessarily means that 13 states did not. The mean percentage of domestic insurers examined was 133.1 percent.

For scoring purposes, we deducted -5 points for any department that fell below the mean and -10 points for three departments (Iowa, Minnesota and South Carolina) that fell more than a standard deviation below the mean. We awarded +5 points to two departments (Tennessee and Washington) 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: 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 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, 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 run-off, supervision, conservation, receivership and liquidation for each state, as of Dec. 31, 2013. The totals ranged from Pennsylvania's roughly $26.5 billion to 12 states that had no in-progress claims liability at all. We scored states based on the proportion of total 2013 net written premiums to the outstanding run-off liabilities represented. States with a high proportion of runoff liabilities were downgraded.

We found a mean of 4.0 percent for all states, but a relatively high standard deviation of 10.2 percentage points. We awarded +5 points to each of the 12 states with no regulatory run-off liabilities at all. We deducted -5 points from five departments (Arizona, California, Delaware, North Carolina and Rhode Island) that were above the mean; deducted -10 points from one state (Indiana) that was more than a standard deviation above the mean; deducted -15 points from two states (Pennsylvania and Vermont) that were more than two standard deviations above the mean; and finally, deducted -20 points from one state (New Hampshire) that was more than three standard deviations above the mean.

Holding Company Act: As a final measure of solvency monitoring, we deducted -5 points from each of the 12 states (Alaska, Arkansas, Michigan, Missouri, Montana, North Carolina, North Dakota, New Jersey, South Carolina, South Dakota, Utah and Washington) that, as of the time of this report, still had not adopted the NAIC's 2010 amendments to its model Holding Company Act and Regulation. The NAIC Act is intended to address some of the weaknesses in the regulation of insurance holding company systems discovered during the 2008 financial crisis. The amendments will be used by the NAIC as a state accreditation standard as of Jan. 1, 2016.

Taken together, states' scores in the Solvency Regulation category range from a high of +10 (Nevada) to a low of -25 (New Hampshire.) Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

II. FRAUD (7.5 PERCENT OF TOTAL SCORE)

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

TABLE I: SOLVENCY REGULATION

State	Exams		Run-Offs		Model Act	Total Score	
	(%)	Score	(%)	Score		Raw	Weighted
AK	142.9	0	0.0	5	-10	-5	4.3
AL	114.1	-5	0.1	0	0	-5	4.3
AR	78.4	-5	0.3	0	-10	-15	2.1
AZ	95.5	-5	13.0	-5	0	-10	3.2
CA	138.4	0	4.7	-5	0	-5	4.3
CO	86.9	-5	0.0	5	0	0	5.4
CT	101.9	-5	1.3	0	0	-5	4.3
DE	126.7	-5	9.9	-5	0	-10	3.2
FL	74.4	-5	2.2	0	0	-5	4.3
GA	97.5	-5	0.0	5	0	0	5.4
HI	157.8	0	0.2	0	0	0	5.4
IA	55.2	-10	0.0	5	0	-5	4.3
ID	133.2	0	0.2	0	0	0	5.4
IL	124.4	-5	3.9	0	0	-5	4.3
IN	115.0	-5	18.9	-10	0	-15	2.1
KS	113.7	-5	0.0	0	0	-5	4.3
KY	151.2	0	0.0	5	0	5	6.4
LA	93.8	-5	0.1	0	0	-5	4.3
MA	129.3	-5	0.8	0	0	-5	4.3
MD	154.7	0	1.0	0	0	0	5.4
ME	69.9	-5	0.0	5	0	0	5.4
MI	177.1	0	0.0	0	-10	-10	3.2
MN	39.4	-10	0.0	0	0	-10	3.2
MO	113.2	-5	1.1	0	-10	-15	2.1
MS	142.2	0	1.5	0	0	0	5.4
MT	105.2	-5	0.1	0	-10	-15	2.1
NC	121.0	-5	4.5	-5	-10	-20	1.1
ND	111.9	-5	0.0	5	-10	-10	3.2
NE	123.9	-5	1.3	0	0	-5	4.3
NH	104.2	-5	60.5	-20	0	-25	0.0
NJ	130.0	-5	0.0	5	-10	-10	3.2
NM	166.5	0	0.0	5	0	5	6.4
NV	401.5	10	0.8	0	0	10	7.5
NY	73.7	-5	3.1	0	0	-5	4.3
OH	108.8	-5	3.9	0	0	-5	4.3
OK	160.2	0	2.1	0	0	0	5.4
OR	178.4	0	0.0	5	0	5	6.4
PA	163.0	0	28.1	-15	0	-15	2.1
RI	101.1	-5	5.4	-5	0	-10	3.2
SC	54.4	-10	0.8	0	-10	-20	1.1
SD	89.4	-5	0.0	0	-10	-15	2.1
TN	262.8	5	0.0	0	0	5	6.4
TX	168.9	0	1.8	0	0	0	5.4
UT	110.9	-5	1.2	0	-10	-15	2.1
VA	197.2	0	0.5	0	0	0	5.4
VT	372.9	10	24.6	-15	0	-5	4.3
WA	200.2	5	0.1	0	-10	-5	4.3
WI	74.5	-5	-0.9	0	0	-5	4.3
WV	108.8	-5	0.0	5	0	0	5.4
WY	140.0	0	0.0	5	0	5	6.4

SOURCES: NAIC Insurance Department Resources Report, Sutherland Asbill & Brennan LLP expenses.[14] A report last 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.[15] 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.[16]

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.

Two points were assigned to each of the 41 states that maintain a separate **criminal fraud unit.**

Two points were assigned to each of the 30 states where insurance fraud investigators are empowered as **officers of the peace,** meaning that they can make arrests for crimes they do not personally witness. (In Rhode Island, where powers vary depending on the investigator and type of crime, we awarded +1 point.)

One point was assigned to each of the 27 states in which there are **no limits** to the kinds of insurance fraud that can be investigated.

In addition, we looked at the total full-time equivalent staff and contract workers within each department who are dedicated to antifraud enforcement. In last year's report, we measured those staff as a percentage of total staff. However, in retrospect, that may not have been the most appropriate metric. States with high degrees of insurance fraud – such as those with high levels of organized crime, as well as the dozen states that employ a "no fault" system for auto insurance liability – are naturally going to have a disproportionate level of resources devoted to fraud-fighting. This year, we felt a better and more accurate measurement was to compare antifraud staffing against the number of questionable claims reported in each state, as measured by the NICB. [17]

Among the 43 states that employ dedicated antifraud inspectors, we found a mean of 224.4 **questionable claims per inspector**, with Illinois' 3,538 questionable claims and only one inspector standing as a notable outlier. There were seven states – Maine, Michigan, Rhode Island, South Carolina, Vermont, Wisconsin and Wyoming – that do not employ any dedicated antifraud staff. Because the ratio in those states technically would be infinite (one cannot divide by 0), we opted to dock each of those seven -5 points off the top, and otherwise treat their questionable claims total as a proxy for the ratio (the same figure that would be produced if there were one inspector on staff.)

With that adjustment, the overall mean was 332.8 questionable claims per inspector, with a remarkably high standard deviation of 685.9. The seven states whose questionable claims per inspector were less than 33.3, or 10 percent of the mean, were awarded +10 points: Delaware, Idaho, Montana, New Hampshire, New Jersey, South Dakota and West Virginia. Another seven states whose questionable claims were less than 66.6, or 20 of the mean, were awarded +5 points: Alaska, Arkansas, California, Florida, Minnesota, North Dakota and Utah.

Five states whose questionable claims ratios were greater than the mean saw -5 points deducted: Georgia, Massachusetts, Mississippi, Rhode Island and Wisconsin. Finally, three states whose questionable claims ratio was greater than the mean by more than a standard deviation saw -10 points deducted: Illinois, Michigan and South Carolina.

Taken together, states' scores in the Fraud category range from a high of +15 (New Jersey and South Dakota) to a low of -15 (Michigan.) Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

III. CONSUMER PROTECTION (7.5 PERCENT OF TOTAL SCORE)

The effectiveness of state insurance regulators in ensuring that consumers are adequately protected from inappropriate market conduct by insurers or insurance producers – such as intentionally misleading marketing or claims denials made in bad faith – is one of the most difficult factors to measure. So difficult, in fact, that prior versions of this report listed it as among the variables for which we could not find any appropriate metrics.

This year's edition is the first to attempt to quantify some baseline for a minimal expected and appropriate level of responsiveness to consumer complaints. We settled on a similar model to that used to judge the effectiveness of states' antifraud efforts. Using the 2014 edition of the NAIC's Insurance Department Resources Report, we were able to find data both on the number of consumer complaints filed in each state (ranging from 195 in North Dakota to 37,842 in

14.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

15.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

16.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

17.Ibid.

TABLE 2: ANTIFRAUD REGULATION

0.1875 in	QCs Per Inspector		Fraud Unit	Peace Power	Limited Types	Total Score	
	Ratio	Score				Raw	Weighted
AK	41.2	5	2	2	1	10	6.3
AL	286.8	0	2	2	1	5	5.0
AR	50.3	5	2	2	0	9	6.0
AZ	237.0	0	2	2	0	4	4.8
CA	58.5	5	2	2	1	10	6.3
CO	195.6	0	2	2	1	5	5.0
CT	207.6	0	2	2	1	5	5.0
DE	31.9	10	0	0	1	11	6.5
FL	55.4	5	2	2	1	10	6.3
GA	458.4	-5	2	2	0	-1	3.5
HI	79.5	0	2	2	1	5	5.0
IA	94.5	0	2	2	1	5	5.0
ID	32.5	10	2	0	1	13	7.0
IL	3,538.0	-10	2	0	1	-7	2.0
IN	128.0	0	0	0	1	1	4.0
KS	275.2	0	2	0	1	3	4.5
KY	106.4	0	2	2	1	5	5.0
LA	195.1	0	2	2	1	5	5.0
MA	335.1	-5	2	2	1	0	3.8
MD	171.8	0	2	0	1	3	4.5
ME*	172.0	-5	0	0	1	-4	2.8
MI*	3,134.0	-15	0	0	0	-15	0.0
MN	52.9	5	2	2	1	10	6.3
MO	105.7	0	0	0	1	1	4.0
MS	643.0	-5	2	2	1	0	3.8
MT	24.5	10	2	0	1	13	7.0
NC	183.6	0	2	2	1	5	5.0
ND	34.0	5	2	2	1	10	6.3
NE	87.0	0	2	2	0	4	4.8
NH	29.9	10	2	0	1	13	7.0
NJ	17.8	10	2	2	1	15	7.5
NM	108.6	0	2	2	1	5	5.0
NV	177.8	0	2	2	1	5	5.0
NY	161.8	0	2	2	1	5	5.0
OH	156.6	0	0	0	1	1	4.0
OK	113.8	0	2	2	1	5	5.0
OR	254.9	0	0	0	0	0	3.8
PA	257.9	0	2	2	0	4	4.8
RI*	587.0	-10	2	1	0	-7	2.0
SC*	1,979.0	-15	2	2	1	-10	1.3
SD	22.3	10	2	2	1	15	7.5
TN	169.2	0	2	0	1	3	4.5
TX	187.7	0	2	2	0	4	4.8
UT	33.4	5	2	2	0	9	6.0
VA	120.0	0	2	2	1	5	5.0
VT*	96.0	-5	2	0	1	-2	3.3
WA	115.9	0	2	2	1	5	5.0
WI*	933.0	-10	0	0	0	-10	1.3
WV	11.9	10	2	0	1	13	7.0
WY*	89.0	-5	0	0	0	-5	2.5

SOURCES: NAIC Insurance Department Resources Report, National Insurance Crime Bureau
**State does not employ any dedicated antifraud investigators.*

New York) as well as the staffing resources each state devotes to respond to such inquiries (from just two full-time equivalent employees in Wyoming and Indiana to 80 in California.) We then calculated a ratio of each state's number of consumer complaints to complaint investigators.

Nationwide, we found a median of 342.3 complaints per investigator and a standard deviation of 318. We awarded +10 points to the one state, North Dakota, whose ratio was less than 20 percent of the mean. Six other states – Alaska, Delaware, Idaho, Maine, Rhode Island and Vermont – whose complaint ratio was less than one-third of the mean were granted +5 points.

At the other end of the spectrum, we deducted -5 points from nine states whose ratio was greater than the mean: Arizona, California, Connecticut, Illinois, Minnesota, Oklahoma, Texas, Washington and Wisconsin. We deducted -10 points from three states (New York, Pennsylvania and South Carolina) whose ratio was greater than the mean by more than a standard deviation and we deducted -20 points from two states (Indiana and North Carolina) whose ratio was greater than the mean by more than two standard deviations.

Finally, we also examined two other factors to determine how open and accessible states consumer response operations were. We deducted -5 points from eight states that do not **make consumer complaint data available online**: Delaware, Iowa, Nebraska, New Mexico, Oklahoma, Rhode Island, South Dakota and Tennessee. We also deducted -5 points from five states that do not offer consumers the **ability to file complaints online**: Arizona, Hawaii, Massachusetts, Michigan and Missouri.

Taken together, states' scores in the Consumer Protection category range from a high of +10 (North Dakota) to a low of -20 (Indiana and North Carolina). Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

IV. POLITICIZATION (7.5 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 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 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 2014. 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 2011 and 2014, a score of -5 was assigned. We have identified five races that meet these criteria:

1. Florida's 2014 gubernatorial race between incumbent Rick Scott and former Gov. Charlie Crist, which focused heavily on property insurance issues.

2. Louisiana's 2014 race for U.S. Senate between incumbent Mary Landrieu and U.S. Rep. Bill Cassidy, which focused significantly on both candidates attempting to claim credit for rolling back reforms to the National Flood Insurance Program.

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

4. Massachusetts' 2014 gubernatorial race between Charlie Baker and Martha Coakley, in which the Republican pledged to uphold outgoing Gov. Deval Patrick's auto insurance deregulation,

TABLE 3: CONSUMER PROTECTION

State	Complaint Ratio		Online Complaints		Total Score	
	Ratio	Score	Data	Submission	Raw	Weighted
AK	81.7	5	0	0	5	6.3
AL	240.7	0	0	0	0	5.0
AR	120.8	0	0	0	0	5.0
AZ	607.0	-5	0	-5	-10	2.5
CA	457.0	-5	0	0	-5	3.8
CO	178.6	0	0	0	0	5.0
CT	377.8	-5	0	0	-5	3.8
DE	86.3	5	-5	0	0	5.0
FL	330.4	0	0	0	0	5.0
GA	327.4	0	0	0	0	5.0
HI	128.6	0	0	-5	-5	3.8
IA	316.2	0	-5	0	-5	3.8
ID	96.1	5	0	0	5	6.3
IL	490.5	-5	0	0	-5	3.8
IN	1757.0	-20	0	0	-20	0.0
KS	182.9	0	0	0	0	5.0
KY	305.6	0	0	0	0	5.0
LA	166.5	0	0	0	0	5.0
MA	176.1	0	0	-5	-5	3.8
MD	314.0	0	0	0	0	5.0
ME	78.1	5	0	0	5	6.3
MI	258.4	0	0	-5	-5	3.8
MN	379.3	-5	0	0	-5	3.8
MO	196.8	0	0	-5	-5	3.8
MS	156.0	0	0	0	0	5.0
MT	133.5	0	0	0	0	5.0
NC	1412.1	-20	0	0	-20	0.0
ND	65.0	10	0	0	10	7.5
NE	140.3	0	-5	0	-5	3.8
NH	315.3	0	0	0	0	5.0
NJ	290.2	0	0	0	0	5.0
NM	152.2	0	-5	0	-5	3.8
NV	339.3	0	0	0	0	5.0
NY	714.0	-10	0	0	-10	2.5
OH	186.1	0	0	0	0	5.0
OK	514.7	-5	-5	0	-10	2.5
OR	280.9	0	0	0	0	5.0
PA	941.3	-10	0	0	-10	2.5
RI	82.0	5	-5	0	0	5.0
SC	669.0	-10	0	0	-10	2.5
SD	224.0	0	-5	0	-5	3.8
TN	281.3	0	-5	0	-5	3.8
TX	413.9	-5	0	0	-5	3.8
UT	177.2	0	0	0	0	5.0
VA	213.5	0	0	0	0	5.0
VT	81.5	5	0	0	5	6.3
WA	630.0	-5	0	0	-5	3.8
WI	617.0	-5	0	0	-5	3.8
WV	249.0	0	0	0	0	5.0
WY	180.0	0	0	0	0	5.0

SOURCE: Insurance Department Resources Report which Coakley has spent years attempting to overturn.[18]

5. Michigan's 2014 gubernatorial race between incumbent Rick Snyder and challenger Mark Schauer, in which Snyder pushed a plan to make significant changes to the state's no-fault auto insurance system.[19]

- For each state bill introduced in 2014 that significantly restricts market freedom or adds significantly to the cost of doing business in property/casualty insurance markets, and that either passed at least one house of the state legislature or passed the insurance committees in both houses, -5 points were deducted. This year, we identified just two key pieces of legislation, both outlined in the introductory section of the paper, that meet these criteria.

1. Connecticut storm shutters legislation

2. Hawaii workers' comp bills

Taken together, 15 of the 50 states saw some points deducted for politicization. California and Louisiana tied for worst score, with -15, while 35 states received a raw score of 0. Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

V. FISCAL EFFICIENCY (10 PERCENT OF TOTAL SCORE)

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 22 states, 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 10 other states, and for more than 75 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. 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 $1.32 billion on insurance regulation in 2013 but collected more than double that amount, $2.74 billion, in regulatory fees and assessments from the insurance industry. State insurance departments also collected $168.0 million in fines and penalties and another $1.15 billion in miscellaneous revenues. States separately collected $16.39 billion in insurance premium taxes. Altogether, of the $20.45 billion states collected from the insurance industry last year, only 6.4 percent was spent on insurance regulation, down from 6.6 percent the prior year.

Using this data, we have constructed two variables to measure departments' budget efficiency and the financial burden states place on insurance products.

Tax and Fee Burden: 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 0.07 percent for Michigan to a high of roughly 2.63 percent for Tennessee. The mean was 1.230 percent with a standard deviation of 0.597 percent.

We awarded +5 points to 17 states that were below the mean and +10 points to eight states (Connecticut, Delaware, Florida, Illinois, Iowa, Michigan, Nebraska and Oregon) that were more than a standard deviation below the mean. Six states that were more than a standard deviation above the mean (Arizona, Mississippi, Louisiana, Montana, Nevada and New Mexico) had -5 points deducted. Tennessee and West Virginia, which were more than two standard deviations above the mean, saw -10 deducted.

Regulatory Surplus: 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 $1.42 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

18 .*Boston Herald*, "Attorney General Martha Coakley Slams Auto Insurance Policy," Dec. 28, 2009. http://insurancenewsnet.com/oarticle/2009/12/28/attorney-general-martha-coakley-slams-auto-insurance-policy-a-150000.html#.VEaUDRaaVuM

19. On the Issues, "Rick Snyder on Local Issues," http://www.ontheissues.org/governor/Rick_Snyder_Local_Issues.htm Accessed Nov. 24, 2014.

TABLE 4: POLITICIZATION

State	Commissioner	Election	Bills	Total Score	
				Raw	Weighted
AK	0	0	0	0	7.5
AL	0	0	0	0	7.5
AR	0	0	0	0	7.5
AZ	0	0	0	0	7.5
CA	-10	-5	0	-15	0.0
CO	0	0	0	0	7.5
CT	0	0	-5	-5	5.0
DE	-10	0	0	-10	2.5
FL	-5	-5	0	-10	2.5
GA	-10	0	0	-10	2.5
HI	0	0	-5	-5	5.0
IA	0	0	0	0	7.5
ID	0	0	0	0	7.5
IL	0	0	0	0	7.5
IN	0	0	0	0	7.5
KS	-10	0	0	-10	2.5
KY	0	0	0	0	7.5
LA	-10	-5	0	-15	0.0
MA	0	0	0	0	7.5
MD	0	0	0	0	7.5
ME	0	0	0	0	7.5
MI	0	-5	0	-5	5.0
MN	0	0	0	0	7.5
MO	0	0	0	0	7.5
MS	-10	0	0	-10	2.5
MT	-10	0	0	-10	2.5
NC	-10	0	0	-10	2.5
ND	-10	0	0	-10	2.5
NE	0	0	0	0	7.5
NH	0	0	0	0	7.5
NJ	0	0	0	0	7.5
NM	0	0	0	0	7.5
NV	0	0	0	0	7.5
NY	0	0	0	0	7.5
OH	0	0	0	0	7.5
OK	-10	0	0	-10	2.5
OR	0	0	0	0	7.5
PA	0	0	0	0	7.5
RI	0	0	0	0	7.5
SC	0	0	0	0	7.5
SD	0	0	0	0	7.5
TN	0	0	0	0	7.5
TX	0	0	0	0	7.5
UT	0	0	0	0	7.5
VA	0	0	0	0	7.5
VT	0	0	0	0	7.5
WA	-10	0	0	-10	2.5
WI	0	0	0	0	7.5
WV	0	0	0	0	7.5
WY	0	0	0	0	7.5

SOURCE: R Street Institute

stealth tax on insurance consumers to fund what should be general obligations.

Comparing insurance regulatory fees and assessments to the budgets states spend on insurance regulation, the mean among the 50 states was to collect fees equal to 193.9 of their budget, albeit with a large standard deviation of 151.1. For this variable, we deducted no points for the 11 states that did not have a regulatory surplus last year.

Twenty states with some regulatory surplus, but whose fees were less than the mean of 193.9 percent of their budget, saw -5 points deducted. We deducted -10 from 16 states whose regulatory surplus was greater than the mean, but by less than a standard deviation. Montana, whose regulatory surplus of 395.8 percent was more than a standard deviation greater than the mean, had -15 points deducted.

Finally, New York (554.0 percent) and Massachusetts (991.7 percent), were the two states whose regulatory surplus was more than two standard deviations greater than the mean, and thus were deducted -20 points.

Taken together, states' scores in the Fiscal Efficiency category range from a high of +10 in Connecticut, Florida, Illinois and Michigan to a low of -20 in Montana, New York and West Virginia. Those raw scores are then translated into a weighted score of between 0 and 10, as the category represents 10 percent of the total score.

Insurance Market Performance

As in past editions of this report, we examined empirical data on the competitiveness of states' auto, home and workers' comp insurance markets. In examining these markets, there are three broad categories that we measure: the size of state residual markets, the concentration and market share of insurance groups within each market and the long-term loss ratios reported by companies operating in those markets.

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 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, auto and workers' comp insurance using 2013 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.

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 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 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.

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 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 busi-

TABLE 5: FISCAL EFFICIENCY

State	Tax/Fee Burden		Regulatory Surplus		Total Score	
	(%)	Score	(%)	Score	Raw	Weighted
AK	1.77	0	115.5	-5	-5	5.0
AL	1.62	0	135.1	-5	-5	5.0
AR	1.80	0	211.5	-10	-10	3.3
AZ	1.84	-5	168.1	-5	-10	3.3
CA	0.97	5	117.5	-5	0	6.7
CO	0.80	5	61.4	0	5	8.3
CT	0.29	10	95.6	0	10	10.0
DE	0.25	10	246.0	-10	0	6.7
FL	0.26	10	80.6	0	10	10.0
GA	0.83	5	250.4	-10	-5	5.0
HI	1.41	0	58.1	0	0	6.7
IA	0.48	10	169.0	-5	5	8.3
ID	1.39	0	283.9	-10	-10	3.3
IL	0.60	10	96.7	0	10	10.0
IN	0.79	5	187.9	-5	0	6.7
KS	1.11	5	113.6	-5	0	6.7
KY	0.83	5	204.3	-10	-5	5.0
LA	2.07	-5	328.2	-10	-15	1.7
MA	0.98	5	991.7	-20	-15	1.7
MD	1.39	0	82.8	0	0	6.7
ME	1.48	0	79.6	0	0	6.7
MI	0.07	10	82.3	0	10	10.0
MN	1.22	5	164.5	-5	0	6.7
MO	0.79	5	106.3	-5	0	6.7
MS	1.92	-5	103.3	-5	-10	3.3
MT	2.01	-5	395.8	-15	-20	0.0
NC	1.46	0	133.1	-5	-5	5.0
ND	0.94	5	127.6	-5	0	6.7
NE	0.58	10	119.9	-5	5	8.3
NH	1.32	0	134.1	-5	-5	5.0
NJ	1.09	5	269.1	-10	-5	5.0
NM	1.97	-5	276.1	-10	-15	1.7
NV	2.34	-5	137.6	-5	-10	3.3
NY	1.54	0	554.0	-20	-20	0.0
OH	0.87	5	168.7	-5	0	6.7
OK	1.68	0	197.5	-10	-10	3.3
OR	0.30	10	102.5	-5	5	8.3
PA	0.87	5	215.9	-10	-5	5.0
RI	1.40	0	82.7	0	0	6.7
SC	1.27	0	241.0	-10	-10	3.3
SD	1.49	0	326.2	-10	-10	3.3
TN	2.63	-10	103.1	-5	-15	1.7
TX	1.53	0	188.4	-5	-5	5.0
UT	1.20	5	97.8	0	5	8.3
VA	1.16	5	284.2	-10	-5	5.0
VT	1.67	0	223.1	-10	-10	3.3
WA	1.36	0	155.7	-5	-5	5.0
WI	0.65	5	239.4	-10	-5	5.0
WV	2.48	-10	316.2	-10	-20	0.0
WY	0.74	5	73.6	0	5	8.3

Source: Insurance Department Resources Report ness. 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. 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 loss ratios would remain stable either way.

VI. AUTO INSURANCE MARKETS (10 PERCENT OF TOTAL SCORE)

Residual Auto Market: In 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 2013, they represent less than 1 percent of what is a $181.91 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 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 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 those in Rhode Island and Massachusetts account for about 2 percent of the market and AIPs account for about 1 percent of the market in California, Missouri, Tennessee, Texas and Vermont. Thanks to auto insurance reforms signed in 2008 by outgoing Gov. Deval Patrick that phased out the Commonwealth Auto Reinsurers mechanism, Massachusetts' AIP now has less a third of the market share CAR had when the state initiated its "managed competition" program six years ago.

Four other states – Florida, Hawaii, Minnesota and New York – continue to operate joint underwriting authorities, with all except Florida (which now writes a negligible amount of premium) 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 liability 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. Premiums ceded to New Hampshire's reinsurance facility represent only about 1 percent of the market, while the $904.2 million of earned premiums and "clean risk subsidies" ceded last year to the North Carolina Reinsurance Facility represented about 19 percent of the premium written in the state.[20]

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 unlimited 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. Its $1.28 billion of ceded premium last year represented about 17.5 percent of the premiums written in the state.[21]

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

20.North Carolina Reinsurance Facility, "2014 Annual Report," November 2014. http://www.ncrb.org/LinkClick.aspx?link=ncrf%2fannual+reports%2fNCRF+2014+Annual+Report+%28final%29+Hi-Res.pdf&tabid=252&portalid=5&mid=993

21.Michigan Catastrophic Claims Association, "Annual Statement of the Michigan Catastrophic Claims Association," June 30, 2014. http://www.michigancatastrophic.com/LinkClick.aspx?fileticket=%2fS5H7wZ3C5Y%3d&tabid=2935

Auto Insurance Concentration: On a nationwide basis, the auto insurance market last year had an HHI score of 735.23, while the mean HHI score of the 50 states was 1026.1. 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 +5 points to 20 states with an HHI below the mean of 1026.1, and +10 points to eight states (California, Connecticut, Maine, New Hampshire, North Dakota, Utah, Vermont and Washington) that were more than a standard deviation below the mean.

Six other states that were more than a standard deviation above the mean (Delaware, Hawaii, Illinois, Maryland, New York and West Virginia) got -5 points deducted and the two states that were more than two standard deviations above the mean (Louisiana and Alaska) got -10 points deducted.

Auto Insurance Loss Ratios: In the auto insurance market, the nationwide five-year average loss ratio was 66.0 and the mean of the 50 states was 63.8, with a standard deviation of 9.3. There were just two notable outliers on either end of the distribution. Hawaii saw -5 points deducted for its five-year loss ratio of 50.5, which was more than a standard deviation less than the mean. At the other end of the spectrum, -10 points were deducted for Michigan, whose five-year loss ratio of 122.8 was more than two standard deviations greater than the mean (in fact, it was a whopping six standard deviations above the mean.)

Taken together, states' scores in the Auto Insurance category range from a high of +10 in five states (Connecticut, Maine, North Dakota, Utah and Washington) to a low of -22.5 in Michigan. Those raw scores are then translated into a weighted score of between 0 and 10, as the category represents 10 percent of the total score.

VII. HOMEOWNERS INSURANCE MARKETS (10 PERCENT OF TOTAL SCORE)

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 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 prompted significant growth of state-sponsored insurance mechanisms, particularly in the wake of the record 2004 and 2005 hurricane seasons. But thankfully, that trend seems to be abating overall. According to the Property Insurance Plans Service Office, earned premiums of the nation's residual property insurance markets fell to $3.1 billion in 2013, having previously peaked at $3.4 billion in 2011 and 2012.[22] Expressed as a percentage of the total non-liability residential property insurance markets, residual markets constituted just 2.7 percent of the market in 2013, down from 3.2 percent in 2012 and 3.3 percent in 2011.

Much of that improvement is attributable to the continued shrinking of Florida's Citizens Property Insurance Corp., which dropped from 14.3 percent of the market in 2011 to 11.3 percent of the market in 2013. Louisiana Citizens also has been rapidly shrinking, from 6.5 percent of the market in 2009 to 3.9 percent of the market in 2013. Massachusetts, which has the largest stand-alone FAIR plan in the nation, also has seen declining share for the state-sponsored entity, falling from 8.0 percent of the market in 2009 to 6.5 percent in 2013.

It isn't all rosy news. North Carolina's two residual market entities are once again growing rapidly. The state's FAIR Plan has seen market share jump from 0.6 percent in 2011 to 1.4 percent in 2013. Meanwhile, its Beach Plan has exploded from 3.4 percent of the market in 2011 to 5.1 percent in 2013.

For this section, we relied on PIPSO data for FAIR and beach plans. In addition to those already named, the next largest FAIR plan is the Rhode Island Joint Reinsurance Association, with about 3.4 percent of the market, while significant beach plans include the Texas Windstorm Insurance Association, with about 3.4 percent of the market, as well as those in Mississippi and Alabama, each with about 1.5 percent of the market.

In Florida's case, to avoid double counting, we deducted the $390.9 million of premium ceded by Citizens to the Cat Fund,[23] with the remaining $881.0 million of Cat Fund premiums accounting for about 10 percent of the market.[24] In addition, we assigned a score for premiums written by

22.Property Insurance Plans Services Office Inc., "2013 FAIR and Beach Plan Underwriting Results and Market Penetration Report," June 2014.

23.Citizens Property Insurance Corp. "2014 Operating Budget," Board of Governors meeting, Dec. 13, 2013. https://www.citizensfla.com/shared/corpfinance/2014Budget.pdf

24.http://www.sbafla.com/fhcf/Portals/5/Reports/2012_2013_FHCF_AnnualReport.pdf

TABLE 6: AUTO INSURANCE

State	Residual Market		Concentration		Loss Ratio		Total Score	
	(%)	Score	HHI	Score	(%)	(Score)	Raw	Weighted
AK	0	0	1699.8	-10	56.3	0	-10	3.8
AL	0	0	1140.9	0	63.8	0	0	6.9
AR	0	0	1050.1	0	63.0	0	0	6.9
AZ	0	0	867.2	5	62.1	0	5	8.5
CA	1	-1	755.3	10	61.5	0	9	9.7
CO	0	0	941.0	5	67.3	0	5	8.5
CT	0	0	765.8	10	63.7	0	10	10.0
DE	0	0	1256.7	-5	65.4	0	-5	5.4
FL	0	0	1067.5	0	67.1	0	0	6.9
GA	0	0	1027.2	0	65.6	0	0	6.9
HI	1	-1	1307.5	-5	50.5	-5	-11	3.5
IA	0	0	989.8	5	60.2	0	5	8.5
ID	0	0	837.7	5	55.9	0	5	8.5
IL	0	0	1273.7	-5	61.4	0	-5	5.4
IN	0	0	926.8	5	61.5	0	5	8.5
KS	0	0	953.0	5	63.0	0	5	8.5
KY	0	0	1122.5	0	68.8	0	0	6.9
LA	0	0	1541.4	-10	64.6	0	-10	3.8
MA	2	-2	1184.5	0	63.2	0	-2	6.3
MD	2	-2	1263.0	-5	65.2	0	-7	4.8
ME	0	0	720.7	10	55.5	0	10	10.0
MI	17.5	-17.5	1004.4	5	122.8	-10	-22.5	0.0
MN	1	-1	1052.9	0	60.4	0	-1	6.6
MO	1	-1	1033.7	0	63.3	0	-1	6.6
MS	0	0	1159.5	0	65.7	0	0	6.9
MT	0	0	1032.4	0	59.1	0	0	6.9
NC	19	-19	906.9	5	63.8	0	-14	2.6
ND	0	0	791.7	10	56.8	0	10	10.0
NE	0	0	1021.6	5	65.9	0	5	8.5
NH	1	-1	767.4	10	59.3	0	9	9.7
NJ	0	0	965.6	5	68.2	0	5	8.5
NM	0	0	1042.7	0	61.9	0	0	6.9
NV	0	0	855.6	5	62.6	0	5	8.5
NY	1	-1	1384.4	-5	67.5	0	-6	5.1
OH	0	0	848.1	5	60.1	0	5	8.5
OK	0	0	1013.9	5	69.0	0	5	8.5
OR	0	0	1021.2	5	62.2	0	5	8.5
PA	0	0	995.8	5	62.3	0	5	8.5
RI	2	-2	954.1	5	67.6	0	3	7.8
SC	0	0	1156.5	0	65.8	0	0	6.9
SD	0	0	838.7	5	67.3	0	5	8.5
TN	1	-1	1139.6	0	67.2	0	-1	6.6
TX	1	-1	885.2	5	63.3	0	4	8.2
UT	0	0	816.1	10	60.5	0	10	10.0
VA	0	0	1015.5	5	63.3	0	5	8.5
VT	1	-1	751.8	10	57.9	0	9	9.7
WA	0	0	695.5	10	61.3	0	10	10.0
WI	0	0	960.0	5	62.1	0	5	8.5
WV	0	0	1293.6	-5	55.6	0	-5	5.4
WY	0	0	1210.6	0	62.8	0	0	6.9

Sources: SNL Financial, AIPSO

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 $98.2 million of premiums it ceded back to private reinsurance markets, the CEA's $203.7 of 2013 net premiums would represent about 2.8 percent of the state's homeowners market, were earthquake premiums to be included in the size of that market.[25]

We tallied the total market share of the FAIR plans, beach plans, earthquake pools and property reinsurance facilities for each state, deducting -1 point for each percentage point of market share controlled by the residual market mechanisms. Florida remained the state with the largest percentage of residual market premium, at 21.3 percent, followed by Massachusetts, North Carolina, Louisiana and Texas. There were 34 states with essentially no residual market homeowners insurance premium.

Homeowners Insurance Concentration: On a nationwide basis, the homeowners insurance market last year had an HHI score of 689.7 and the mean of the 50 states was 1046.8, with a standard deviation of 296.5. Hawaii and Alaska 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 +5 points to 17 states whose HHI scores were below the mean, and +10 points to eight states (Connecticut, Florida, Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island and Vermont) that were more than a standard deviation below the mean. Illinois, which was more than a standard deviation above the mean, was deducted -5 points, and two states that were more than two standard deviations above the mean (Hawaii and Alaska) got -10 points.

Homeowners Insurance Loss Ratios: In the homeowners insurance market, the nationwide five-year average loss ratio was 61.8 and the mean of the 50 states was 63.6, with a standard deviation of 18.9. We deducted -5 points from five states (California, Florida, Louisiana, North Dakota and Rhode Island) whose loss ratios were more than a standard deviation lower than the mean and -10 points for Hawaii, which was more than two standard deviations below the mean.

At the other end of the spectrum, we deducted -5 points from five states (Alabama, Colorado, Georgia, Nebraska and South Dakota) whose five-year loss ratios were more than a standard deviation above the mean and -10 points from two states (Oklahoma and Tennessee) whose five-year averages were more than two standard deviations above the mean.
Taken together, states' scores in the Homeowners Insurance category range from a high of +10 in five states (Connecticut, Maine, New Hampshire, New Jersey and Vermont) to a low of -20 in Hawaii. Those raw scores are then translated into a weighted score of between 0 and 10, as the category represents 10 percent of the total score.

25.California Earthquake Authority, "Balance Sheet," June 30, 2014. http://earthquakeauthority.com/UserFiles/File/Financial%20Statements/GASB%20BS%20%20IS%20June%202014.pdf

VIII. WORKERS' COMP MARKETS (7.5 PERCENT OF TOTAL SCORE)

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.

Residual Workers' Comp Market: 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, 21 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. Other states offer varying forms of assigned risk, second injury and other forms of workers' comp residual markets, with many of them administered by the National Council on Compensation Insurance.

The trend of recent years has been away from monopolistic state funds and toward privatization of competitive funds. Nevada had a state monopoly until 1999 and is now an NCCI state. Some states, such as Rhode Island and Maryland, have turned their state funds into mutual insurance companies that also remain markets of last resort. West Virginia maintained a monopoly state fund until 2005, and its former state fund, Brickstreet Mutual, is now a completely private mutual insurance company.

Most recently, Arizona has joined the privatization movement. The state previously maintained a competitive state fund, SCF Arizona, but that entity this year was transitioned into a completely private mutual insurer, without any "market of last resort" duties, known as CopperPoint Mutual Insurance Co.[26]

26.Angela Gonzales, "SCF Arizona changes name to CopperPoint Mutual Insurance

TABLE 7: HOMEOWNERS INSURANCE

State	Residual Market		Concentration		Loss Ratio		Total Score	
	(%)	Score	HHI	Score	(%)	Score	Raw	Weighted
AK	0.0	0	2064.0	-10	51.5	0	-10	3.3
AL	1.5	-1	1340.0	0	88.9	-5	-6	4.7
AR	0.0	0	1175.8	0	76.4	0	0	6.7
AZ	0.0	0	949.9	5	77.0	0	5	8.3
CA	3.5	-3	965.5	5	41.9	-5	-3	5.7
CO	0.0	0	1035.4	5	100.8	-5	0	6.7
CT	0.3	0	595.0	10	60.6	0	10	10.0
DE	0.1	0	1177.3	0	47.5	0	0	6.7
FL	21.3	-21	507.4	10	33.1	-5	-16	1.3
GA	0.6	-1	1240.0	0	84.6	-5	-6	4.7
HI	0.0	0	1783.6	-10	19.7	-10	-20	0.0
IA	0.1	0	1182.9	0	72.4	0	0	6.7
ID	0.0	0	865.5	5	54.3	0	5	8.3
IL	0.1	0	1480.2	-5	74.5	0	-5	5.0
IN	0.1	0	1049.6	0	71.9	0	0	6.7
KS	0.3	0	1053.1	0	76.3	0	0	6.7
KY	0.5	0	1313.4	0	82.1	0	0	6.7
LA	3.9	-4	1145.0	0	32.1	-5	-9	3.7
MA	6.5	-7	571.1	10	46.5	0	3	7.7
MD	0.1	0	1049.6	0	64.8	0	0	6.7
ME	0.0	0	566.0	10	44.8	0	10	10.0
MI	0.8	-1	983.8	5	62.0	0	4	8.0
MN	0.2	0	1102.3	0	63.3	0	0	6.7
MO	0.1	0	1160.1	0	73.5	0	0	6.7
MS	2.3	-2	1335.2	0	59.7	0	-2	6.0
MT	0.0	0	1197.3	0	80.5	0	0	6.7
NC	6.5	-6	913.6	5	66.4	0	-1	6.3
ND	0.0	0	842.1	5	43.6	-5	0	6.7
NE	0.0	0	1171.9	0	83.4	-5	-5	5.0
NH	0.0	0	605.6	10	48.8	0	10	10.0
NJ	0.4	0	568.0	10	72.9	0	10	10.0
NM	0.7	-1	1216.0	0	59.0	0	-1	6.3
NV	0.0	0	1004.4	5	45.7	0	5	8.3
NY	0.5	-1	762.7	5	52.7	0	4	8.0
OH	0.7	-1	864.3	5	78.2	0	4	8.0
OK	0.0	0	1308.3	0	118.2	-10	-10	3.3
OR	0.1	0	1234.2	0	46.9	0	0	6.7
PA	0.2	0	1033.5	5	64.8	0	5	8.3
RI	3.4	-3	739.7	10	44.7	-5	2	7.3
SC	0.7	-1	912.4	5	52.3	0	4	8.0
SD	0.0	0	854.4	5	85.9	-5	0	6.7
TN	0.0	0	1259.1	0	105.4	-10	-10	3.3
TX	4.5	-5	1165.4	0	58.4	0	-5	5.0
UT	0.0	0	925.8	5	56.0	0	5	8.3
VA	0.6	-1	984.4	5	53.6	0	4	8.0
VT	0.0	0	662.3	10	48.1	0	10	10.0
WA	0.0	0	967.0	5	50.5	0	5	8.3
WI	0.1	0	920.9	5	63.2	0	5	8.3
WV	0.1	0	1216.4	0	66.4	0	0	6.7
WY	0.0	0	1319.9	0	73.6	0	0	6.7

Sources: SNL Financial, PIPSO, Florida SBA, CEA

For this metric, using data provided by SNL Financial, NCCI and other plan administrators, we deducted -1 point for every five points of market share held by a state's residual market entity, up to -20 points for the four monopolistic states.

Workers' Comp Concentration: 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 for last year was 287.9, indicating a very competitive market, the mean of the 46 state markets with open competition was 1258.6, with an enormous standard deviation of 1206.7.

We excluded from consideration the four states with monopolistic state funds, assigning -10 each to Ohio, North Dakota, Washington and Wyoming. That score was also assigned to eight other states – Colorado, Idaho, Maine, Montana, Oregon, Rhode Island, Utah and West Virginia – whose HHI scores were greater than 2,500 and would thus qualify as "highly concentrated" under the standards used by the DOJ and FTC.

Three other states (Alaska, New York and Texas) with "moderately concentrated" markets, measured by HHI scores of between 1,500 and 2,500, were given scores of -5.

We awarded +5 points to 15 states whose HHI was below 629.3 (half of the mean) and +10 points to seven states (Georgia, Illinois, Indiana, Iowa, North Carolina, Pennsylvania and Tennessee) whose HHI was less than 419.5, or one-third of the mean.

Workers' Comp Loss Ratios: In the workers' comp market, the nationwide five-year average loss ratio was 69.5 and the mean of the 50 states was 67.8, with a standard deviation of 17. We deducted -5 points from three states (Nevada, Texas and West Virginia) whose five-year loss ratios were more than a standard deviation below the mean, and -10 points from two states (North Dakota and Wyoming) whose five-year average was more than two standard deviations below the mean.

At the other end of the distribution, -5 points were deducted from Delaware and Oregon, whose averages were more than a standard deviation greater than the mean, and -10 points were deducted from Ohio and Washington, which were more than two standard deviations greater than the mean.

Taken together, states' scores in the Workers' Comp category range from a high of +10 in North Carolina and Tennessee to a low of -40 in the four monopolistic states (North Dakota, Ohio, Washington and Wyoming.) Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

Co.," *Phoenix Business Journal*, Dec. 4, 2013. http://www.bizjournals.com/phoenix/news/2013/12/04/scf-arizona-changes-name-to.html

UNDERWRITING FREEDOM

We should admit our biases upfront: 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. 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.

IX. RATE REGULATION (10 PERCENT OF TOTAL SCORE)

Below-Risk Rates: (-20 points) Just one state, Florida, is classified as practicing "below-risk 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 in the residential property insurance market. 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.

No Flexibility: (-15 points) There are two states that, for differing reasons, we place in the category of "no flexibility" – North Carolina and California. North Carolina relies on one of the oldest rate-making systems in the country, one that was still common nationwide just a few decades ago, in that it asks insurers in the auto and homeowners insurance markets to submit rate filings en masse through a rate bureau, with those filings given a summary "thumbs up" or "thumbs down by the insurance commissioner. While insurers are allowed to deviate downward from the filed rates, they may not exceed them. They also have little to no flexibility in terms of deviating from standardized product designs, meaning that North Carolina consumers largely have no access to the same innovative new products available in neighboring states. California, by contrast, regulates according to the dictates of the 26-year-old referendum Proposition 103, which mandates certain rating factors, proscribes others and includes a de facto ban on any factor not contemplated when the proposition was passed.

Low Flexibility: (-10 points) Most of the four states falling into

TABLE 8: WORKERS' COMP

State	Residual Market		Concentration		Loss Ratio		Total Score	
	(%)	Score	HHI	Score	(%)	Score	Raw	Weighted
AK	12.8	-3	1559.1	-5	58.7	0	-8	4.9
AL	3.7	-1	484.3	5	63.4	0	4	6.6
AR	8.4	-2	535.4	5	52.3	0	3	6.5
AZ	5.9	-1	1205.7	0	76.8	0	-1	5.8
CA	10.8	-2	485.1	5	69.5	0	3	6.4
CO	58.8	-12	3573.1	-10	74.3	0	-22	2.7
CT	5.9	-1	757.1	0	77.8	0	-1	5.8
DE	0.6	0	602.0	5	90.1	-5	0	6.0
FL	0.8	0	486.3	5	56.3	0	5	6.7
GA	4.2	-1	391.1	10	62.3	0	9	7.4
HI	23.0	-5	1219.2	0	58.3	0	-5	5.3
IA	6.1	-1	395.8	10	75.1	0	9	7.3
ID	60.3	-12	3767.0	-10	75.4	0	-22	2.7
IL	4.4	-1	365.4	10	76.3	0	9	7.4
IN	3.0	-1	347.7	10	65.6	0	9	7.4
KS	9.1	-2	527.1	5	62.4	0	3	6.5
KY	29.3	-6	1120.7	0	72.4	0	-6	5.1
LA	22.8	-5	897.1	0	66.6	0	-5	5.3
MA	13.4	-3	769.2	0	65.1	0	-3	5.6
MD	24.6	-5	970.1	0	80.1	0	-5	5.3
ME	62.6	-13	4044.5	-10	69.5	0	-23	2.6
MI	0.0	0	562.1	5	57.5	0	5	6.8
MN	12.3	-2	435.3	5	68.6	0	3	6.4
MO	20.2	-4	773.1	0	62.1	0	-4	5.4
MS	6.0	-1	483.7	5	62.7	0	4	6.6
MT	60.9	-12	3867.8	-10	72.6	0	-22	2.7
NC	1.1	0	382.2	10	70.7	0	10	7.5
ND	100.0	-20	N/A	-10	17.6	-10	-40	0.0
NE	0.0	0	507.0	5	65.6	0	5	6.8
NH	9.7	-2	678.6	0	62.1	0	-2	5.7
NJ	0.8	0	969.3	0	74.4	0	0	6.0
NM	5.9	-1	1437.9	0	71.2	0	-1	5.8
NV	7.4	-1	520.0	5	44.5	-5	-1	5.8
NY	44.0	-9	2153.8	-5	80.8	0	-14	3.9
OH	100.0	-20	N/A	-10	112.9	-10	-40	0.0
OK	30.5	-6	1210.5	0	80.7	0	-6	5.1
OR	67.6	-14	4721.4	-10	96.0	-5	-29	1.7
PA	8.5	-2	379.6	10	68.1	0	8	7.2
RI	61.3	-12	3883.0	-10	65.7	0	-22	2.7
SC	4.8	-1	440.2	5	64.0	0	4	6.6
SD	5.4	-1	490.8	5	59.9	0	4	6.6
TN	0.0	0	401.2	10	64.2	0	10	7.5
TX	38.6	-8	1726.2	-5	50.1	-5	-18	3.3
UT	50.9	-10	2744.6	-10	64.4	0	-20	3.0
VA	6.7	-1	433.0	5	63.1	0	4	6.5
VT	9.0	-2	822.2	0	65.0	0	-2	5.7
WA	100.0	-20	N/A	-10	128.0	-10	-40	0.0
WI	0.0	0	439.9	5	74.8	0	5	6.8
WV	4.8	-1	2927.8	-10	50.3	-5	-16	3.6
WY	100.0	-20	N/A	-10	26.2	-10	-40	0.0

Sources: SNL Financial, NCCI Holdings, Miscellaneous funds

the "low-flexibility" (Alabama, Connecticut, New York and Washington) 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.

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. The 14 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 15 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. States included in this category were Arizona, Kentucky, Maryland, Oklahoma, South Carolina, Utah, Virginia and Wisconsin.

High Flexibility: (10 points) A handful of states (Missouri, Ohio, Tennessee, Vermont and Wyoming) have use-and-file systems where interventions to disallow a filed rate are 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.

Taken together, states' scores in the Rate Regulation category range from a high of +20 in Illinois to a low of -20 in Florida. Those raw scores are then translated into a weighted score of between 0 and 10, as the category represents 10 percent of the total score.

X. REGULATORY CLARITY (7.5 PERCENT OF TOTAL SCORE)

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: Alabama, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Maryland, Massachusetts, Mississippi, New Hampshire and New York.

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 and Vermont.

Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

XI. RATING RESTRICTIONS (7.5 PERCENT OF TOTAL SCORE)

Credit Scoring: The evolution of credit-based insurance scoring arguably has 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,[27] 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

27.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 9: RATE REGULATION AND CLARITY

State	Rate Regulation		Clarity	
	Score	Weighted	Score	Weighted
AK	0	5.0	0	3.8
AL	-10	2.5	-10	0.0
AR	0	5.0	-10	0.0
AZ	5	6.3	0	3.8
CA	-15	1.3	-10	0.0
CO	-5	3.8	0	3.8
CT	-10	2.5	-10	0.0
DE	0	5.0	-10	0.0
FL	-20	0.0	-10	0.0
GA	0	5.0	-10	0.0
HI	-5	3.8	0	3.8
IA	-5	3.8	0	3.8
ID	0	5.0	0	3.8
IL	20	10.0	10	7.5
IN	0	5.0	0	3.8
KS	-5	3.8	0	3.8
KY	5	6.3	0	3.8
LA	-5	3.8	10	7.5
MA	-5	3.8	-10	0.0
MD	5	6.3	-10	0.0
ME	0	5.0	0	3.8
MI	-5	3.8	0	3.8
MN	0	5.0	0	3.8
MO	10	7.5	0	3.8
MS	-5	3.8	-10	0.0
MT	0	5.0	0	3.8
NC	-15	1.3	10	7.5
ND	-5	3.8	0	3.8
NE	0	5.0	0	3.8
NH	0	5.0	-10	0.0
NJ	-5	3.8	0	3.8
NM	0	5.0	0	3.8
NV	-5	3.8	0	3.8
NY	-10	2.5	-10	0.0
OH	10	7.5	10	7.5
OK	5	6.3	0	3.8
OR	-5	3.8	0	3.8
PA	0	5.0	0	3.8
RI	0	5.0	0	3.8
SC	5	6.3	10	7.5
SD	0	5.0	0	3.8
TN	10	7.5	0	3.8
TX	-5	3.8	0	3.8
UT	5	6.3	0	3.8
VA	5	6.3	0	3.8
VT	10	7.5	10	7.5
WA	-10	2.5	0	3.8
WI	5	6.3	0	3.8
WV	-5	3.8	0	3.8
WY	10	7.5	0	3.8

Source: R Street Institute, Insurance Information Institute 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. Hawaii explicitly bans the use of credit in auto insurance underwriting and rate-making, 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. We deducted -10 points for each of the five states with restrictive credit-scoring rules.

Territorial Rating: 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 nine of those states (California, Colorado, Connecticut, Florida, Maryland, Missouri, New Hampshire, New Jersey and South Dakota), we have deducted -10 points.

Personal Factors: The states of California, Hawaii, Massachusetts and North Carolina prohibit the use of age or gender as underwriting variables, regardless of actuarial validity. Pennsylvania also prohibits consideration of gender, while Michigan and Montana prohibit consideration of either gender or marital status. We have deducted -10 points from each of these seven states.

Taken together, states' scores in the Rating Restrictions category range from the 34 states that do not apply any notable restrictions on the use of credit, territory or personal factors in underwriting and rate-setting, to a low of -30 in California. Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

TABLE 10: RATING RESTRICTIONS

State	Credit	Territory	Personal	Total Scores	
				Raw	Weighted
AK	0	0	0	0	7.5
AL	0	0	0	0	7.5
AR	0	0	0	0	7.5
AZ	0	0	0	0	7.5
CA	-10	-10	-10	-30	0
CO	0	-10	0	-10	5
CT	0	-10	0	-10	5
DE	0	0	0	0	7.5
FL	0	-10	0	-10	5
GA	0	0	0	0	7.5
HI	-10	0	-10	-20	2.5
IA	0	0	0	0	7.5
ID	0	0	0	0	7.5
IL	0	0	0	0	7.5
IN	0	0	0	0	7.5
KS	0	0	0	0	7.5
KY	0	0	0	0	7.5
LA	0	0	0	0	7.5
MA	-10	0	-10	-20	2.5
MD	-10	-10	0	-20	2.5
ME	0	0	0	0	7.5
MI	0	0	-10	-10	5
MN	0	0	0	0	7.5
MO	0	-10	0	-10	5
MS	0	0	0	0	7.5
MT	0	0	-10	-10	5
NC	0	0	-10	-10	5
ND	0	0	0	0	7.5
NE	0	0	0	0	7.5
NH	0	-10	0	-10	5
NJ	0	-10	0	-10	5
NM	0	0	0	0	7.5
NV	0	0	0	0	7.5
NY	0	0	0	0	7.5
OH	0	0	0	0	7.5
OK	0	0	0	0	7.5
OR	0	0	0	0	7.5
PA	0	0	-10	-10	5
RI	0	0	0	0	7.5
SC	0	0	0	0	7.5
SD	0	-10	0	-10	5
TN	0	0	0	0	7.5
TX	0	0	0	0	7.5
UT	0	0	0	0	7.5
VA	0	0	0	0	7.5
VT	0	0	0	0	7.5
WA	-10	0	0	-10	5
WI	0	0	0	0	7.5
WV	0	0	0	0	7.5
WY	0	0	0	0	7.5

Sources: R Street Institute, NCOIL, Insurance Information Institute

TABLE II: REGULATORY MODERNIZATION

State	Collateral	IIPRC	SLIMPACT	e-Policies	e-Info	e-Proof	Total Score	
							Raw	Weighted
AK	0	0	0	5	0	5	10	2.1
AL	10	0	10	0	0	5	25	5.4
AR	0	0	0	0	5	5	10	2.1
AZ	0	0	0	5	5	5	15	3.2
CA	0	-10	0	0	5	5	0	0.0
CO	10	0	0	5	0	5	20	4.3
CT	10	-10	0	0	0	0	0	0.0
DE	0	-10	0	0	5	5	0	0.0
FL	10	-5	0	5	5	5	20	4.3
GA	10	0	0	5	0	5	20	4.3
HI	10	0	0	0	0	5	15	3.2
IA	10	0	0	5	5	5	25	5.4
ID	0	0	0	0	5	5	10	2.1
IL	0	0	0	5	0	5	10	2.1
IN	10	0	10	5	5	5	35	7.5
KS	0	0	10	5	5	5	25	5.4
KY	0	0	10	0	5	5	20	4.3
LA	10	0	0	0	0	5	15	3.2
MA	10	0	0	0	0	0	10	2.1
MD	10	0	0	0	0	5	15	3.2
ME	10	0	0	0	0	5	15	3.2
MI	0	0	0	5	0	0	5	1.1
MN	0	0	0	5	5	5	15	3.2
MO	10	0	0	5	5	5	25	5.4
MS	0	0	0	0	0	5	5	1.1
MT	0	0	0	0	0	0	0	0.0
NC	0	0	0	0	5	0	5	1.1
ND	0	-10	10	0	0	5	5	1.1
NE	0	0	0	0	0	5	5	1.1
NH	10	0	0	0	0	0	10	2.1
NJ	10	0	0	0	0	0	10	2.1
NM	10	0	10	0	0	0	20	4.3
NV	0	0	0	0	0	0	0	0.0
NY	10	0	0	0	0	0	10	2.1
OH	10	0	0	5	0	0	15	3.2
OK	0	0	0	5	0	5	10	2.1
OR	0	0	0	0	5	5	10	2.1
PA	0	0	0	5	5	5	15	3.2
RI	10	0	10	0	0	5	25	5.4
SC	0	0	0	0	0	5	5	1.1
SD	0	-10	0	5	5	5	5	1.1
TN	0	0	10	0	5	5	20	4.3
TX	0	0	0	5	5	5	15	3.2
UT	0	0	0	0	5	5	10	2.1
VA	10	0	0	5	5	5	25	5.4
VT	10	0	10	0	0	0	20	4.3
WA	0	0	0	0	0	5	5	1.1
WI	0	0	0	5	5	5	15	3.2
WV	0	0	0	0	5	0	5	1.1
WY	0	0	0	5	5	5	15	3.2

Sources: NAIC, IIPRC, Wiley Rein, NAPSLO, PCI

XII. REGULATORY MODERNIZATION (7.5 PERCENT OF TOTAL SCORE)

Our final rating variable looks at states' willingness to modernize what can be, in some cases, fairly sclerotic regulatory systems, join select multi-state compacts and acknowledge the need to more readily accommodate modern digital communication.

Collateral Reform: Historically, firms operating in the global reinsurance market who wished to do business in the United States had two options. One was to establish a licensed and authorized operating unit, domiciled onshore and regulated by a state insurance department. The other was to write coverage "cross-border," with the terms of coverage bound in the reinsurer's own home jurisdiction.

However, the latter option came with a significant catch. Due in part to concerns that cross-border obligations could be difficult to enforce in U.S. courts; in part to a lack of trust in the prudential regulation of foreign jurisdictions; in part to protectionist pressures of U.S. domiciled reinsurers; and in part to pressure from domestic primary insurers who wanted a leg up in their negotiations with reinsurance partners; U.S. regulators historically have required that primary insurers could only receive credit for reinsurance provided by unauthorized reinsurers if the reinsurance liabilities are collateralized at 100 percent.

After years of debate, and state-level experiments in Florida and New York to allow for reduced collateral requirements, the NAIC in 2011 passed changes to its Credit for Reinsurance Model Act and Regulation to allow financially strong reinsurers from acknowledged jurisdictions to post reduced collateral. We awarded +10 points to each of 21 states that have adopted rules based on the model regulation, as of the time of this writing.

Interstate Insurance Product Regulation Commission: Launched in May 2006, the IIPRC has looked to address concerns that the state-based regulatory system made it onerous to bring new life insurance products to market, in ways that hindered the industry's ability to compete with similar products from the banking and securities sectors. The compact offers insurers a single filing point for new life, annuities, disability and long-term-care insurance products. Once approved by the commission, the product becomes eligible for sale in any signatory state.

There are now 44 signatory states to the compact, representing roughly 70 percent of U.S. life insurance premiums. Because the overwhelming majority of states are now members, we deducted -10 points from the five states (California, Connecticut, Delaware, North Dakota and South Dakota) that have yet to join the compact, and -5 points from Florida, which passed a non-standard version of the compact.

SLIMPACT: A more recent effort at interstate compact, the Surplus Lines Insurance Multi-State Compliance Compact follows in the wake of provisions included in 2010's Dodd-Frank Wall Street Reform and Consumer Protection Act granting tax and regulatory authority over most aspects of multi-state surplus lines contracts to the home state of the insured. The compact, which will become active when it is joined by a tenth state, sets out a uniform system for reporting, paying, collecting and allocating premium taxes among compact members.

We assigned +10 points to each of the nine states that have joined SLIMPACT: Alabama, Indiana, Kansas, Kentucky, New Mexico, North Dakota , Rhode Island, Tennessee and Vermont.

E-Commerce: After a somewhat sluggish start, state insurance departments are beginning to update rules to recognize the central role Internet and wireless communications play in modern commerce. In recognition of these trends, we awarded:

- +5 points to each of the 18 states that allow consumers to access their insurance policies and other documents online.
- +5 points to each of the 24 states that allow insurers to provide all notifications over the Internet to consumers who consent.
- +5 points to each of the 37 states that allow drivers to show electronic proof of insurance during traffic stops.

Taken together, states' scores in the Regulatory Modernization category range from a high of +35 in Indiana to a low of 0, shared by five states: California, Connecticut, Delaware, Montana and Nevada. Those raw scores are then translated into a weighted score of between 0 and 7.5, as the category represents 7.5 percent of the total score.

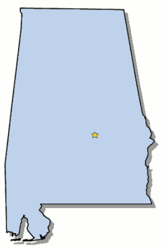
GRADING AND RESULTS

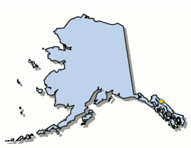
We calculated scores for every state by adding the weighted results from all 12 variables and calculating a standard deviation from the mean. The mean was 61.0 and the standard deviation was 8.0. States were graded as follows:

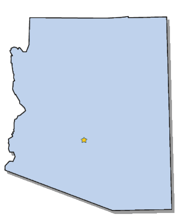
More than one standard deviation above the mean: A range
Above the mean by less than one standard deviation: B range
Below the mean by less than one standard deviation: C range
Below the mean by more than one standard deviation: D range
Below the mean by more than two standard deviations: F
We awarded pluses and minuses to recognize states at the top and bottom end of each grade range.

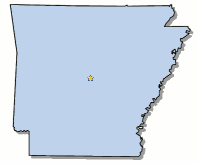
Vermont had the best property/casualty insurance regulatory environment in the United States this year, earning an 'A+' for the second straight year. Two states, California and North Carolina, received failing grades, falling more than two standard deviations below the mean.

A capsule summary of results for each of the 50 states follows:

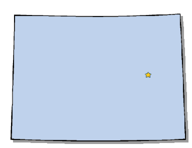
ALABAMA	2013 Grade	2014 Grade
	C	C+
	Score	Rank
	60.4	30
Strengths:	Low politicization, auto insurance market, few rating restrictions, regulatory modernization	
Weaknesses:	Rate regulation, desk drawer rules	

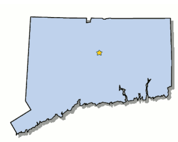
ALASKA	2013 Grade	2014 Grade
	C	C+
	Score	Rank
	59.8	31
Strengths:	Antifraud, consumer protection, low politicization	
Weaknesses:	Little regulatory modernization	

ARIZONA	2013 Grade	2014 Grade
	B	B
	Score	Rank
	64.7	20
Strengths:	Low politicization, auto insurance market, home insurance market, workers' comp market, rate freedom, few rating restrictions	
Weaknesses:	Consumer protection	

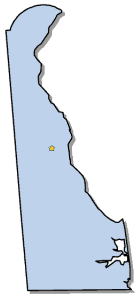
ARKANSAS	2013 Grade	2014 Grade
	B	C
	Score	Rank
	58.6	34
Strengths:	Antifraud, auto insurance market, home insurance market, low politicization, few rating restrictions	
Weaknesses:	Solvency regulation, fiscal efficiency, desk drawer rules, little regulatory modernization	

CALIFORNIA	2013 Grade	2014 Grade
	D	F
	Score	Rank
	44.2	50
Strengths:	Antifraud, fiscal efficiency, auto insurance market, workers' comp market	
Weaknesses:	High politicization, rate regulation, desk drawer rules, rating restrictions, little regulatory modernization	

COLORADO	2013 Grade	2014 Grade
	C	B
	Score	Rank
	66.0	15
Strengths:	Solvency regulation, low politicization, fiscal efficiency, auto insurance market, home insurance market	
Weaknesses:	Workers' comp market	

CONNECTICUT	2013 Grade	2014 Grade
	B	B-
	Score	Rank
	61.4	27
Strengths:	Fiscal efficiency, auto insurance market, home insurance market, workers' comp market	
Weaknesses:	Rate regulation, desk drawer rules, little regulatory modernization	

DELAWARE



2013 Grade	2014 Grade
C	C-
Score	**Rank**
54.5	39

Strengths:	Antifraud, fiscal efficiency, home insurance market, workers' comp market, few rating restrictions
Weaknesses:	Desk drawer rules, little regulatory modernization

FLORIDA

2013 Grade	2014 Grade
D	D+
Score	**Rank**
52.3	40

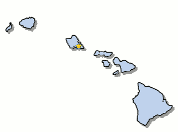
Strengths:	Antifraud, fiscal efficiency, auto insurance market, workers' comp market, regulatory modernization
Weaknesses:	Home insurance market, rate regulation, desk drawer rules

GEORGIA

2013 Grade	2014 Grade
B	C
Score	**Rank**
57.2	36

Strengths:	Solvency regulation, auto insurance market, workers' comp market, regulatory modernization, few rating restrictions
Weaknesses:	Desk drawer rules

HAWAII



2013 Grade	2014 Grade
D	D
Score	**Rank**
48.0	47

Strengths:	Solvency regulation, fiscal efficiency, workers' comp market
Weaknesses:	Home insurance market

IDAHO

2013 Grade	2014 Grade
B-	B+
Score	**Rank**
67.4	9

Strengths:	Solvency regulation, antifraud, consumer protection, low politicization, auto insurance market, home insurance market, few rating restrictions
Weaknesses:	Workers' comp market, little regulatory modernization

ILLINOIS

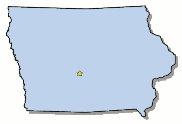
2013 Grade	2014 Grade
A	A
Score	**Rank**
72.5	3

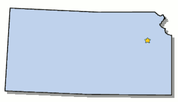
Strengths:	Low politicization, fiscal efficiency, workers' comp market, rate freedom, regulatory clarity, few rating restrictions
Weaknesses:	Fraud, little regulatory modernization

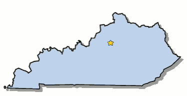
INDIANA

2013 Grade	2014 Grade
B	B
Score	**Rank**
66.7	12

Strengths:	Low politicization, fiscal efficiency, auto insurance market, home insurance market, workers' comp market, few rating restrictions, regulatory modernization
Weaknesses:	Solvency regulation, consumer protection

IOWA	2013 Grade	2014 Grade
	B	A
	Score	Rank
	71.9	4
Strengths:	Low politicization, fiscal efficiency, auto insurance market, home insurance market, workers' comp market, few rating restrictions, regulatory modernization	
Weaknesses:	None	

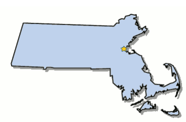
KANSAS	2013 Grade	2014 Grade
	B	B
	Score	Rank
	65.2	18
Strengths:	Fiscal efficiency, auto insurance market, home insurance market, few rating restrictions, regulatory modernization	
Weaknesses:	Politicization	

KENTUCKY	2013 Grade	2014 Grade
	B	A-
	Score	Rank
	69.5	8
Strengths:	Solvency regulation, low politicization, rate regulation, regulatory clarity, few rating restrictions, regulatory modernization	
Weaknesses:	Workers' comp market	

LOUISIANA	2013 Grade	2014 Grade
	C	D
	Score	Rank
	50.8	43
Strengths:	Regulatory clarity, workers' comp market, regulatory clarity, few rating restrictions	
Weaknesses:	Politicization, fiscal efficiency	

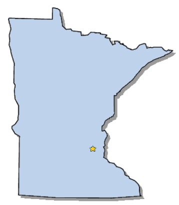
MAINE	2013 Grade	2014 Grade
	C	A-
	Score	Rank
	70.8	21
Strengths:	Solvency regulation, consumer protection, low politicization, fiscal efficiency, auto insurance market, home insurance market, few rating restrictions	
Weaknesses:	None	

MARYLAND	2013 Grade	2014 Grade
	C	C
	Score	Rank
	57.9	35
Strengths:	Solvency regulation, low politicization, fiscal efficiency, home insurance market, workers' comp market,	
Weaknesses:	Desk drawer rules	

MASSACHUSETTS	2013 Grade	2014 Grade
	C-	D
	Score	Rank
	49.1	45
Strengths:	Low politicization, home insurance market, workers' comp market	
Weaknesses:	Fiscal efficiency, desk drawer rules, little regulatory modernization	

MICHIGAN	2013 Grade	2014 Grade
	C	D
	Score	Rank
	50.5	44
Strengths:	Fiscal efficiency, home insurance market, workers' comp market	
Weaknesses:	Fraud, auto insurance market, little regulatory modernization	

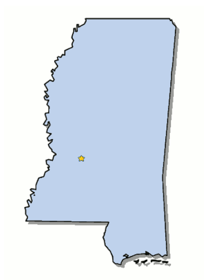
MINNESOTA



2013 Grade	2014 Grade
A-	B
Score	**Rank**
66.7	11

Strengths:	Antifraud, low politicization, fiscal efficiency, home insurance market, few rating restrictions
Weaknesses:	None

MISSISSIPPI



2013 Grade	2014 Grade
C	D+
Score	**Rank**
51.9	41

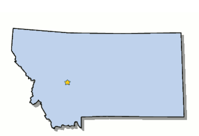
Strengths:	Solvency regulation, auto insurance market, workers' comp market, few rating restrictions
Weaknesses:	Desk drawer rules, little regulatory modernization

MISSOURI

2013 Grade	2014 Grade
A-	B
Score	**Rank**
64.5	21

Strengths:	Low politicization, fiscal efficiency, home insurance market, workers' comp market, rate freedom, regulatory modernization
Weaknesses:	Solvency regulation

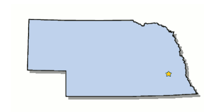
MONTANA



2013 Grade	2014 Grade
D+	D-
Score	**Rank**
46.7	48

Strengths:	Antifraud, auto insurance market, home insurance market,
Weaknesses:	Solvency regulation, fiscal efficiency, workers' comp market, little regulatory modernization

NEBRASKA



2013 Grade	2014 Grade
B+	B
Score	**Rank**
66.4	13

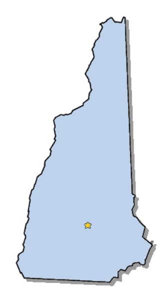
Strengths:	Low politicization, fiscal efficiency, auto insurance market, workers' comp market, few rating restrictions
Weaknesses:	Little regulatory modernization

NEVADA

2013 Grade	2014 Grade
B	B
Score	**Rank**
66.0	17

Strengths:	Solvency regulation, low politicization, auto insurance market, home insurance market, workers' comp market, few rating restrictions
Weaknesses:	Little regulatory modernization

NEW HAMPSHIRE



2013 Grade	2014 Grade
B	B
Score	**Rank**
62.0	26

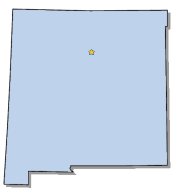
Strengths:	Antifraud, low politicization, auto insurance market, home insurance market, workers' comp market
Weaknesses:	Solvency regulation, desk drawer rules, little regulatory modernization

NEW JERSEY

2013 Grade	2014 Grade
B	B+
Score	**Rank**
67.4	10

Strengths:	Antifraud, low politicization, auto insurance market, home insurance market, workers' comp market
Weaknesses:	Little regulatory modernization

NEW MEXICO



2013 Grade	2014 Grade
C	B
Score	**Rank**
64.0	23

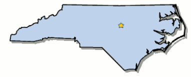
Strengths:	Solvency regulation, low politicization, auto insurance market, workers' comp market, few rating restrictions
Weaknesses:	Fiscal efficiency

NEW YORK

2013 Grade	2014 Grade
F	D
Score	**Rank**
48.4	46

Strengths:	Low politicization, home insurance market, few rating restrictions
Weaknesses:	Fiscal efficiency, desk drawer rules, little regulatory modernization

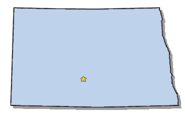
NORTH CAROLINA



2013 Grade	2014 Grade
C	F
Score	**Rank**
44.9	49

Strengths:	Workers' comp market, regulatory clarity
Weaknesses:	Solvency regulation, consumer protection, auto insurance market, rate regulation, little regulatory modernization

NORTH DAKOTA



2013 Grade	2014 Grade
D	C+
Score	**Rank**
59.1	33

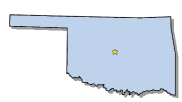
Strengths:	Antifraud, consumer protection, fiscal efficiency, auto insurance market, home insurance market, few rating restrictions
Weaknesses:	Workers' comp market, little regulatory modernization

OHIO

2013 Grade	2014 Grade
C+	A-
Score	**Rank**
69.7	7

Strengths:	Low politicization, fiscal efficiency, auto insurance market, home insurance market, rate freedom, regulatory clarity, few rating restrictions
Weaknesses:	Workers' comp market

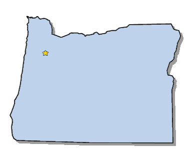
OKLAHOMA



2013 Grade	2014 Grade
C	C
Score	**Rank**
55.3	38

Strengths:	Solvency regulation, auto insurance market, few rating restrictions
Weaknesses:	Home insurance market, little regulatory modernization

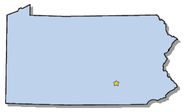
OREGON



2013 Grade	2014 Grade
C	B
Score	**Rank**
65.1	19

Strengths:	Solvency regulation, low politicization, auto insurance market, home insurance market, workers' comp market, rate freedom, few rating restrictions
Weaknesses:	Consumer protection

PENNSYLVANIA



2013 Grade	2014 Grade
B	B-
Score	**Rank**
62.9	25

Strengths:	Low politicization, auto insurance market, home insurance market, workers' comp market
Weaknesses:	Solvency regulation

RHODE ISLAND

2013 Grade	2014 Grade
C	B
Score	**Rank**
63.9	24

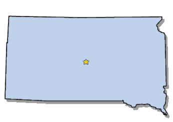
Strengths:	Low politicization, fiscal efficiency, auto insurance markets, home insurance market, few rating restrictions, regulatory modernization
Weaknesses:	Antifraud

SOUTH CAROLINA

2013 Grade	2014 Grade
A	C+
Score	**Rank**
59.6	32

Strengths:	Low politicization, auto insurance market, home insurance market, workers' comp market, regulatory clarity, few rating restrictions
Weaknesses:	Solvency regulation, fraud, little regulatory modernization

SOUTH DAKOTA



2013 Grade	2014 Grade
B	C+
Score	**Rank**
60.9	29

Strengths:	Antifraud, low politicization, auto insurance market, home insurance market, workers' comp market
Weaknesses:	Solvency regulation, little regulatory modernization

TENNESSEE

2013 Grade	2014 Grade
A	B
Score	**Rank**
64.4	22

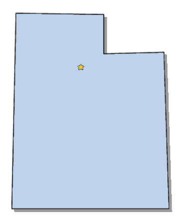
Strengths:	Solvency regulation, low politicization, workers' comp market, rate freedom, few rating restrictions
Weaknesses:	Fiscal efficiency

TEXAS

2013 Grade	2014 Grade
D	B-
Score	**Rank**
61.3	28

Strengths:	Solvency regulation, low politicization, auto insurance market, few rating restrictions
Weaknesses:	None

UTAH



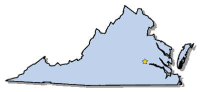
2013 Grade	2014 Grade
B	A-
Score	**Rank**
69.9	6

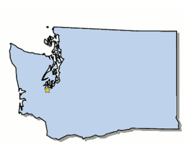
Strengths:	Antifraud, low politicization, fiscal efficiency, auto insurance market, home insurance market, few rating restrictions, regulatory modernization
Weaknesses:	Solvency regulation, little regulatory modernization

VERMONT

2013 Grade	2014 Grade
A+	A+
Score	**Rank**
76.9	1

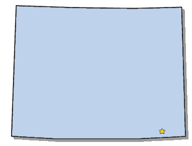
Strengths:	Consumer protection, low politicization, auto insurance market, home insurance market, workers' comp market, rate freedom, regulatory clarity, few rating restrictions
Weaknesses:	Fiscal efficiency

VIRGINIA	2013 Grade	2014 Grade
	A+	A
	Score	Rank
	73.9	2
Strengths:	Solvency regulation, low politicization, auto insurance market, home insurance market, workers' comp market, few rating restrictions, regulatory modernization	
Weaknesses:	None	

WASHINGTON	2013 Grade	2013 Grade
	D	D+
	Score	Rank
	51.3	42
Strengths:	Auto insurance market, home insurance market	
Weaknesses:	Workers' comp market, little regulatory modernization	

WEST VIRGINIA	2013 Grade	2013 Grade
	D	C
	Score	Rank
	56.8	37
Strengths:	Solvency regulation, antifraud, low politicization, home insurance market, few rating restrictions	
Weaknesses:	Fiscal efficiency, little regulatory modernization	

WISCONSIN	2013 Grade	2013 Grade
	B+	B
	Score	Rank
	66.3	14
Strengths:	Low politicization, auto insurance market, home insurance market, workers' comp market, few rating restrictions	
Weaknesses:	Fraud	

WYOMING	2013 Grade	2013 Grade
	C	B
	Score	Rank
	65.3	17
Strengths:	Solvency regulation, low politicization, fiscal efficiency, auto insurance market, home insurance market, rate freedom, few rating restrictions	
Weaknesses:	Workers' comp market	

In conclusion, we are hopeful that R Street's third 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 12: 50 STATES RANKED BY TOTAL SCORE

State	Solv	Fraud	Cons	Polit	Fisc	Auto	Home	WC	Rate	Clar	Rest	Mod	Total	Grade
VT	4.3	3.3	6.3	7.5	3.3	9.7	10	5.7	7.5	7.5	7.5	4.3	76.9	A+
VA	5.4	5.0	5.0	7.5	5.0	8.5	8	6.5	6.3	3.8	7.5	5.4	73.9	A
IL	4.3	2.0	3.8	7.5	10.0	5.4	5	7.4	10	7.5	7.5	2.1	72.5	A
IA	4.3	5.0	3.8	7.5	8.3	8.5	6.7	7.3	3.8	3.8	7.5	5.4	71.9	A
ME	5.4	2.8	6.3	7.5	6.7	10	10	2.6	5	3.8	7.5	3.2	70.8	A-
UT	2.1	6.0	5.0	7.5	8.3	10	8.3	3	6.3	3.8	7.5	2.1	69.9	A-
OH	4.3	4.0	5.0	7.5	6.7	8.5	8	0	7.5	7.5	7.5	3.2	69.7	A-
KY	6.4	5.0	5.0	7.5	5.0	6.9	6.7	5.1	6.3	3.8	7.5	4.3	69.5	A-
ID	5.4	7.0	6.3	7.5	3.3	8.5	8.3	2.7	5	3.8	7.5	2.1	67.4	B+
NJ	3.2	7.5	5.0	7.5	5.0	8.5	10	6	3.8	3.8	5	2.1	67.4	B+
MN	3.2	6.3	3.8	7.5	6.7	6.6	6.7	6.4	5	3.8	7.5	3.2	66.7	B
IN	2.1	4.0	0.0	7.5	6.7	8.5	6.7	7.4	5	3.8	7.5	7.5	66.7	B
NE	4.3	4.8	3.8	7.5	8.3	8.5	5	6.8	5	3.8	7.5	1.1	66.4	B
WI	4.3	1.3	3.8	7.5	5.0	8.5	8.3	6.8	6.3	3.8	7.5	3.2	66.3	B
CO	5.4	5.0	5.0	7.5	8.3	8.5	6.7	2.7	3.8	3.8	5	4.3	66.0	B
NV	7.5	5.0	5.0	7.5	3.3	8.5	8.3	5.8	3.8	3.8	7.5	0	66.0	B
WY	6.4	2.5	5.0	7.5	8.3	6.9	6.7	0	7.5	3.8	7.5	3.2	65.3	B
KS	4.3	4.5	5.0	2.5	6.7	8.5	6.7	6.5	3.8	3.8	7.5	5.4	65.2	B
OR	6.4	3.8	5.0	7.5	8.3	8.5	6.7	1.7	3.8	3.8	7.5	2.1	65.1	B
AZ	3.2	4.8	2.5	7.5	3.3	8.5	8.3	5.8	6.3	3.8	7.5	3.2	64.7	B
MO	2.1	4.0	3.8	7.5	6.7	6.6	6.7	5.4	7.5	3.8	5	5.4	64.5	B
TN	6.4	4.5	3.8	7.5	1.7	6.6	3.3	7.5	7.5	3.8	7.5	4.3	64.4	B
NM	6.4	5.0	3.8	7.5	1.7	6.9	6.3	5.8	5	3.8	7.5	4.3	64.0	B
RI	3.2	2.0	5.0	7.5	6.7	7.8	7.3	2.7	5	3.8	7.5	5.4	63.9	B
PA	2.1	4.8	2.5	7.5	5.0	8.5	8.3	7.2	5	3.8	5	3.2	62.9	B-
NH	0.0	7.0	5.0	7.5	5.0	9.7	10	5.7	5	0	5	2.1	62.0	B-
CT	4.3	5.0	3.8	5.0	10.0	10	10	5.8	2.5	0	5	0	61.4	B-
TX	5.4	4.8	3.8	7.5	5.0	8.2	5	3.3	3.8	3.8	7.5	3.2	61.3	B-
SD	2.1	7.5	3.8	7.5	3.3	8.5	6.7	6.6	5	3.8	5	1.1	60.9	C+
AL	4.3	5.0	5.0	7.5	5.0	6.9	4.7	6.6	2.5	0	7.5	5.4	60.4	C+
AK	4.3	6.3	6.3	7.5	5.0	3.8	3.3	4.9	5	3.8	7.5	2.1	59.8	C+
SC	1.1	1.3	2.5	7.5	3.3	6.9	8	6.6	6.3	7.5	7.5	1.1	59.6	C+
ND	3.2	6.3	7.5	2.5	6.7	10	6.7	0	3.8	3.8	7.5	1.1	59.1	C+
AR	2.1	6.0	5.0	7.5	3.3	6.9	6.7	6.5	5	0	7.5	2.1	58.6	C
MD	5.4	4.5	5.0	7.5	6.7	4.8	6.7	5.3	6.3	0	2.5	3.2	57.9	C
GA	5.4	3.5	5.0	2.5	5.0	6.9	4.7	7.4	5	0	7.5	4.3	57.2	C
WV	5.4	7.0	5.0	7.5	0.0	5.4	6.7	3.6	3.8	3.8	7.5	1.1	56.8	C
OK	5.4	5.0	2.5	2.5	3.3	8.5	3.3	5.1	6.3	3.8	7.5	2.1	55.3	C
DE	3.2	6.5	5.0	2.5	6.7	5.4	6.7	6	5	0	7.5	0	54.5	C-
FL	4.3	6.3	5.0	2.5	10.0	6.9	1.3	6.7	0	0	5	4.3	52.3	D+
MS	5.4	3.8	5.0	2.5	3.3	6.9	6	6.6	3.8	0	7.5	1.1	51.9	D+
WA	4.3	5.0	3.8	2.5	5.0	10	8.3	0	2.5	3.8	5	1.1	51.3	D+
LA	4.3	5.0	5.0	0.0	1.7	3.8	3.7	5.3	3.8	7.5	7.5	3.2	50.8	D
MI	3.2	0.0	3.8	5.0	10.0	0	8	6.8	3.8	3.8	5	1.1	50.5	D
MA	4.3	3.8	3.8	7.5	1.7	6.3	7.7	5.6	3.8	0	2.5	2.1	49.1	D
NY	4.3	5.0	2.5	7.5	0.0	5.1	8	3.9	2.5	0	7.5	2.1	48.4	D
HI	5.4	5.0	3.8	5.0	6.7	3.5	0	5.3	3.8	3.8	2.5	3.2	48.0	D
MT	2.1	7.0	5.0	2.5	0.0	6.9	6.7	2.7	5	3.8	5	0	46.7	D-
NC	1.1	5.0	0.0	2.5	5.0	2.6	6.3	7.5	1.3	7.5	5	1.1	44.9	F
CA	4.3	6.3	3.8	0.0	6.7	9.7	5.7	6.4	1.3	0	0	0	44.2	F

ABOUT THE AUTHOR

R.J. Lehmann is senior fellow, editor-in-chief and co-founder of the R Street Institute. He is author of the R Street policy papers: "Government sources of systemic insurable risk," "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 and 2013 editions of R Street's Insurance Regulation Report Card. He is also author of the James Madison Institute's "Ten reforms to fix Florida's property insurance marketplace — without raising rates" and co-author of the John Locke Foundation's "Spotlight on NC's auto insurance system: Seven things to understand."

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*, *Roll Call*, *CQ*, *The Hill*, Townhall.com, *American Spectator*, *Orlando Sentinel*, *Travel Weekly* and *Folio* magazine, among other publications.