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INTRODUCTION

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

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

This report seeks to answer three fundamental questions:

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

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

This report demonstrates that, on balance, states do an effective job of encouraging competition and ensuring solvency in insurance markets. In most U.S. states, markets for the common "personal lines" of home and auto insurance meet common statutory definitions of competitiveness. Insolven-

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

cies are relatively rare and, through the runoff process and guaranty fund protections enacted in nearly every state, generally quite manageable.

However, there are ways in which the thicket of state-by-state regulations leads to inefficiencies, as well as state policies that have the effect of discouraging capital formation, stifling competition and concentrating risk. Central among these are rate controls. While explicit price-and-wage controls largely have fallen by the wayside in most industries (outside of natural monopolies like utilities), pure rate regulation remains commonplace in insurance. Some degree of rating and underwriting regulation persists in nearly every state.[2]

To a large degree, this is a relic of an earlier time when nearly all insurance rates and forms were established collectively by industry-owned rate bureaus, as individual insurers generally were too small to make credible actuarial projections. McCarran-Ferguson charged states with reviewing the rates submitted by these bureaus to counter anticompetitive collusion. With the notable exception of North Carolina, rate bureaus no longer play a central role in most personal lines markets. Many larger insurers now establish rates using their own proprietary formulas rather than rely on rate bureau recommendations.

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

In 2020, we saw the industry and the states that regulate it grapple with new challenges, from the protection gaps in business interruption policies revealed by the COVID-19 pandemic to the re-emergence of widespread civil commotion as a significant claims event to the continuing uncertainty regarding the pace and severity of climate change and what effects it will have on natural disasters.

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

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

THE YEAR IN INSURANCE REGULATION

Federal and National Developments

Many of the year's most notable legislative developments at both the state and federal level concerned claims for business income and business interruption losses filed because of the COVID-19 pandemic and attendant shutdown orders. Because business interruption coverage typically requires evidence of physical damage to the insured property, and because most commercial property insurance policies further include explicit exclusions for viral-infection claims, carriers have denied the overwhelming majority of such claims. As of September, more than 1,000 COVID-related lawsuits were filed against U.S. insurers.[3] In October, the Judicial Panel on Multidistrict Litigation ruled against consolidating the suits before a single federal judge.[4]

Bills that would require coverage retroactively for COVID-19 business interruption claims were introduced in at least a dozen states, though floor votes on such legislation were seen only in California, Louisiana and New Jersey.[5]

With many businesses closed and fewer people on the road, many insurers moved proactively to refund premiums.[6] In a few states, those refunds were compulsory, with regulators in California,[7] Michigan[8] and New Jersey ordering mandatory refunds.[9]

In January, the U.S. House Financial Services Committee's Subcommittee on Housing, Community Development and Insurance investigated the availability of insurance for nonprofits. The committee held a hearing focused in particular on H.R. 4523, the Nonprofit Property Protection Act, which

3. Jason Woleben and Hailey Ross, "Case count tops 1,000 as litigation against insurers over COVID-19 takes shape," S&P Global Market Intelligence, Sept. 1, 2010. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/case-count-tops-1-000-as-litigation-against-insurers-over-covid-19-takes-shape-60037225.

4. Jef Feeley and Katherine Chiglinsky, "Hartford, Travelers Won't Face Combined Virus-Loss Claims," *Bloomberg*, Oct. 2, 2020. https://www.bloomberg.com/news/articles/2020-10-02/insurers-won-t-face-consolidated-claims-over-virus-losses.

5. Jim Sams, "Legislation to Force Insurers to Pay COVID-19 Claims Stalls as Virus Rages," *Claims Journal*, July 13, 2020. https://www.claimsjournal.com/news/national/2020/07/13/298139.htm.

6. Aimee Picchi, "Coronavirus: With Americans hardly driving, should insurers give bigger discounts?", *USA Today*, May 23, 2020. https://www.usatoday.com/story/money/cars/2020/05/23/coronavirus-less-driving-should-insurers-give-bigger-discounts/5247468002.

7. "Commissioner Lara expands order for insurance companies to partially refund premiums amid ongoing COVID-19 pandemic," California Department of Insurance, May 15, 2020. http://www.insurance.ca.gov/0400-news/0100-press-releases/2020/release044-2020.cfm.

8. Ryan Stanton, "Michigan orders auto insurance refunds due to 'extreme reductions in driving,'" *M-Live*, June 1, 2020. https://www.mlive.com/public-interest/2020/06/michigan-orders-auto-insurance-refunds-due-to-extreme-reductions-in-driving.html.

9. "NJ Department of Banking and Insurance Directs Insurance Companies to Provide Premium Reductions to Drivers and Businesses Amid COVID-19," New Jersey Department of Banking and Insurance, May 12, 2020. https://www.state.nj.us/dobi/pressreleases/pr200512.html.

would amend the Liability Risk Retention Act to allow risk retention groups serving 501 (c)(3) organizations to offer property and auto physical damage insurance.[10]

In February, U.S. Reps. David Kustoff (R-Tenn.) and Earl Blumenauer (D-Ore.) introduced H.R. 5776, the Repeatedly Flooded Communities Preparation Act. The bill requires repeatedly flooded communities that participate in the National Flood Insurance Program to implement community-specific plans to mitigate flood risks.[11]

Also, in February, the Centers for Medicare & Medicaid Services (CMS) released long-delayed proposed rules called for under 2013's Strengthening Medicare and Repaying Taxpayers Act. These proposed rules create a structure for the CMS to impose fines on insurers and self-insured employers who fail to report Medicare Secondary Payer data on their workers' compensation or other settlement obligations in a timely and accurate fashion.[12]

In May, U.S. Rep. Carolyn B. Maloney (D-N.Y.), introduced H.R. 7011, the Pandemic Risk Insurance Act of 2020 (PRIA). The bill would establish a federal backstop for business interruption risks arising out of a viral contagion. Similar proposals would later be unveiled, including the Pandemic Business Interruption Program, and the Business Continuity Protection Program, endorsed by the National Association of Mutual Insurance Companies and American Property Casualty Insurance Association, with conceptual assistance from R Street.[13]

In July, the National Association of Insurance Commissioners (NAIC) announced it would launch a broad probe into whether auto insurers' use of credit reports—as well as other variables like education and occupation—disproportionately impacts members of racial minority groups.[14]

In August, the NAIC approved broad principles developed by the group's Innovation and Technology Task Force requiring that insurers' use of artificial intelligence to be fair, ethical, accountable and safe. A congressional inquiry into insurers' use of AI has also been launched by the House Financial Services Committee's Task Force on Artificial Intelligence.[15]

Also, in August, the NAIC's Financial Condition (E) Committee adopted guidance allowing insurers to expense some premium refunds, rate reductions and policyholder dividends resulting from the nation's COVID-19 shutdowns, rather than treat them all as returns of premium.[16]

In September, Sen. Cory Booker (D-N.J.) introduced S. 4755, the Prohibit Auto Insurance Discrimination (PAID) Act. The legislation would impose a nationwide ban on the use of credit scores, occupation, education, gender and a number of other factors tied to personal characteristics in auto insurance underwriting and rate-setting. The bill is the Senate companion to H.R. 3693, introduced in July 2019 by Reps. Rashida Tlaib (D-Mich.) and Bonnie Watson-Coleman (D-N.J.).[17]

On Sept. 17, the NAIC convened the first meeting of its Special Committee on Race and Insurance, tasked with examining practices in the insurance industry that may disadvantage people of color and other minorities. The committee is expected to deliver a report to the NAIC Executive Committee by the end of the year.[18]

On Sept. 21, the U.S. House of Representatives voted to approve H.R. 1418, the Competitive Health Insurance Reform Act of 2020, which repeals the McCarran-Ferguson Act's limited exemption from federal antitrust law for health insurers.[19] The measure has not been taken up in the U.S. Senate.

On Sept. 30, President Donald Trump signed legislation extending statutory authorization for the National Flood Insurance Program through Sept. 30, 2021.[20]

10. Bethan Moorcraft, "Insurer reacts to proposed Non-profit Property Protection Act," *Insurance Business America*, Aug. 7, 2020. https://www.insurancebusinessmag.com/us/news/non-profits/insurer-reacts-to-proposed-nonprofit-property-protection-act-230123.aspx.

11. Danielle Ling, "New bipartisan flood insurance legislation introduced in the House," *National Underwriter*, Feb. 11, 2020. https://www.propertycasualty360.com/2020/02/11/new-bipartisan-flood-insurance-legislation-introduced-in-the-house.

12. Angela Childers, "Insurers could face stiff Medicare secondary payer penalties," *Business Insurance*, Feb. 26, 2020. https://www.businessinsurance.com/article/20200226/NEWS08/912333248/Insurers-could-face-stiff-Medicare-secondary-payer-penalties.

13. Contessa Brewer, "Insurers lobby for federal pandemic insurance program," *CNBC*, July 21, 2020. https://www.cnbc.com/2020/07/21/insurers-lobby-for-federal-pandemic-insurance-program.html.

14. Leslie Scism, "Insurance Group to Scrutinize Rate Guidelines for Racial Bias," *The Wall Street Journal*, July 23, 2020. https://www.wsj.com/articles/insurance-group-to-scrutinize-rate-guidelines-for-racial-bias-11595494800?mod=hp_lead_pos3.

15. Zoe Sagalow, "Uncertainty reigns for insurers as industry adopts AI standards," *Roll Call*, Sept. 22, 2020. https://www.rollcall.com/2020/09/22/uncertainty-reigns-for-insurers-as-industry-adopts-ai-standards.

16. Daniel A. Rabinowitz, "NAIC to Permit Expensing of Some Premium Refunds," *Lexology*, Aug. 12, 2020. https://www.lexology.com/library/detail.aspx?g=d132d5e7-8fac-4998-a07d-99bd283df185.

17. Jason Metz, "Sen. Booker's PAID Act Looks to Eliminate Discriminatory Non-Driving Factors in Auto Insurance Pricing," *Forbes*, Oct. 5, 2020. https://www.forbes.com/advisor/car-insurance/paid-act.

18. Hailey Ross, "'Everything is on the table' NAIC president says of committee on race, insurance," S&P Global Market Intelligence, Sept. 23, 2020. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/everything-is-on-the-table-naic-president-says-of-committee-on-race-insurance-60390364.

19. Morgan Haefner, "House votes to repeal health insurer antitrust exemption: 4 things to know," *Becker's Healthcare*, Sept. 24, 2020. https://www.beckershospitalreview.com/payer-issues/house-votes-to-repeal-health-insurer-antitrust-exemption-4-things-to-know.html.

20. Caitlin Emma, "Trump signs stopgap spending measure to avert a shutdown," *Politico*, Sept. 30, 2020. https://www.politico.com/news/2020/09/30/senate-approves-stopgap-spending-measure-to-avert-government-shutdown-424023.

The Commodity Futures Trading Commission issued a landmark report in September projecting that the increased frequency and severity of natural disasters due to climate change threatens financial markets, including insurance, mortgage, pension fund and depository markets.[21]

As of September, a number of NAIC working groups—including the Group Capital Calculation Working Group, Risk-Focused Surveillance Working Group and the Own Risk and Solvency Assessment (ORSA) Implementation Subgroup—continued to work on a template and instructions for group capital calculations and ORSA guidance, with certain aspects of the latter potentially moved into the Financial Condition Examiners' Handbook.[22]

In October, Reps. Scott Peters (D-Calif.) and Andy Barr (R-Ky.) introduced H.R. 8616, the Build for Future Disasters Act of 2020. The legislation would permanently bar new construction in flood-prone areas from receiving National Flood Insurance Program subsidies on account of being "grandfathered" when risk map designations change.[23]

State-by-State Developments

Arizona: In February, Gov. Doug Ducey named Christina Corieri interim director of the Department of Insurance and Financial Institutions, replacing Keith Schraad.[24] In July, Ducey named Evan Daniels as the department's new permanent director.[25]

California: In June, the state Assembly unanimously passed A.B. 1552, requiring insurers to cover COVID-19 business interruption claims on existing policies. The measure failed to move in the Senate.[26]

The California Legislature headed into August with the Assembly having cleared A.B. 2167 and the Senate having cleared S.B. 292 by margins sufficient to allow them to amend 1988's Proposition 103 ballot initiative. The two measures would have established a system allowing insurers to consider the cost of reinsurance and outputs of prospective catastrophe models in property insurance rate filings in wildfire-prone counties. The measures were opposed by Consumer Watchdog and Insurance Commissioner Ricardo Lara, who dropped their opposition in August once the bill text was replaced with a call for a study.[27] The Legislature adjourned Aug. 31 without passing either measure.

In September, Gov. Gavin Newsom signed S.B. 872, requiring property insurers to provide extensions for full replacement-cost coverage to insureds who face delays in reconstruction projections that are beyond their control.[28]

In October, Commissioner Lara convened investigative hearings on the state of California's property insurance market in the wake of recent wildfires. Lara announced he would take executive action to require insurers to acknowledge mitigation standards and disclose wildfire risk scores to consumers and that he would order insurers cease taking steps to avoid public participation in rate filings.[29]

Florida: In June, Gov. Ron DeSantis signed H.B. 1189, which made Florida the first state to ban the use of genetic information in underwriting life and disability insurance products.[30] DeSantis also signed H.B. 1391, creating a "sandbox" within the Office of Financial Regulation to facilitate financial technological (fintech) innovation.[31]

In October, the Office of Insurance Regulation announced it had launched a "targeted examination" of financial arrangements between roughly 60 insurers and their

21. Leonard Martinez-Diaz et al., eds, *Managing Climate Risk in the U.S. Financial System*, (Commodity Futures Trading Commission, Sept. 8, 2020). https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf.

22. Daniel A. Rabinowitz, "Industry Voices Concerns on Group Capital Calculation," *Lexology*, Sept. 9, 2020. https://www.lexology.com/library/detail.aspx?g=e1baaf6a-0522-4529-96d7-3bf7650f54c3.

23. Claire Wilkinson, "Bill would eliminate flood subsidies for new construction," *Business Insurance*, Oct. 19, 2020. https://www.businessinsurance.com/article/20201019/NEWS06/912337229/Bill-would-eliminate-NFIP-flood-subsidies-for-new-construction-Scott-Peters-Cali.

24. Office of the Governor Doug Ducey, "Governor's Office Announces Departure Of Keith Schraad As Director Of The Department Of Insurance And Financial Institutions," Press Release, Feb. 11, 2020. https://azgovernor.gov/governor/news/2020/02/governors-office-announces-departure-keith-schraad-director-department.

25. Arizona Department of Insurance, "Governor Ducey Announces Evan Daniels As Director of The Arizona Department of Insurance And Financial Institutions," Press Release, July 10, 2020. https://insurance.az.gov/governor-ducey-announces-evan-daniels-director-arizona-department-insurance-and-financial.

26. A.B. 1552, Commercial insurance: business interruption: coverage for COVID-19, California Legislature. https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB1552.

27. Jeff McDonald, "State insurance commissioner, advocacy group reverse opposition to wildfire bill following amendments," *San Diego Union-Tribune*, Aug. 21, 2020. https://www.sandiegouniontribune.com/news/watchdog/story/2020-08-21/state-insurance-commissioner-advocacy-group-reverse-opposition-to-wildfire-bill-following-amendments.

28. California Department of Insurance, "Insurance Commissioner Lara issues statement on Governor Newsom's pledge to mitigate wildfire risks," Press Release, Sept. 29, 2020. http://www.insurance.ca.gov/0400-news/0100-press-releases/2020/statement093-2020.cfm.

29. California Department of Insurance, "Commissioner Lara puts focus on solutions to protect consumers and a competitive market in first-ever investigatory hearing on wildfire insurance," Press Release, Oct. 20, 2020. http://www.insurance.ca.gov/0400-news/0100-press-releases/2020/release104-2020.cfm.

30. Renzo Downey, "Florida becomes first state to protect DNA from life, disability insurers," *Florida Politics*, July 1, 2020. https://floridapolitics.com/archives/345333-florida-becomes-first-state-to-protect-dna-from-life-disability-insurers.

31. Office of Florida Chief Financial Officer Jimmy Patronis, "CFO Jimmy Patronis Statement on FinTech Rule Implementation and Supporting Innovation in Florida," Press Release, Sept. 22, 2020. https://www.myfloridacfo.com/sitePages/newsroom/pressRelease.aspx?id=5649.

affiliates.[32] Also in October, Senate President-designate Wilton Simpson (R-Trilby) told the Florida Chamber of Commerce that he expects legislation to reform or replace the state's no-fault auto insurance system to be taken up in the 2021 session.[33]

Illinois: In June, Gov. J.B. Pritzker signed S.B. 2135, legislation that creates a task force to study the impacts of the COVID-19 pandemic and find ways for business interruption insurance to be more beneficial to policyholders.[34]

In July, the state's 5th District Appellate Court ruled in *Sproull v. State Farm* that an insurer could not depreciate the value of labor as a component of replacement costs.[35] It was the first time an Illinois court had weighed in on the subject, which has been a matter of dispute in state courts for more than a decade.

Louisiana: In May, the state Senate approved S.B. 477, requiring coverage for COVID-19 business interruption claims. The measure failed to move in the House.[36]

In July, Gov. John Bel Edwards signed H.B. 57, compromise tort-reform legislation intended to address some of the cost drivers in Louisiana's runaway auto insurance claims environment. The House Committee on Insurance also passed a resolution calling for a 2021 study on whether the position of insurance commissioner should be appointed, rather than elected.[37]

Maryland: In May, Gov. Larry Hogan appointed Kathleen A. Birrane as insurance commissioner, replacing Al Redmer, who was named executive director of the Maryland Auto Insurance Fund.[38]

Michigan: In July, landmark legislation passed in 2019 took effect, allowing Michigan auto insurance consumers for the first time to choose what level of personal injury protection (PIP) benefits they wished to insure as part of their auto insurance policies.[39] Michigan previously was the only state to require all auto insurance policies to provide unlimited lifetime medical benefits.

Minnesota: In the wake of widespread civil unrest following the killing of George Floyd, the Minnesota Department of Commerce issued a data call in June requesting the state's property and casualty insurers furnish information about related claims exposure and anticipated payments.[40]

In September, the Minnesota Senate voted to remove from office the state's insurance regulator, Commerce Commissioner Steve Kelley. The move came amid a dispute between the Republican-controlled state Senate and Democratic Gov. Tim Walz over the extension of Walz's emergency order related to the COVID-19 pandemic.[41] Grace Arnold was appointed temporary commissioner.[42]

New Jersey: In March, the state Assembly passed A.B. 3844 as an emergency resolution, which required coverage for some COVID-19 business interruption claims. The measure failed to move in the Senate.[43]

New York: In June, the Department of Financial Services issued Regulation 64, requiring prompt review and settlement of property insurance claims arising from riots or civil commotion.[44]

In July, state Sen. Alessandra Biaggi (D-Bronx/Westchester) introduced S. 8676, legislation requiring police officers to carry liability insurance. Some insurers reported they were

32. Malena Carollo, "Florida's insurance regulator is examining property insurers," *Tampa Bay Times*, Oct. 22, 2020. https://www.tampabay.com/news/business/2020/10/22/floridas-insurance-regulator-is-examining-property-insurers.

33. Jim Turner, "Insurance, water issues on the table for next Florida legislative session," *News 4 Jax*, Oct. 23, 2020. https://www.news4jax.com/news/florida/2020/10/23/insurance-water-issues-on-the-table-for-next-florida-legislative-session.

34. Timothy Darragh, "Illinois Bill Would Establish Business-Interruption Task Force," *BestWire*, June 2, 2020. http://news.ambest.com/newscontent.aspx?altsrc=23&refnum=225654.

35. Fortin Matthew, "Do Labor Costs Count in Insurance Claims?", *Bloomberg Tax*, Oct. 7, 2020. https://news.bloombergtax.com/financial-accounting/do-labor-costs-count-in-insurance-claims.

36. S.B. 477, Provides relative to business interruption insurance, Louisiana State Legislature. https://legis.la.gov/legis/BillInfo.aspx?i=238802.

37. "R Street Commends Louisiana Legislature on Passing Needed Insurance Reform," R Street Institute, July 1, 2020. https://www.rstreet.org/2020/07/01/r-street-commends-louisiana-legislature-on-passing-needed-insurance-reform.

38. Office of Governor Larry Hogan, "Governor Hogan Appoints Kathleen A. Birrane as Maryland Insurance Commissioner," Press Release, May 1, 2020. https://governor.maryland.gov/2020/05/01/governor-hogan-appoints-kathleen-a-birrane-as-maryland-insurance-commissioner.

39. Chad Livengood, "Q&A and podcast: What to know about Michigan's new auto insurance reform law," *Crain's Detroit Business*, July 1, 2020. https://www.crainsdetroit.com/insurance/qa-and-podcast-what-know-about-michigans-new-auto-insurance-reform-law.

40. Minnesota Department of Commerce, "Data Call 2020," Press Release, Aug. 12, 2020. https://mn.gov/commerce/media/news/?id=443573.

41. Jeremiah Jacobsen and John Croman, "Minnesota Senate ousts Commerce Commissioner Steve Kelley," *KARE-11*, Sept. 11, 2020. https://www.kare11.com/article/news/politics/minnesota-senate-ousts-commerce-commissioner-steve-kelley/89-6f239067-b8dc-45dc-b1a9-7de904bd35ed.

42. Minnesota Department of Commerce, "Grace Arnold designated temporary commissioner," Press Release, Sept. 15, 2020. https://mn.gov/commerce/media/news/#/detail/appId/2/id/446219.

43. A.B. 3844, Concerns business interruption insurance during coronavirus disease 2019 state of emergency, New Jersey State Legislature. https://www.njleg.state.nj.us/bills/BillView.asp?BillNumber=A3844.

44. Hien Pham, "New York Insurance Regulation 64 Aims at Prompt and Fair Settlement of Claims Arising From a Riot or Civil Commotion," *JD Supra*, June 19, 2020. https://www.jdsupra.com/legalnews/new-york-insurance-regulation-64-aims-34590.

exploring new product options that would comply with the legislation, which has not yet moved out of committee.[45]

Also, in July, a federal judge denied the National Rifle Association's (NRA) request to block a hearing before the Department of Financial Services (DFS), which has charged the group with acting as an unlicensed insurer. The NRA has filed suit alleging the DFS engaged in discriminatory enforcement of state insurance law and argued that their suit should be resolved before the DFS could conduct its regulatory hearing.[46]

In a September letter to regulated insurers, Financial Services Superintendent Linda Lacewell said the insurance industry must take steps across its governance, risk management and business strategy functions to prepare for climate change and that the department would begin inquiring about what steps have been taken during its 2021 examinations.[47]

North Carolina: In March, a federal jury convicted insurance executive Greg Lindberg of trying to bribe Insurance Commissioner Mike Causey. In August, Lindberg was sentenced to seven years and three months in federal prison.[48]

Oklahoma: In October, the state became the first jurisdiction in the United States to complete an insurance business transfer (IBT) plan, a process common in the United Kingdom for roughly the last 20 years.[49]

South Carolina: In September, Gov. Henry McMaster signed S. 882, the South Carolina Private Flood Insurance Act. The legislation streamlines the regulatory process for insurers who wish to offer first-dollar private flood insurance coverage, either as a standalone product or an endorsement on other property coverage.[50]

Texas: In August, Insurance Commissioner Kent Sullivan notified Gov. Greg Abbott that he would resign his position in order to return to the private sector after three years in the role.[51]

Also, in August, the Texas Windstorm Insurance Association Board of Directors voted not to request a rate hike for 2021, despite actuarial analysis showing that residential rates are 44 percent below-adequate and commercial rates are 49 percent below-adequate.[52]

Utah: In September, Gov. Gary Herbert appointed Tanji Northrup as interim insurance commissioner, following the retirement of Todd E. Kiser.[53]

Virginia: In July, the commonwealth's Insurance Data Security Act, which requires insurers doing business in Virginia to monitor and disclose breaches of insureds' personal data, went into effect.[54]

Washington State: In March, Gov. Jay Inslee signed S.B. 6049, which assesses a surcharge of 0.01 percent on an insurance company's gross receipts to fund a criminal fraud investigations unit.[55]

In July, Insurance Commissioner Mike Kreidler offered a legislative proposal to ban the use of credit information in underwriting and rate-setting for auto, homeowners, renters and life insurance.[56]

In August, Kreidler launched an investigation into whether firms that use captive insurers are paying state-mandated premium taxes.[57]

45. Suzanne Barlyn and Alwyn Scott, "U.S. insurers explore officer coverage as police reform debate rages," *Reuters*, July 24, 2020. https://www.reuters.com/article/us-global-race-police-insurance-focus/u-s-insurers-explore-officer-coverage-as-police-reform-debate-rages-idUSKCN24P1A8.

46. Edvard Pettersson, "NRA Must Face 'Murder Insurance' Regulatory Hearing, Judge Says," *Claims Journal,* July 15, 2020. https://www.claimsjournal.com/news/national/2020/07/15/298202.htm.

47. Dieter Holger, "New York Regulator Pushes Insurers on Climate Change," *The Wall Street Journal*, Sept. 22, 2020. https://www.wsj.com/articles/new-york-regulator-pushes-insurers-on-climate-change-11600798837?mod=searchresults&page=1&pos=2.

48. Mark Maremont and Leslie Scism, "Insurance Executive Greg Lindberg Sentenced to Seven Years and Three Months in Prison," *The Wall Street Journal*, Aug. 19, 2020. https://www.wsj.com/articles/insurance-executive-greg-lindberg-sentenced-to-seven-years-and-three-months-in-prison-11597877367.

49. Oklahoma Insurance Department, "Oklahoma Completes First Insurance Business Transfer in the United States," Press Release, Oct. 15, 2020. https://www.oid.ok.gov/release_101520.

50. South Carolina Department of Insurance, "S.C. Private Flood Insurance Act Enacted," Press Release, Sept. 30, 2020. https://www.doi.sc.gov/CivicAlerts.aspx?AID=284.

51. Texas Department of Insurance, "Sullivan to step down as Insurance Commissioner," Press Release, Aug. 18, 2020. https://www.tdi.texas.gov/news/2020/tdi08182020.html.

52. Suzanne Freeman, "No Windstorm Insurance Rate Hike for 2021," *Corpus Christi Business News*, Aug. 5, 2020. https://www.ccbiznews.com/news/no-windstorm-insurance-rate-hike-for-2021.

53. Sydnee Gonzalez, "Governor appoints interim Utah insurance commissioner," *Salt Lake Tribune*, Sept. 30, 2020. https://www.sltrib.com/news/politics/2020/09/30/governor-appoints-interim.

54. Thomas Moran, "Legislation affects breaches involving insureds' information," *National Underwriter,* July 28, 2020. https://www.propertycasualty360.com/2020/07/28/legislation-affects-breaches-involving-insureds-information.

55. Timothy Darragh, "Washington Bill Would Tax Insurers for Criminal Investigations Unit," *BestWire*, Feb. 25, 2020. http://news.ambest.com/newscontent.aspx?refnum=223609&altsrc=23.

56. Office of the Insurance Commissioner of Washington State, "Kreidler to insurance CEOs: Time to put racial justice pledge to work, join effort to ban credit scoring," Press Release, July 15, 2020. https://www.insurance.wa.gov/news/kreidler-insurance-ceos-time-put-racial-justice-pledge-work-join-effort-ban-credit-scoring.

57. Maria Ward-Brennan, "Washington OIC launches study to reveal unpaid taxes by insurance," *Captive Insurance Times*, Aug. 28, 2020. http://www.captiveinsurancetimes.com/captiveinsurancenews/industryarticle.php?article_id=7005.

METHODOLOGY

This report card strives to evaluate the regulatory environments in each of the 50 states using objective metrics. It tracks seven broad categories: whether states avoid excess politicization; how well they monitor insurer solvency; how efficiently they spend the insurance taxes and fees they collect; how competitive their home insurance markets is; how competitive their auto insurance market is; how large their residual markets are; and the degree to which they permit insurers to underwrite and employ rating criteria as risks and market conditions demand.

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

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

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

Because we are necessarily limited to those factors that we can quantify for all 50 states, there are many important considerations our report card does not reflect. Among other variables, we lack good measures of how well states regulate insurance policy forms and the level of competition in local markets for insurance agents and brokers. And while the NAIC does offer some data that could illuminate how quickly states act on rate-and-product filings, both the sheer volume of filings and the lack of apples-to-apples comparisons of states' speed-to-market environments render attempts at comprehensive analysis of such factors—across 50 states in multiple lines of business—beyond the scope of this report.[58]

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

TABLE I: POLITICIZATION

STATE	SELECTION	REMOVAL	EXPERTISE	TOTAL	POINTS
AK	2	0	0	2	3.5
AL	1	4	5	10	7.5
AR	0	0	0	0	2.5
AZ	0	0	5	5	5
CA	-5	0	0	-5	0
CO	0	4	5	9	7
CT	1	0	0	1	3
DE	-5	0	0	-5	0
FL	5	5	5	15	10
GA	-5	0	0	-5	0
HI	2	0	0	2	3.5
IA	0	0	0	0	2.5
ID	0	0	5	5	5
IL	0	0	0	0	2.5
IN	1	0	5	6	5.5
KS	-5	0	0	-5	0
KY	0	4	0	4	4.5
LA	-5	0	0	-5	0
MA	1	0	0	1	3
MD	0	4	0	4	4.5
ME	0	5	0	5	5
MI	0	4	0	4	4.5
MN	0	0	0	0	2.5
MO	0	0	0	0	2.5
MS	-5	0	0	-5	0
MT	-5	0	0	-5	0
NC	-5	0	0	-5	0
ND	-5	0	0	-5	0
NE	0	0	0	0	2.5
NH	1	5	0	6	5.5
NJ	0	0	0	0	2.5
NM	5	4	0	9	7
NV	2	0	5	7	6
NY	0	0	0	0	2.5
OH	0	0	0	0	2.5
OK	-5	0	0	-5	0
OR	2	0	5	7	6
PA	0	0	0	0	2.5
RI	2	0	0	2	3.5
SC	0	0	0	0	2.5
SD	2	0	5	7	6
TN	1	0	0	1	3
TX	0	2	5	7	6

UT	0	0	0	0	2.5
VA	5	1	0	6	5.5
VT	0	2	0	2	3.5
WA	-5	0	0	-5	0
WI	0	0	0	0	2.5
WV	0	0	0	0	2.5
WY	0	0	0	0	2.5

SOURCES: NCSL, NAIC, R Street analysis

POLITICIZATION (10 PERCENT OF TOTAL SCORE)

Political scientist Max Weber argued that the most important feature of a modern state is that it be organized into functional offices with officeholders who are selected based on merit.[59] Moreover, researchers who have examined Weber's insights have demonstrated empirically that bureaucracies characterized by this kind of impartiality, professionalism and competence show positive correlations with economic growth and negative correlations with corruption.[60]

This report seeks to apply those insights to the field of insurance regulation. Insurance is a technical matter that, by and large, should be insulated from the political process and prevailing political concerns. Legislatures must be responsive to public will in creating law, including laws governing the business of insurance. But the introduction of political pressure to the process of insurance regulation inevitably leads to negative consequences and to extra-legislative remedies to what should be legislative concerns. Insurance regulators are public servants, and thus it is necessary and valuable for the public to have oversight of their activities. But trained, professional regulators can enforce the law much more effectively when unbidden by the shifting winds of political passions.

For this reason, we downgrade those states where insurance regulation is explicitly a political matter and acknowledge the wisdom of republican structures that properly insulate insurance regulators from fickle politics. Based on descriptions provided by the National Conference of State Legislators (NCSL), we identify five different systems for selecting and appointing insurance commissioners and rate them accordingly.[61]

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

Gubernatorial Appointment with Legislative Consent (0 points): The modal case is a commissioner who is appointed by and serves at the pleasure of the state's governor. There are 26 states where such appointments are subject to advice and consent of the state Senate (or unicameral legislature, in the case of Nebraska), representing the most common insurance commissioner selection process.

Gubernatorial Appointment without Legislative Consent (+1 point): In addition to the 26 states where gubernatorial appointments are subject to legislative advice and consent, there are five states (Alabama, Connecticut, Indiana, Massachusetts and Tennessee) where such appointments are not reviewed by the legislature, thus providing slightly more insulation from political considerations. We also included in this category the State of New Hampshire, where the governor's appointment is subject to review by the New Hampshire Executive Council. While New Hampshire's process is arguably a form of advice and consent, it is more accurate to say that the governor and Executive Council form a single executive office that co-governs the state.[62]

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

Independent Commission (+5 points): In three states, the insurance commissioner is selected by an independent public board. These structures provide the greatest independence for the regulator.

59. Max Weber, *Economy and Society* (University of California Press, 1978), pp. 220-221.

60. James E. Rauch and Peter B. Evans, "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth," *American Sociological Review* 64:5 (Oct. 1999), pp. 748-765. https://www.jstor.org/stable/2657374?seq=1#page_scan_tab_contents.

61. "Insurance State Regulators - Selection and Term Statutes," National Conference of State Legislators, April 12, 2013. http://www.ncsl.org/research/financial-services-and-commerce/insurance-state-regulators-selection-and-term-stat.aspx; "Insurance Department Directory," National Association of Insurance Commissioners, Dec. 31, 2019. https://mymembership.naic.org/naic-directory/complete%20directory%202019.pdf.

62. "An Overview of the Executive Council," State of New Hampshire, Nov. 6, 2019. https://www.nh.gov/council/about-us/index.htm.

- In Virginia, the insurance commissioner is selected by the State Corporation Commission, whose three members are appointed by the General Assembly to staggered six-year terms.
- In New Mexico, the insurance superintendent is selected by the appointed nine-member Insurance Nominating Committee. Four of the members are selected by the New Mexico legislative council and four by the governor, with two each representing insurance industry and consumer interests, and with additional partisan balance requirements. The eight appointed members of the committee select the ninth member.
- Florida's insurance commissioner is appointed the Financial Services Commission, whose members are the state's elected governor, chief financial officer, attorney general and agriculture commissioner. Both the governor and chief financial officer must vote with the majority for a motion to appoint to prevail.

Removal: In addition to looking at how insurance regulators are appointed, we examine the circumstances under which they might be removed. Where the commissioner serves at the pleasure of the governor—or, in states with administrative appointments, at the pleasure of another executive officer—there is little check on the potential for regulatory decisions to be politicized. Among the 39 states with appointed commissioners, we find that 27 of them serve at the pleasure of a single executive officer.

We awarded a small bonus of +1 points to Virginia whose insurance commissioner serves at the pleasure of the State Corporation Commission. While still at-pleasure, the structure of the commission provides some insulation from politicized removals.

There are 10 states that protect the insurance regulator from a politicized removal by establishing set terms of office. Under this structure, a commissioner may still be removed, but only with cause. We provided +1 bonus points for each year of the commissioner's term. Thus, +2 points for Texas and Vermont; +4 points for Alabama, Colorado, Kentucky, Maryland, Michigan and New Mexico; and +5 points for Maine and New Hampshire.

We also awarded +5 points to Florida, which has the most complex removal process. Just as an insurance commissioner can only be appointed by a majority of the Financial Services Commission, likewise only a majority of the commission can act to remove the commissioner. Both the governor and chief financial officer must vote with the majority for a motion to remove to prevail.

Expertise: Key to a regulator's ability to oversee the business of insurance with professionalism and competence is that he or she actually know something about insurance. This might seem an obvious point, but in four-fifths of the states, there is no requirement that an insurance commissioner know anything about insurance. We gave a bonus of +5 points to the 10 states whose statutory codes require expertise or experience in the business of insurance as a prerequisite qualification for appointment as insurance commissioner: Alabama, Arizona, Colorado, Florida, Idaho, Indiana, Nevada, Oregon, South Dakota and Texas.

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

TABLE 2: FISCAL EFFICIENCY

STATE	REGULATORY SURPLUS			TAX AND FEE BURDEN			TOTAL
	Raw (%)	Weighted	Points	Raw (%)	Weighted	Points	
AK	2.5	0.5	10.0	2.2	-1.5	1.1	11.1
AL	5.2	0.5	10.0	1.8	-0.8	2.0	12.0
AR	256.2	-0.4	8.4	1.3	-0.1	2.8	11.3
AZ	0.0	0.5	10.0	0.8	0.8	4.0	14.0
CA	26.2	0.4	9.8	1.0	0.4	3.5	13.4
CO	0.0	0.5	10.0	0.9	0.6	3.8	13.8
CT	433.5	-1.0	7.4	0.6	1.1	4.3	11.7
DE	130.3	0.1	9.2	0.2	1.6	5.0	14.2
FL	0.0	0.5	10.0	0.2	1.6	5.0	15.0
GA	175.3	-0.1	8.9	0.9	0.6	3.7	12.7
HI	0.0	0.5	10.0	1.4	-0.2	2.8	12.8
IA	117.1	0.1	9.3	0.5	1.2	4.5	13.7
ID	144.7	0.0	9.1	1.5	-0.4	2.5	11.6
IL	69.0	0.3	9.6	0.6	1.1	4.3	13.9
IN	82.2	0.2	9.5	0.6	1.0	4.2	13.7
KS	21.8	0.5	9.9	2.4	-1.8	0.7	10.6
KY	71.2	0.3	9.6	1.4	-0.2	2.8	12.3
LA	252.5	-0.3	8.5	2.8	-2.3	0.0	8.5
MA	1178.2	-3.5	2.9	1.1	0.3	3.4	6.2
MD	0.0	0.5	10.0	1.6	-0.5	2.4	12.4
ME	0.0	0.5	10.0	1.1	0.3	3.4	13.4
MI	0.0	0.5	10.0	1.1	0.3	3.3	13.3
MN	34.0	0.4	9.8	1.2	0.1	3.1	12.9
MO	27.6	0.4	9.8	0.9	0.5	3.6	13.4
MS	31.2	0.4	9.8	2.4	-1.7	0.8	10.7
MT	40.5	0.4	9.8	2.0	-1.1	1.6	11.3
NC	1.9	0.5	10.0	1.1	0.3	3.3	13.3

ND	91.5	0.2	9.4	1.3	-0.1	2.9	12.3
NE	29.1	0.4	9.8	0.8	0.7	3.8	13.6
NH	59.9	0.3	9.6	1.5	-0.4	2.4	12.1
NJ	61.9	0.3	9.6	0.7	0.8	4.0	13.6
NM	559.0	-1.4	6.6	2.8	-2.3	0.0	6.6
NV	51.0	0.4	9.7	0.3	1.5	4.9	14.6
NY	296.9	-0.5	8.2	1.2	0.1	3.1	11.3
OH	35.6	0.4	9.8	0.7	0.9	4.1	13.9
OK	113.4	0.1	9.3	1.8	-0.8	2.0	11.3
OR	1648.8	-5.2	0.0	1.1	0.2	3.2	3.2
PA	142.3	0.0	9.1	0.9	0.6	3.7	12.9
RI	0.0	0.5	10.0	0.8	0.8	4.0	14.0
SC	220.8	-0.2	8.7	1.0	0.4	3.4	12.1
SD	266.5	-0.4	8.4	1.5	-0.4	2.4	10.8
TN	0.0	0.5	10.0	2.3	-1.6	0.9	10.9
TX	122.5	0.1	9.3	1.5	-0.4	2.4	11.7
UT	2.4	0.5	10.0	1.0	0.3	3.4	13.4
VA	180.1	-0.1	8.9	1.2	0.1	3.1	12.0
VT	248.3	-0.3	8.5	2.5	-1.9	0.5	9.0
WA	38.1	0.4	9.8	1.7	-0.6	2.2	12.0
WI	128.2	0.1	9.2	0.6	1.0	4.2	13.4
WV	236.5	-0.3	8.6	2.0	-1.1	1.5	10.1
WY	1.3	0.5	10.0	0.8	0.7	3.8	13.8

SOURCE: R STREET ANALYSIS OF NAIC AND S&P GLOBAL DATA

FISCAL EFFICIENCY (15 PERCENT OF TOTAL SCORE)

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

States vary in how they collect and allocate funding to their insurance departments. According to the NAIC's Insurance Department Resources Report (IDRR), 17 states and the District of Columbia derive 100 percent of their insurance department revenue from regulatory fees and assessments.[63] Fees and assessments account for more than 90 percent of the budget in 14 other states and for more than 70 percent of the budget in an additional 10 states.[64]

Other states draw on a combination of fees and assessments, fines and penalties, general funds and other sources. Mississippi and South Dakota are the only states whose insurance departments do not directly draw any revenues from the fees and assessments they levy, although fees and assessments also account for less than 10 percent of the budget in North Carolina, Pennsylvania and Rhode Island.[65] In all five of those states, the bulk of the insurance department's operating funds come from the state's general fund.

The NAIC's IDRR also shows that the 50 states, Puerto Rico and the District of Columbia spent $1.53 billion on insurance regulation in 2019, up from $1.47 billion a year earlier.[66] But it is important to note that state insurance departments collected more than double that amount, $3.34 billion, in regulatory fees and assessments from the insurance industry.[67] State insurance departments also collected $190.2 million in fines and penalties and another $1.06 billion of miscellaneous revenue.[68] States separately collected $22.35 billion in insurance premium taxes.[69] Thus, of the total $26.94 billion in revenue that states collected from the insurance industry last year, only 5.7 percent was spent on insurance regulation.

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

Regulatory Surplus – As mentioned, total fees and assessments collected by state insurance departments were more than double the amount spent on insurance regulation. This figure does not include premium taxes, which are a form of sales tax, thus making it appropriate that they should go into a state's general fund. It also does not include fines and penalties, which are meant to discourage bad behavior and compensate victims of that behavior. Limiting the consideration to those regulatory fees and assessments that are paid by insurers and insurance producers, states collected about $1.8 billion more in regulatory fees than they spent on regulation.

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

Our calculations show that nine states collected less in fees and assessments in 2019 than they spent on insurance regulation, giving them a regulatory surplus of $0. Among the 50

63. *2019 Insurance Department Resources Report: Volume One*, National Association of Insurance Commissioners, October 2020, p. 31. https://www.naic.org/prod_serv/STA-BB-20-01.pdf.

64. Ibid.

65. Ibid.

66. Ibid., p. 29.

67. Ibid., p. 32.

68. Ibid.

69. Ibid.

states, the mean regulatory surplus was equal to 152.7 percent of a state's budget, albeit with a large standard deviation of 290 percentage points.

For our weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. The states ranged from those nine with no regulatory surplus to Oregon, the surplus of which was more than 15 times the size of its insurance department budget. We converted those weighted scores into a scale from 0.0 points for Oregon to 10.0 points for the 14 states with little or no regulatory surplus.

Tax and Fee Burden – We also looked at the total of premium taxes, fees and assessments, and fines and penalties collected by each state, expressed as a percentage of the premiums written in that state. This measure represents the overall fiscal burden state governments place on insurance products.

While previous iterations of this report card relied on premium data drawn from Volume Two of the NAIC's annual Insurance Department Resources Report, the COVID-19 pandemic has delayed its 2020 publication. As a result, this edition relies instead on the S&P Global Market Intelligence's Market Share Application to derive 2019 property and casualty; life; accident and health; and health premiums. Differing reporting methodologies between the two data sets may result in slightly different results for those report card variables that rely on reported premium by state.

The mean of the 50 states was a tax and fee burden of 1.27 percent, with a standard deviation of 0.65 percentage points. The results ranged from a low of 0.2 percent for Delaware and Florida, more than one-and-a-half standard deviations below the mean, to a high of 2.78 percent for Louisiana, which was more than two standard deviations above the mean.

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

Taken together, states' scores in the Fiscal Efficiency category range from a high of 15.0 points, scored by Florida, to a low of 3.2 points, scored by Oregon.

TABLE 3: SOLVENCY REGULATION

STATE	FINANCIAL EXAMS			RUNOFFS			CAPITALIZATION			TOTAL
	Raw (%)	Weigh-ted	Points	Raw (%)	Weigh-ted	Points	Raw (%)	Weigh-ted	Points	
AK	181.2	1.4	6.1	0.00	0.33	5.00	693.2	0.3	4.7	15.8
AL	102.3	-0.3	2.6	0.05	0.32	4.99	704.7	0.3	4.7	12.3
AR	114.9	-0.1	3.1	0.12	0.31	4.99	553.4	0.4	4.8	12.9
AZ	121.2	0.1	3.4	2.43	-0.04	4.74	1502.9	-0.5	4.2	12.3
CA	129.5	0.3	3.8	4.18	-0.30	4.55	633.0	0.4	4.7	13.1
CO	109.9	-0.2	2.9	0.00	0.33	5.00	1195.2	-0.2	4.4	12.3
CT	91.0	-0.6	2.1	0.04	0.32	5.00	1200.1	-0.2	4.4	11.4
DE	147.5	0.6	4.6	6.87	-0.70	4.25	1205.4	-0.2	4.4	13.2
FL	119.1	0.0	3.3	0.01	0.33	5.00	1006.0	0.0	4.5	12.8
GA	82.3	-0.8	1.7	0.00	0.33	5.00	1248.9	-0.2	4.3	11.0
HI	179.5	1.3	6.0	0.12	0.31	4.99	239.0	0.8	5.0	16.0
IA	65.7	-1.1	0.9	0.00	0.33	5.00	575.4	0.4	4.8	10.7
ID	131.7	0.3	3.9	0.00	0.33	5.00	906.1	0.1	4.6	13.5
IL	124.1	0.1	3.6	3.60	-0.21	4.61	734.1	0.3	4.7	12.8
IN	89.4	-0.6	2.0	8.32	-0.92	4.09	687.5	0.3	4.7	10.8
KS	106.3	-0.2	2.8	0.04	0.32	5.00	698.0	0.3	4.7	12.4
KY	246.9	2.8	9.0	0.11	0.31	4.99	922.8	0.1	4.5	18.6
LA	108.1	-0.2	2.8	0.12	0.31	4.99	595.3	0.4	4.8	12.6
MA	118.5	0.0	3.3	0.65	0.23	4.93	1110.3	-0.1	4.4	12.7
MD	108.2	-0.2	2.8	0.61	0.24	4.93	976.2	0.0	4.5	12.3
ME	110.8	-0.1	3.0	0.02	0.33	5.00	1148.6	-0.1	4.4	12.4
MI	173.3	1.2	5.7	1.51	0.10	4.84	850.8	0.2	4.6	15.2
MN	56.1	-1.3	0.5	0.00	0.33	5.00	707.1	0.3	4.7	10.2
MO	74.1	-0.9	1.3	1.28	0.14	4.86	794.6	0.2	4.6	10.8
MS	80.5	-0.8	1.6	0.84	0.20	4.91	855.8	0.1	4.6	11.1
MT	70.3	-1.0	1.2	0.16	0.31	4.98	661.4	0.3	4.7	10.9
NC	101.5	-0.3	2.5	5.65	-0.52	4.39	559.3	0.4	4.8	11.7
ND	96.5	-0.5	2.3	0.00	0.33	5.00	483.7	0.5	4.8	12.2
NE	97.6	-0.4	2.4	0.00	0.33	5.00	656.4	0.3	4.7	12.1
NH	99.9	-0.4	2.5	45.95	-6.55	0.00	1382.0	-0.4	4.2	6.7
NJ	101.5	-0.3	2.5	0.00	0.33	5.00	393.7	0.6	4.9	12.4
NM	178.0	1.3	6.0	0.00	0.33	5.00	1348.0	-0.3	4.3	15.2
NV	154.8	0.8	4.9	1.98	0.03	4.78	928.2	0.1	4.5	14.2
NY	69.2	-1.0	1.1	2.83	-0.09	4.69	1138.2	-0.1	4.4	10.2
OH	95.9	-0.5	2.3	2.05	0.02	4.78	907.5	0.1	4.6	11.6
OK	118.7	0.0	3.3	1.05	0.17	4.89	730.4	0.3	4.7	12.9
OR	124.3	0.1	3.6	0.15	0.31	4.98	1106.3	-0.1	4.4	13.0
PA	131.3	0.3	3.9	9.11	-1.04	4.01	1075.0	-0.1	4.4	12.3
RI	61.8	-1.2	0.8	0.24	0.29	4.97	1232.3	-0.2	4.3	10.1
SC	97.9	-0.4	2.4	0.51	0.25	4.94	971.6	0.0	4.5	11.8
SD	78.5	-0.8	1.5	1.35	0.13	4.85	487.7	0.5	4.8	11.2
TN	209.9	2.0	7.4	0.00	0.33	5.00	765.3	0.2	4.7	17.0

TX	105.8	-0.3	2.7	1.30	0.13	4.86	7783.2	-6.7	0.0	7.6
UT	44.5	-1.6	0.0	1.07	0.17	4.88	1082.4	-0.1	4.4	9.3
VA	154.1	0.8	4.9	0.03	0.32	5.00	604.9	0.4	4.8	14.6
VT	178.0	1.3	6.0	0.57	0.24	4.94	1030.9	0.0	4.5	15.4
WA	268.7	3.3	10.0	0.00	0.33	5.00	952.9	0.1	4.5	19.5
WI	63.9	-1.2	0.9	4.09	-0.28	4.55	613.4	0.4	4.8	10.2
WV	103.5	-0.3	2.6	0.00	0.33	5.00	962.1	0.0	4.5	12.2
WY	96.7	-0.5	2.3	0.79	0.21	4.91	658.1	0.3	4.7	12.0

SOURCES: NAIC, S&P Global Market Intelligence

SOLVENCY REGULATION (20 PERCENT OF TOTAL SCORE)

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

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

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

States are generally free to subject any company that operates within their markets to either type of exam. In the case of financial exams, states overwhelmingly concentrate their attention on domestic insurers. State insurance codes generally reflect NAIC model law language requiring the insurance commissioner to examine every domestic company at least once every three to five years.[70]

In this report, we attempt to gauge how well states keep up with their duties to examine the companies they regulate. We do this by drawing on NAIC data on the number of financial exams and combined financial/market conduct exams the states reported having completed for domestic companies in each year from 2015 through 2019.[71] We then compared those figures to the number of domestic companies listed as operating in the state for each of those five years in order to calculate the proportion of domestic companies that were examined.

Given the guidance that every company should be examined at least once every five years, our baseline expectation for the sum of those five years of exams is 100 percent. The good news is that 31 of the 50 states met that minimum standard, although that means 19 states did not. The mean percentage of domestic insurers examined was 117.5 percent with a standard deviation of 46.2 percentage points.

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

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

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

For the report card, we summed all of the claims liabilities reported by the NAIC as "in-progress" as of Dec. 31, 2019,

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

71. Insurance Department Resources Report: 2015-2019 editions, National Association of Insurance Commissioners.

for each state's insurers that have been placed into runoff, supervision, conservation, receivership or liquidation.[72] The totals ranged from California's $12.73 billion to 13 states that had no in-progress runoff claims liability at all.

We scored states based on the proportion of total 2019 net written premiums that the outstanding runoff liabilities represented. States with a high proportion of runoff liabilities were downgraded. Taken together, runoff liabilities represented 2.2 percent of the average state's annual net written premium, with a standard deviation of 6.7 percentage points. For our initial weighted score, we set the mean as 0 and added and subtracted points based on how far each state deviated from that mean. The results ranged from the 13 states with no liabilities to New Hampshire, whose $8.78 billion of runoff liabilities represent 45.9 percent of 2019 net written premiums—more than six standard deviations greater than the mean. Those weighted scores were then converted into our point scale of 0.0 to 5.0.

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

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

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

Using 2019 statutory data from S&P Global, we derived the premium-to-surplus ratio of each property-casualty insurance operating unit doing business in each state.[73] Multiplying that ratio by the company's market share across all lines of business and then summing those totals effectively provides a capitalization ratio for the entire state market. (These results necessarily exclude statutory entities like wind pools, joint underwriting authorities and some state workers' compensation funds where such entities do not report policyholder surplus.)

We found a mean capitalization ratio of 1,005.2 across the 50 states, up from 936.5 a year earlier, and a standard deviation of 1,016.4. The most strongly capitalized market was found in Hawaii, where the premium-to-surplus ratio clocked in at nearly a full standard deviation lower than the mean. Texas had by far the most thinly capitalized market, at nearly seven standard deviations greater than the mean.

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

Taken together, states' scores in the Solvency Regulation category range from a high of 19.5 points, scored by Washington State, to a low of 6.7 points, scored by New Hampshire.

72. *2019 Insurance Department Resources Report: Volume One*, pp. 46-50. https://www.naic.org/prod_serv/STA-BB-20-01.pdf.

73. *P&C Market Share Application*, S&P Global Market Intelligence, 2020.

TABLE 4: AUTO INSURANCE MARKET

STATE	CONCENTRATION		LOSS RATIO		TOTALS	POINTS
	HHI	Weighted	5-yr avg. (%)	Weighted		
AK	1,790.0	-3.3	64.0	0.0	-3.3	0.3
AL	1,139.2	-0.4	67.0	0.0	-0.4	6.3
AR	1,055.4	0.0	65.7	0.0	0.0	7.1
AZ	916.9	0.6	68.2	0.0	0.6	8.4
CA	764.7	1.3	68.8	-0.6	0.7	8.5
CO	912.3	0.7	79.7	-3.0	-2.3	2.2
CT	813.1	1.1	65.7	0.0	1.1	9.3
DE	1,298.0	-1.1	69.0	-0.7	-1.7	3.5
FL	1,439.8	-1.7	70.5	-1.0	-2.7	1.5
GA	1,045.0	0.1	71.3	-1.2	-1.1	4.8
HI	1,493.3	-2.0	60.8	-1.1	-3.1	0.7
IA	1,018.8	0.2	62.1	-0.9	-0.7	5.7
ID	848.2	0.9	63.5	-0.5	0.4	7.9
IL	1,238.9	-0.8	64.5	0.0	-0.8	5.4
IN	872.6	0.8	63.0	-0.7	0.2	7.4
KS	882.1	0.8	63.1	-0.6	0.1	7.3
KY	1,107.8	-0.2	66.9	0.0	-0.2	6.6
LA	1,502.0	-2.0	72.5	-1.4	-3.4	0.0
MA	1,046.9	0.1	63.0	-0.7	-0.6	5.8
MD	1,313.3	-1.1	69.8	-0.8	-2.0	3.0
ME	783.9	1.2	60.4	-1.2	0.0	7.0
MI	1,097.7	-0.2	79.6	-3.0	-3.1	0.6
MN	1,148.8	-0.4	62.2	-0.8	-1.2	4.5

MO	967.3	0.4	66.9	0.0	0.4	7.9
MS	1,089.1	-0.1	64.7	0.0	-0.1	6.8
MT	1,051.4	0.0	66.9	0.0	0.0	7.1
NC	880.5	0.8	68.3	0.0	0.8	8.7
ND	841.8	1.0	61.3	-1.0	-0.1	6.9
NE	978.8	0.4	64.6	0.0	0.4	7.8
NH	835.8	1.0	60.2	-1.3	-0.3	6.5
NJ	1,158.6	-0.5	65.9	0.0	-0.5	6.1
NM	1,073.8	-0.1	65.6	0.0	-0.1	6.9
NV	954.9	0.5	71.1	-1.1	-0.6	5.7
NY	1,587.5	-2.4	68.7	-0.6	-3.0	0.9
OH	894.4	0.7	60.5	-1.2	-0.5	6.1
OK	1,031.9	0.1	59.0	-1.5	-1.4	4.1
OR	1,011.7	0.2	64.0	0.0	0.2	7.5
PA	980.1	0.4	64.6	0.0	0.4	7.8
RI	1,162.4	-0.5	68.8	-0.6	-1.1	4.8
SC	1,114.3	-0.3	70.5	-1.0	-1.2	4.5
SD	828.2	1.0	65.4	0.0	1.0	9.2
TN	1,015.08	0.2	64.2	0.0	0.2	7.4
TX	888.0	0.8	70.7	-1.0	-0.2	6.5
UT	739.8	1.4	68.2	0.0	1.4	10.0
VA	1,089.5	-0.1	66.4	0.0	-0.1	6.8
VT	868.6	0.9	56.9	-2.0	-1.1	4.7
WA	889.4	0.8	67.0	0.0	0.8	8.6
WI	1,038.0	0.1	62.7	-0.7	-0.6	5.7
WV	1,272.1	-1.0	58.8	-1.6	-2.5	1.8
WY	1,158.1	-0.4	68.4	-0.5	-1.0	5.1

SOURCES: S&P Global Market Intelligence

AUTO INSURANCE MARKET (10 PERCENT OF TOTAL SCORE)

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

Market Concentration – For markets to serve consumers well, there must be a variety of competitors with products designed to fit different budgets and needs. A high degree of market concentration is not necessarily a sign that consumers are poorly served, but it can be an indication of unnecessarily high barriers to entry or other market dysfunction. Using data supplied by S&P Global, we calculated the concentration of each state's personal auto insurance market, as measured by the Herfindahl-Hirschman Index (HHI).[74]

74. Ibid.

The HHI, which is used by the U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) to assess the degree to which markets are subject to monopolistic concentration, is calculated by summing the squares of the market-share totals of every firm in the market. In a market with 100 firms, each with 1 percent share, the HHI would be 100. In a market with just one monopolistic firm, the HHI would be 10,000.

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

The DOJ and the FTC generally consider markets in which the HHI is between 1,500 and 2,500 points to be moderately concentrated, while those in excess of 2,500 points are considered highly concentrated. On a nationwide basis, the auto insurance market last year had an HHI score of 790.4, up from 782.3 last year, while the mean HHI score of the 50 states was 1,058.6, with a standard deviation of 222.0. Under the metrics used by the DOJ and the FTC, Alaska, Louisiana and New York were the only states with auto insurance markets that would be considered moderately concentrated, and no state would be considered highly concentrated.

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

Loss Ratios – In addition to looking at market concentrations in the 50 states, we also used S&P Global data to analyze loss ratios—a key profitability metric.[75] Excess profits indicate an insufficiently competitive market. Insufficient profits indicate one in which insurers cannot charge enough to earn their cost of capital or, in the extreme, to pay policyholder claims.

Over the long run, the property-casualty industry has tended to break even on its underwriting book of business. This has shifted somewhat over the decades. In the 1970s through the 1990s, when investment returns on fixed-income securities were strong due to relatively high bond yields, the industry's "combined ratio"—its losses and expenses expressed as a percentage of premiums written—tended to run slightly above 100, which indicates underwriting losses.[76] As interest rates have plummeted, modest underwriting profits have become

75. Ibid.

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

more common, as there has not been sufficient investment income to offset underwriting losses.[77]

We looked at the loss ratios of auto insurance groups in each of the 50 states. A company's loss ratio includes its claims paid and loss adjustment expenses but excludes agent commissions and other marketing and administrative expenses the industry incurs. To smooth losses over the underwriting cycle, we relied on five-year averages from 2015 through 2019.

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

Thus, we look for those states where average loss ratios were either inordinately high or inordinately low. In the auto insurance market, the nationwide five-year average loss ratio was 67.9, down from 68.2 a year earlier. The mean of the 50 states was 66.0, with a standard deviation of 4.6.

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

There were 15 states that had five-year average loss ratios more than half a standard deviation less than the mean, led by Vermont. At the other end of the spectrum, 14 states had average loss ratios more than half a standard deviation greater than the mean, topped by Colorado, which had an average loss ratio nearly three standard deviations greater than the mean. This marked the first time in the nine years that R Street has compiled this report card that Michigan did not have the highest average loss ratio. In 2019, Michigan finally amended rules that made it the only state in the country to require auto insurers to provide unlimited lifetime medical benefits.

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

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

TABLE 5: HOMEOWNERS INSURANCE MARKET

STATE	CONCENTRATION		LOSS RATIO		TOTALS	POINTS
	HHI	Weighted	5-yr avg. (%)	Weighted		
AK	1,908.7	-3.5	46.7	-0.8	-4.3	0.0
AL	1,219.3	-1.0	50.5	-0.5	-1.5	4.9
AR	1,128.0	-0.6	60.1	0.0	-0.6	6.3
AZ	810.8	0.5	53.0	0.0	0.5	8.3
CA	797.8	0.6	103.9	-3.7	-3.1	2.0
CO	938.8	0.0	86.4	-2.3	-2.3	3.5
CT	495.9	1.6	47.6	-0.7	0.9	9.1
DE	1,052.3	-0.4	46.4	-0.8	-1.2	5.4
FL	370.1	2.1	68.5	-0.9	1.2	9.6
GA	1,057.5	-0.4	65.6	-0.7	-1.1	5.6
HI	1,417.8	-1.7	36.1	-1.6	-3.3	1.7
IA	1,084.8	-0.5	56.4	0.0	-0.5	6.6
ID	860.7	0.3	68.8	-0.9	-0.6	6.4
IL	1,372.6	-1.5	68.9	-0.9	-2.5	3.2
IN	888.6	0.2	52.1	0.0	0.2	7.9
KS	896.1	0.2	50.8	0.0	0.2	7.8
KY	1,360.6	-1.5	50.8	0.0	-1.5	4.9
LA	957.5	0.0	36.0	-1.6	-1.7	4.6
MA	548.7	1.5	51.9	0.0	1.5	10.0
MD	945.2	0.0	62.3	0.0	0.0	7.5
ME	560.1	1.4	40.9	-1.3	0.2	7.7
MI	896.9	0.2	52.3	0.0	0.2	7.8
MN	1,021.2	-0.3	64.4	-0.6	-0.8	6.0
MO	1,087.3	-0.5	55.6	0.0	-0.5	6.6
MS	1,154.1	-0.7	43.8	-1.0	-1.8	4.4
MT	1,010.3	-0.2	79.5	-1.8	-2.0	4.0
NC	741.6	0.8	60.4	0.0	0.8	8.8
ND	820.8	0.5	60.6	0.0	0.5	8.3
NE	1,077.8	-0.5	75.3	-1.4	-1.9	4.2
NH	576.7	1.4	47.4	-0.7	0.6	8.5
NJ	557.9	1.4	47.5	-0.7	0.7	8.6
NM	1,009.4	-0.2	68.1	-0.9	-1.1	5.6
NV	880.9	0.3	52.7	0.0	0.3	7.9
NY	691.2	0.9	47.6	-0.7	0.2	7.8
OH	773.3	0.6	48.8	-0.6	0.0	7.5
OK	1,182.0	-0.8	47.9	-0.7	-1.5	4.8
OR	1,011.8	-0.2	55.2	0.0	-0.2	7.1
PA	886.0	0.2	51.8	0.0	0.2	7.9
RI	727.9	0.8	56.3	0.0	0.8	8.9
SC	723.6	0.8	43.8	-1.0	-0.2	7.1
SD	706.8	0.9	66.9	-0.8	0.1	7.7
TN	1,238.1	-1.0	50.6	0.0	-1.0	5.6

TX	792.3	0.6	66.7	-0.8	-0.2	7.1
UT	753.7	0.7	57.5	0.0	0.7	8.7
VA	928.0	0.1	58.8	0.0	0.1	7.6
VT	710.3	0.9	45.1	-0.9	-0.1	7.4
WA	878.2	0.3	56.0	0.0	0.3	7.9
WI	816.5	0.5	51.8	0.0	0.5	8.3
WV	1,209.8	-0.9	53.2	0.0	-0.9	5.8
WY	1,131.3	-0.7	79.1	-1.7	-2.4	3.3

SOURCE: S&P Global Market Intelligence

HOMEOWNERS INSURANCE MARKET (10 PERCENT OF TOTAL SCORE)

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

Market Concentration – On a nationwide basis, the homeowners/farmowners insurance market last year had an HHI score of 553.3, down from 566.3 a year earlier. The mean HHI score of the 50 states was 933.3, with a standard deviation of 272.0. Alaska was the only state with a moderately concentrated homeowners insurance market, as defined by DOJ and the FTC, and no state had a highly concentrated market. We assigned the mean HHI concentration score a value of 0.0 and weighted states by how many standard deviations they were above or below that baseline. Florida was the least-concentrated homeowners market, with an HHI score 2.1 standard deviations less than the mean. Just as it was in the auto insurance market, Alaska was the most concentrated homeowners insurance market, with an HHI score 3.5 standard deviations greater than the mean.

Loss Ratios – As the catastrophic hurricanes and wildfires of recent years amply demonstrate, our reliance on five-year average loss ratios is particularly important in the homeowners/farmowners insurance market, where catastrophes can introduce outsized losses in any given year. The nationwide five-year average loss ratio was 61.6, up from 60.0 a year earlier, and the mean of the 50 states was 57.0, with a standard deviation of 12.8.[78]

There were 13 states with five-year average loss ratios more than half a standard deviation greater than the mean, topped by California, where the homeowners insurance loss ratio was 3.7 standard deviations greater than the mean. At the other end of the scale, 15 states had loss ratios more than half a standard deviation below the mean, with Louisiana reporting the absolute lowest loss ratio at 1.6 standard deviations below the mean.

78. *P&C Market Share Application.*

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

TABLE 6: RESIDUAL MARKETS

STATE	AUTO		HOME		WORKERS' COMP		COMBINED	POINTS
	Share (%)	Weighted	Share (%)	Weighted	Share (%)	Weighted		
AK	0.06	0.0	0.00	0.0	0.0	0.0	0.0	15.0
AL	0.00	0.0	0.75	-0.9	0.0	0.0	-0.9	14.4
AR	0.00	0.0	0.00	0.0	0.0	0.0	0.0	15.0
AZ	0.45	-0.3	0.00	0.0	20.8	-2.1	-2.4	13.2
CA	0.10	-0.1	0.91	-1.0	10.6	-1.1	-2.2	13.4
CO	0.02	0.0	0.00	0.0	55.9	-5.6	-5.6	10.8
CT	0.04	0.0	0.14	-0.2	0.0	0.0	-0.2	14.9
DE	0.07	-0.1	0.09	-0.1	0.0	0.0	-0.2	14.9
FL	0.01	0.0	3.97	-4.5	1.2	-0.1	-4.7	11.5
GA	0.01	0.0	0.45	-0.5	0.0	0.0	-0.5	14.6
HI	0.50	-0.4	0.00	0.0	24.4	-2.4	-2.8	12.9
IA	0.07	0.0	0.06	-0.1	0.0	0.0	-0.1	14.9
ID	0.00	0.0	0.00	0.0	55.6	-5.6	-5.6	10.8
IL	0.51	-0.4	0.07	-0.1	0.0	0.0	-0.4	14.7
IN	0.03	0.0	0.05	-0.1	0.0	0.0	-0.1	14.9
KS	0.28	-0.2	0.46	-0.5	0.0	0.0	-0.7	14.5
KY	0.03	0.0	0.24	-0.3	28.3	-2.8	-3.1	12.7
LA	0.02	0.0	1.29	-1.5	25.8	-2.6	-4.1	11.9
MA	4.37	-3.1	6.26	-7.2	0.0	0.0	-10.3	7.3
MD	1.39	-1.0	0.03	0.0	21.3	-2.1	-3.2	12.6
ME	0.08	-0.1	0.00	0.0	67.7	-6.8	-6.8	9.9
MI	0.22	-0.2	0.30	-0.3	22.9	-2.3	-2.8	12.9
MN	0.06	0.0	0.11	-0.1	13.0	-1.3	-1.5	13.9
MO	0.05	0.0	0.07	-0.1	26.1	-2.6	-2.7	13.0
MS	0.00	0.0	1.74	-2.0	0.0	0.0	-2.0	13.5
MT	0.00	0.0	0.00	0.0	59.1	-5.9	-5.9	10.6
NC	13.91	-10.0	8.74	-10.0	0.0	0.0	-20.0	0.0
ND	0.00	0.0	0.00	0.0	100.0	-10.0	-10.0	7.5
NE	0.02	0.0	0.00	0.0	0.0	0.0	0.0	15.0
NH	0.11	-0.1	0.00	0.0	0.0	0.0	-0.1	14.9
NJ	1.03	-0.7	0.22	-0.3	0.0	0.0	-1.0	14.3
NM	0.08	-0.1	0.70	-0.8	34.1	-3.4	-4.3	11.8
NV	0.01	0.0	0.00	0.0	0.0	0.0	0.0	15.0
NY	0.82	-0.6	0.36	-0.4	35.5	-3.6	-4.6	11.6
OH	0.07	0.0	0.31	-0.4	100.0	-10.0	-10.4	7.2
OK	0.01	0.0	0.00	0.0	29.8	-3.0	-3.0	12.8

OR	0.00	0.0	0.10	-0.1	71.3	-7.1	-7.2	9.6
PA	0.05	0.0	0.14	-0.2	4.2	-0.4	-0.6	14.5
RI	2.36	-1.7	3.20	-3.7	52.5	-5.3	-10.6	7.0
SC	0.02	0.0	0.60	-0.7	11.8	-1.2	-1.9	13.6
SD	0.00	0.0	0.00	0.0	0.0	0.0	0.0	15.0
TN	0.01	0.0	0.00	0.0	0.0	0.0	0.0	15.0
TX	0.01	0.0	3.31	-3.8	42.3	-4.2	-8.0	9.0
UT	0.01	0.0	0.00	0.0	50.4	-5.0	-5.0	11.2
VA	0.16	-0.1	0.53	-0.6	0.0	0.0	-0.7	14.5
VT	0.11	-0.1	0.00	0.0	0.0	0.0	-0.1	14.9
WA	0.02	0.0	0.01	0.0	100.0	-10.0	-10.0	7.5
WI	0.01	0.0	0.12	-0.1	0.0	0.0	-0.1	14.9
WV	0.05	0.0	0.04	0.0	0.0	0.0	-0.1	14.9
WY	0.00	0.0	0.00	0.0	100.0	-10.0	-10.0	7.5

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

RESIDUAL MARKETS (15 PERCENT OF TOTAL SCORE)

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

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

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

Residual Auto Market – Where state residual auto insurance entities once insured as much as half or, in some states, more than half of all private-passenger auto risks, they now represent just 0.643 percent of what is a $298.23 billion nationwide market. According to AIPSO data, residual markets account for less than 0.1 percent of the market in 37 of the 50 states.[79]

Based on AIPSO data, only five states—Maryland, Massachusetts, New Jersey, North Carolina and Rhode Island—have residual markets that account for more than 1 percent of auto insurance policies. Even among that grouping, North Carolina is an outlier. Whereas the residual markets in Maryland, Massachusetts, New Jersey and Rhode Island all account for less than 5 percent of the market, the North Carolina Reinsurance Facility accounts for nearly 14 percent of that state's market.

Looking at longer-term trends, the largest growth in auto residual market share from 2015 through 2019 was seen in Massachusetts, from 1.35 percent to 4.37 percent; New Jersey, from 0.31 percent to 1.03 percent; and Illinois, from 0.00 percent to 0.51 percent. The largest decline was seen in North Carolina, which shrank from 30.35 percent to 13.91 percent. Pennsylvania's residual market also shrank slightly from 0.07 percent to 0.05 percent.

For each state, we assigned a penalty of between 0.0 and -10.0 points, weighted by market share. The results ranged from 31 states with de minimis residual markets, who received no penalty, to North Carolina, which received a penalty of -10.

Residual Homeowners Market – Similar to the residual auto insurance market, residual homeowners insurance mechanisms exist to serve insureds who cannot find coverage in the private, voluntary market. Thirty states and the District of Columbia operate what are called Fair Access to Insurance Requirements (FAIR) plans, originally created primarily to serve urban consumers, particularly in areas where "redlining" practices made it difficult for homeowners to obtain coverage.[80]

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.

79. "Ranking of States by Residual and Total Market Premium," Automobile Insurance Plans Service Office, 2020. https://www.aipso.com/Portals/0/IndustryData/Ranking%20Of%20States%20By%20Residual%20And%20Total%20Market%20Premium_BD047_2019.xlsx?ver=2020-08-20-142636-237.

80. See, e.g., "Glossary of Insurance & Risk Management Terms," *IRMI Online*, 2019. https://www.irmi.com/online/insurance-glossary/terms/r/redlining.aspx.

While most FAIR plans are quite small, excessive price controls in some states prompted significant growth of state-sponsored insurance mechanisms, particularly in the wake of the record 2004 and 2005 hurricane seasons. That trend has since reversed. From 2015 through 2019, the only state residual market to grow in market share was California's FAIR Plan, from 0.72 percent of the market to 0.91 percent—largely a result of the 2017 and 2018 wildfires. The largest declines in homeowners residual market share were seen in Texas, from 5.28 percent to 3.31 percent; Louisiana, from 3.25 percent to 1.29 percent; and Mississippi, from 2.86 percent to 1.74 percent.[81]

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

Workers' Comp Plans – There are four states—Ohio, North Dakota, Washington and Wyoming—in which the state is the sole provider of workers' compensation insurance. In an additional 23 states, the residual market for workers' comp is satisfied by a "competitive" state fund, which in some cases writes more than half the coverage in the state.

Looking at longer-term trends, the largest growth in the market share of workers' comp state funds from 2015 through 2019 was seen in Michigan, from 17.9 percent to 22.9 percent; South Carolina, from 6.86 percent to 11.76 percent; and Missouri, from 21.82 percent to 26.05 percent. The largest declines were seen in New York, from 44.13 percent to 35.52 percent; Rhode Island, from 61.08 percent to 52.54 percent; and Idaho, from 61.54 percent to 55.58 percent.

For the four monopoly states, we recorded the state as having 100 percent market share. We used S&P Global market share data to record the respective share of the market written by competitive state fund states.[82] Between 0.0 and -10.0 points were deducted based on each state fund's market share.

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

81. "2019 FAIR and Beach Plan Underwriting Results and Market Penetration Report," Property Insurance Plans Services Office, June 2020, p. 5.

82. *P&C Market Share Application.*

TABLE 7: RATE REGULATION

STATE	AUTO	HOME	COMP	MEDMAL	COMMERCIAL	COMBINED
AK	1	1	0	0	1	3
AL	0	0	0	0	2	2
AR	1	1	2	3	5	12
AZ	3	3	2	3	3	14
CA	0	0	0	0	0	0
CO	2	2	0	2	5	11
CT	2	2	2	0	2	8
DE	2	2	2	2	2	10
FL	2	3	0	3	3	11
GA	2	2	2	2	5	13
HI	0	0	0	0	0	0
IA	3	3	0	0	0	6
ID	3	3	0	3	3	12
IL	5	5	3	2	5	20
IN	2	2	2	2	3	11
KS	2	2	0	2	5	11
KY	3	3	3	3	3	15
LA	0	0	0	0	5	5
MA	2	2	0	2	2	8
MD	0	0	2	0	0	2
ME	2	2	2	2	2	10
MI	2	2	2	2	0	8
MN	2	2	0	2	2	8
MO	3	3	3	3	3	15
MS	0	0	0	0	0	0
MT	2	2	2	2	2	10
NC	0	0	0	0	3	3
ND	0	0	0	0	0	0
NE	2	2	2	0	5	10
NH	2	2	0	3	3	10
NJ	0	0	0	0	3	3
NM	5	5	0	2	5	17
NV	2	2	0	2	2	8
NY	0	0	0	0	0	0
OH	2	2	2	2	2	10
OK	3	3	3	3	3	15
OR	2	2	0	2	2	8
PA	0	0	2	0	5	7
RI	2	2	0	2	5	11
SC	0	0	0	0	0	0
SD	2	2	2	2	5	13
TN	0	0	0	3	3	6
TX	2	2	2	2	2	10

UT	3	3	2	3	3	14
VA	2	2	0	2	5	11
VT	3	3	0	3	3	12
WA	0	0	0	0	3	3
WI	3	3	0	3	3	12
WV	0	0	0	0	2	2
WY	5	5	5	5	5	25

SOURCE: NAIC Compendium of State Laws on Insurance Topics

UNDERWRITING FREEDOM (20 PERCENT OF TOTAL SCORE)

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

We examine the processes states employ to review rates in five key property-casualty insurance markets: private auto, homeowners, workers' compensation, medical liability and general commercial lines.[83] As demonstrated in Table 7, for each state and each market, we assign:

- 0 points for states that employ a prior-approval filing system, in which all rates must be approved by a regulator before they can be employed.
- +1 point for states that employ "flex band" systems, in which rate changes that exceed a modest percentage band must be submitted for prior approval.
- +2 points for states that employ "file and use" systems, in which an insurer that has filed a rate may begin to use it within a given time frame if the regulator has not objected.
- +3 points for states that employ "use and file" systems, in which an insurer is permitted to begin using a rate even before it has been filed.
- +5 points for states that employ "no file" systems, in which the state either does not require rates to be filed or in which such filings are simply a formality.

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

83. *Compendium of State Laws on Insurance Topics: Rate Filing Methods for Property/Casualty Insurance, Workers' Compensation, Title*, National Association of Insurance Commissioners, June 2020 update, pp. II-PA-10-2 to II-PA-10-21.

Desk Drawer Rules – While Table 7 catalogues the states' systems as they exist "on the books," matters are not always so simple. Rule of law requires that regulations be clear and consistently applied. Neither companies nor consumers can abide by the rules if they cannot anticipate how they will be applied and interpreted. By and large, insurers give state insurance departments good marks on this front, finding most states to be forthright and transparent in their dealings.

However, some states have become notorious for what the industry commonly calls "desk drawer rules," in which regulators' interpretation of ambiguities in the statutory code or inconsistent application of legal provisions create a lack of clarity. Based on informal discussions with experts who work in regulatory compliance, we evaluated the breadth and severity of these desk drawer rules on a scale of 0 to 3. We received no reports of significant desk drawer rules in 25 of the 50 states, while five states (Arkansas, Georgia, New Jersey, New York and Washington) were penalized -3 points for having the most voluminous or onerous desk drawer rules.

Rating Restrictions – Finally, we catalogued state rules that bar or severely restrict insurers' use of underwriting variables that have been shown to be actuarially credible. The discovery of actuarially credible variables tied to credit information and other factors has allowed insurers to construct tremendously innovative proprietary rating models that can assign a proper rate to virtually any potential insured. However, the use of credit in insurance has periodically proven to be politically contentious. Despite studies by, among others, the FTC and the Texas Department of Insurance, which demonstrate conclusively that credit factors are predictive of future claims, some states prohibit or severely proscribe its usage as an underwriting and rate-setting variable.[84]

While most states restrict insurers from using credit as a sole underwriting variable, there are six states that go beyond that to ban the practice. California, Hawaii, Massachusetts and Michigan explicitly ban the use of credit in auto insurance underwriting and ratemaking, while Maryland has banned its use in homeowners insurance. Minnesota permits the use of credit in rate-setting but does not permit its consideration in underwriting.[85] We deducted -2 points for each of the six states with restrictive credit-scoring rules.

We also deducted -2 points for each of the 11 states—California, Connecticut, Delaware, Maryland, Michigan, Missouri, New Hampshire, New Jersey, New York, Oklahoma and

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

85. *Compendium of State Laws on Insurance Topics: Use of Credit Reports/Scoring in Underwriting*, National Association of Insurance Commissioners, June 2020 update, pp. III-MC-20-1 to III-MC-45-12.

South Dakota—that impose especially stringent restrictions on the use of territory in underwriting and rate-setting.[86] Where a piece of property is located or where a car is garaged and driven can have a large impact on the likelihood that the property or car will experience claims-generating losses.

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

TABLE 8: UNDERWRITING FREEDOM

STATE	RATE REGULATION	DESK DRAWER	CREDIT SCORING	TERRITORY	COMBINED	POINTS
AK	3	-2	0	0	1	4.5
AL	2	-2	0	0	0	3.9
AR	12	-3	0	0	9	9.7
AZ	14	0	0	0	14	12.9
CA	0	-2	-2	-2	-6	0.0
CO	11	-1	0	-2	8	9.0
CT	8	-2	0	-2	4	6.5
DE	10	-2	0	-2	6	7.7
FL	11	-2	0	0	9	9.7
GA	13	-3	0	0	10	10.3
HI	0	-2	-2	0	-4	1.3
IA	6	0	0	0	6	7.7
ID	12	0	0	0	12	11.6
IL	20	0	0	0	20	16.8
IN	11	0	0	0	11	11.0
KS	11	-2	0	0	9	9.7
KY	15	0	0	0	15	13.5
LA	5	-2	0	0	3	5.8
MA	8	-1	-2	0	5	7.1
MD	2	-2	-2	-2	-4	1.3
ME	10	-2	0	0	8	9.0
MI	8	0	-2	-2	4	6.5
MN	8	0	-2	0	6	7.7
MO	15	0	0	-2	13	12.3
MS	0	-1	0	0	-1	3.2
MT	10	-1	0	0	9	9.7
NC	3	-1	0	0	2	5.2
ND	0	0	0	0	0	3.9
NE	10	0	0	0	10	10.3
NH	10	0	0	-2	8	9.0
NJ	3	-3	0	-2	-2	2.6
NM	17	0	0	0	17	14.8
NV	8	-1	0	0	7	8.4
NY	0	-3	0	-2	-5	0.6
OH	10	0	0	0	10	10.3
OK	15	0	0	-2	13	12.3
OR	8	0	0	0	8	9.0
PA	7	-2	0	0	5	7.1
RI	11	-1	0	0	10	10.3
SC	0	-1	0	0	-1	3.2
SD	13	0	0	-2	11	11.0
TN	6	0	0	0	6	7.7
TX	10	0	0	0	10	10.3
UT	14	0	0	0	14	12.9
VA	11	0	0	0	11	11.0
VT	12	0	0	0	12	11.6
WA	3	-3	0	0	0	3.9
WI	12	0	0	0	12	11.6
WV	2	0	0	0	2	5.2
WY	25	0	0	0	25	20.0

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

86. *Compendium of State Laws on Insurance Topics: Prohibitions Against Redlining and Other Geographic Discrimination*, National Association of Insurance Commissioners, June 2020 update, pp. III-MC-45-1 to III-MC-20-20.

REPORT CARD GRADES

Grading and Results

We calculated scores for every state by adding the weighted results from all seven variables and calculating a standard deviation from the mean. The mean was 60.7 and the standard deviation was 7.8. States were graded as follows:

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

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

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

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

Below the mean by more than two standard deviations: F

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

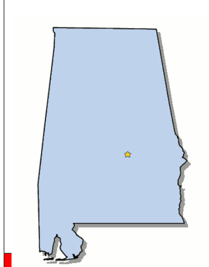
For the first time ever, Arizona had the best insurance regulatory environment in the United States. That broke a six-year streak for Vermont and was only the second time in the nine years we have compiled this report that Vermont did not finish with the highest score.

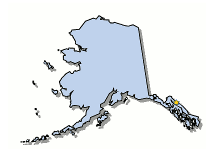
For the third year in a row, Louisiana had the worst score in the country, again edging out second-to-worst New York.

The biggest improvements were seen in South Dakota (from a C+ to an A); Alabama (from a C to a B-); Arizona (from an A- to an A+); and Colorado (from a D+ to a C). The biggest declines were seen in Vermont (from an A+ to a B) and West Virginia (from a C to a D+)

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

State Capsule Reports

Alabama	2019 Grade	2020 Grade
	C	B-
	Score	Rank
	61.1	25
Strengths:	Low politicization.	
Weaknesses:	Concentrated homeowners market, little underwriting freedom.	

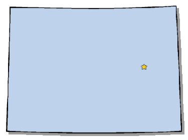
Alaska	2019 Grade	2020 Grade
	D	D
	Score	Rank
	50.1	45
Strengths:	Ahead on financial exams, no runoff obligations, small residual markets.	
Weaknesses:	High tax and fee burden, concentrated auto market, concentrated homeowners market, little underwriting freedom.	

Arizona	2019 Grade	2020 Grade
	A	A+
	Score	Rank
	74.1	1
Strengths:	No regulatory surplus, significant underwriting freedom.	
Weaknesses:	Thinly capitalized markets.	

Arkansas	2019 Grade	2020 Grade
	B-	B
	Score	Rank
	64.8	19
Strengths:	Well-capitalized markets, small residual markets.	
Weaknesses:	Desk drawer rules.	

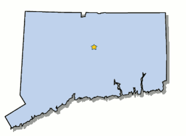
California	2019 Grade	2020 Grade
	D	D
	Score	Rank
	50.3	44
Strengths:	Competitive auto market.	
Weaknesses:	Politicized market, extremely high homeowners loss ratio, little underwriting freedom, credit scoring restrictions, territorial restrictions.	

Colorado



2019 Grade	2020 Grade
D+	C
Score	Rank
58.6	32
Strengths:	Low politicization, no regulatory surplus, no runoff obligations.
Weaknesses:	Extremely high auto loss ratio, extremely high homeowners loss ratio, large workers' comp state fund, territorial restrictions.

Connecticut



2019 Grade	2020 Grade
B	B
Score	Rank
65.8	16
Strengths:	Low tax and fee burden, competitive auto market, competitive homeowners market, small residual markets.
Weaknesses:	Large regulatory surplus, territorial restrictions.

Delaware

2019 Grade	2020 Grade
C+	C+
Score	Rank
58.9	31
Strengths:	Low tax and fee burden, small residual markets.
Weaknesses:	Politicized market, large runoff obligations, concentrated auto market, territorial restrictions.

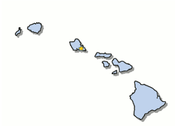
Florida

2019 Grade	2020 Grade
A-	A-
Score	Rank
70.0	7
Strengths:	Low politicization, no regulatory surplus, low tax and fee burden, competitive homeowners market.
Weaknesses:	Concentrated auto market, large homeowners residual market.

Georgia

2019 Grade	2020 Grade
C+	C+
Score	Rank
59.0	30
Strengths:	No runoff obligations.
Weaknesses:	Politicized market, extremely high auto loss ratio, desk drawer rules.

Hawaii



2019 Grade	2020 Grade
D+	D
Score	Rank
48.8	47
Strengths:	No regulatory surplus, ahead on financial exams, well-capitalized markets.
Weaknesses:	Concentrated auto market, excess auto profits, concentrated homeowners market, excess homeowners profits, little underwriting freedom, credit scoring restrictions.

Idaho

2019 Grade	2020 Grade
B+	B+
Score	Rank
66.8	12
Strengths:	No runoff obligations.
Weaknesses:	large workers' comp state fund.

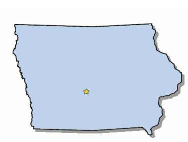
Illinois

2019 Grade	2020 Grade
B+	A-
Score	Rank
69.2	8
Strengths:	Low tax and fee burden, significant underwriting freedom.
Weaknesses:	Concentrated homeowners market.

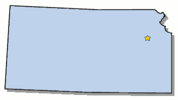
Indiana

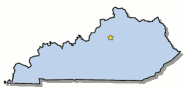
2019 Grade	2020 Grade
A	A
Score	Rank
71.2	5
Strengths:	Low tax and fee burden, small residual markets.
Weaknesses:	Large runoff obligations.

Iowa



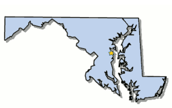
2019 Grade	2020 Grade
B	B-
Score	Rank
61.9	24
Strengths:	Low tax and fee burden, no runoff obligations, well-capitalized markets, small residual markets.
Weaknesses:	Behind on financial exams.

Kansas	2019 Grade	2020 Grade
	B	B-
	Score	Rank
	62.3	23
Strengths:	No special strengths.	
Weaknesses:	Politicized market, high tax and fee burden.	

Kentucky	2019 Grade	2020 Grade
	A	A
	Score	Rank
	73.1	2
Strengths:	Ahead on financial exams, significant underwriting freedom.	
Weaknesses:	Concentrated homeowners market.	

Louisiana	2019 Grade	2020 Grade
	F	F
	Score	Rank
	43.4	50
Strengths:	Well-capitalized markets.	
Weaknesses:	Politicized market, concentrated auto market, extremely high auto loss ratio, excess homeowners profits.	

Maine	2019 Grade	2020 Grade
	B	B
	Score	Rank
	64.4	20
Strengths:	No regulatory surplus, competitive auto market, competitive homeowners market.	
Weaknesses:	Excess auto profits, excess homeowners profits, large workers' comp state fund.	

Maryland	2019 Grade	2020 Grade
	C	C
	Score	Rank
	53.6	39
Strengths:	No regulatory surplus.	
Weaknesses:	Concentrated auto market, little underwriting freedom, credit scoring restrictions, territorial restrictions.	

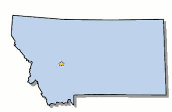
Massachusetts	2019 Grade	2020 Grade
	D	D+
	Score	Rank
	52.0	42.0
Strengths:	Competitive homeowners market.	
Weaknesses:	Large regulatory surplus, large auto residual market, large homeowners residual market, credit scoring restrictions.	

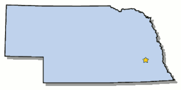
Michigan	2019 Grade	2020 Grade
	B-	B-
	Score	Rank
	60.7	26
Strengths:	No regulatory surplus.	
Weaknesses:	Extremely high auto loss ratio, credit scoring restrictions, territorial restrictions.	

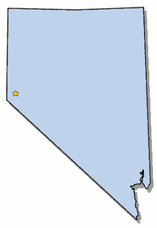
Minnesota	2019 Grade	2020 Grade
	C	C
	Score	Rank
	57.8	36
Strengths:	No runoff obligations.	
Weaknesses:	Behind on financial exams, credit scoring restrictions.	

Mississippi	2019 Grade	2020 Grade
	D	D
	Score	Rank
	49.6	46
Strengths:	No special strengths.	
Weaknesses:	Politicized market, high tax and fee burden, excess homeowners profits, little underwriting freedom.	

Missouri	2019 Grade	2020 Grade
	B+	B
	Score	Rank
	66.4	14
Strengths:	Significant underwriting freedom.	
Weaknesses:	Territorial restrictions.	

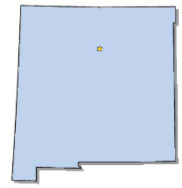
Montana	2019 Grade	2020 Grade
	C-	C-
	Score	Rank
	53.5	50
Strengths:	No special strengths.	
Weaknesses:	Politicized market, high tax and fee burden, behind on financial exams, extremely high homeowners loss ratio, large workers' comp state fund.	

Nebraska	2019 Grade	2020 Grade
	A-	A
	Score	Rank
	71.8	4
Strengths:	Low politicization, low tax and fee burden, small residual markets.	
Weaknesses:	Extremely high auto loss ratio.	

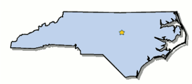
Nevada	2019 Grade	2020 Grade
	B+	B
	Score	Rank
	63.2	22
Strengths:	Competitive auto market, competitive homeowners market, small residual markets.	
Weaknesses:	Large runoff obligations, thinly capitalized markets, excess auto profits, territorial restrictions.	

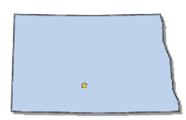
New Hampshire	2019 Grade	2020 Grade
	B+	B
	Score	Rank
	63.2	22
Strengths:	Competitive auto market, competitive homeowners market, small residual markets.	
Weaknesses:	Large runoff obligations, thinly capitalized markets, excess auto profits, territorial restrictions.	

New Jersey	2019 Grade	2020 Grade
	C	C+
	Score	Rank
	60.2	27
Strengths:	No runoff obligations, well-capitalized markets, competitive homeowners market.	
Weaknesses:	Little underwriting freedom, desk drawer rules, territorial restrictions.	

New Mexico	2019 Grade	2020 Grade
	B+	B+
	Score	Rank
	68.0	10
Strengths:	Low politicization, ahead on financial exams, no runoff obligations, significant underwriting freedom.	
Weaknesses:	Large regulatory surplus, high tax and fee burden.	

New York	2019 Grade	2020 Grade
	D-	F
	Score	Rank
	45.0	49
Strengths:	No special strengths.	
Weaknesses:	Behind on financial exams, concentrated auto market, little underwriting freedom, desk drawer rules, territorial restrictions.	

North Carolina	2019 Grade	2020 Grade
	D-	D
	Score	Rank
	47.7	48
Strengths:	Well-capitalized markets.	
Weaknesses:	Politicized market, large runoff obligations, large auto residual market, large homeowners residual market, little underwriting freedom.	

North Dakota	2019 Grade	2020 Grade
	D	D+
	Score	Rank
	51.0	43
Strengths:	No runoff obligations, well-capitalized markets.	
Weaknesses:	Politicized market, excess auto profits, monopoly workers' comp fund, little underwriting freedom.	

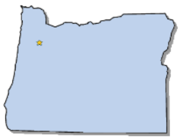
Ohio	2019 Grade	2020 Grade
	C	C+
	Score	Rank
	59.0	29
Strengths:	No special strengths.	
Weaknesses:	Excess auto profits, monopoly workers' comp fund.	

Oklahoma

2019 Grade	2020 Grade
C	C
Score	**Rank**
58.1	35

Strengths:	Significant underwriting freedom.
Weaknesses:	Politicized market, excess auto profits, territorial restrictions.

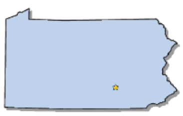
Oregon



2019 Grade	2020 Grade
C+	C
Score	**Rank**
55.3	37

Strengths:	Low politicization.
Weaknesses:	Large regulatory surplus, large workers' comp state fund.

Pennsylvania



2019 Grade	2020 Grade
B	B
Score	**Rank**
65.0	18

Strengths:	No special strengths.
Weaknesses:	Large runoff obligations.

Rhode Island

2019 Grade	2020 Grade
C+	C
Score	**Rank**
58.6	33

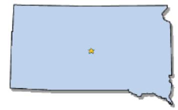
Strengths:	No regulatory surplus.
Weaknesses:	Behind on financial exams, large homeowners residual market.

South Carolina

2019 Grade	2020 Grade
C	C-
Score	**Rank**
54.9	38

Strengths:	No special strengths.
Weaknesses:	Excess homeowners profits, little underwriting freedom.

South Dakota



2019 Grade	2020 Grade
C+	A
Score	**Rank**
70.8	6

Strengths:	Low politicization, well-capitalized markets, competitive auto market, small residual markets.
Weaknesses:	Territorial restrictions.

Tennessee

2019 Grade	2020 Grade
B+	B+
Score	**Rank**
66.8	11

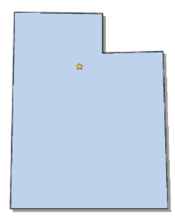
Strengths:	No regulatory surplus, ahead on financial exams, no runoff obligations, small residual markets.
Weaknesses:	High tax and fee burden, concentrated homeowners market.

Texas

2019 Grade	2020 Grade
C	C
Score	**Rank**
58.3	34

Strengths:	Low politicization.
Weaknesses:	Thinly capitalized markets, extremely high auto loss ratio, large homeowners residual market.

Utah



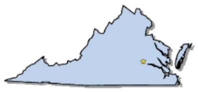
2019 Grade	2020 Grade
A-	B+
Score	**Rank**
68.0	9

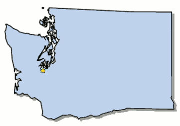
Strengths:	Competitive auto market, significant underwriting freedom.
Weaknesses:	Behind on financial exams.

Vermont

2019 Grade	2020 Grade
A+	B
Score	**Rank**
66.4	15

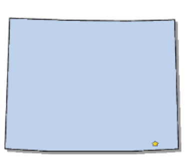
Strengths:	Ahead on financial exams, small residual markets.
Weaknesses:	High tax and fee burden, excess auto profits.

Virginia	2019 Grade	2020 Grade
	A	A
	Score	Rank
	71.9	3
Strengths:	Well-capitalized markets.	
Weaknesses:	No special weaknesses.	

Washington	2019 Grade	2020 Grade
	C+	C+
	Score	Rank
	59.4	28
Strengths:	Ahead on financial exams, no runoff obligations.	
Weaknesses:	Politicized market, monopoly workers' comp fund, little underwriting freedom, desk drawer rules.	

West Virginia	2019 Grade	2020 Grade
	C	D+
	Score	Rank
	52.5	41
Strengths:	No runoff obligations, small residual markets.	
Weaknesses:	High tax and fee burden, excess auto profits, concentrated homeowners market, little underwriting freedom.	

Wisconsin	2019 Grade	2020 Grade
	A-	B+
	Score	Rank
	66.7	13
Strengths:	Low tax and fee burden, well-capitalized markets, small residual markets.	
Weaknesses:	Behind on financial exams.	

Wyoming	2019 Grade	2020 Grade
	B	B
	Score	Rank
	64.1	21
Strengths:	Significant underwriting freedom.	
Weaknesses:	Extremely high homeowners loss ratio, monopoly workers' comp fund.	

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

TABLE 9: 50 STATES RANKED BY TOTAL SCORE

STATE	POLITICIZATION	EFFICIENCY	SOLVENCY	AUTO	HOME	RESIDUAL	UNDERWRITING	SCORE	GRADE
AZ	5.0	14.0	12.3	8.4	8.3	13.2	12.9	74.1	A+
KY	4.5	12.3	18.6	6.6	4.9	12.7	13.5	73.1	A
VA	5.5	12.0	14.6	6.8	7.6	14.5	11.0	71.9	A
NV	6.0	14.6	14.2	5.7	7.9	15.0	8.4	71.8	A
IN	5.5	13.7	10.8	7.4	7.9	14.9	11.0	71.2	A
SD	6.0	10.8	11.2	9.2	7.7	15.0	11.0	70.8	A
FL	10.0	15.0	12.8	1.5	9.6	11.5	9.7	70.0	A-
IL	2.5	13.9	12.8	5.4	3.2	14.7	16.8	69.2	A-
UT	2.5	13.4	9.3	10.0	8.7	11.2	12.9	68.0	B+
NM	7.0	6.6	15.2	6.9	5.6	11.8	14.8	68.0	B+
TN	3.0	10.9	17.0	7.4	5.6	15.0	7.7	66.8	B+
ID	5.0	11.6	13.5	7.9	6.4	10.8	11.6	66.8	B+
WI	2.5	13.4	10.2	5.7	8.3	14.9	11.6	66.7	B+
MO	2.5	13.4	10.8	7.9	6.6	13.0	12.3	66.4	B
VT	3.5	9.0	15.4	4.7	7.4	14.9	11.6	66.4	B
CT	3.0	11.7	11.4	9.3	9.1	14.9	6.5	65.8	B
NE	2.5	13.6	12.1	7.8	4.2	15.0	10.3	65.5	B
PA	2.5	12.9	12.3	7.8	7.9	14.5	7.1	65.0	B
AR	2.5	11.3	12.9	7.1	6.3	15.0	9.7	64.8	B
ME	5.0	13.4	12.4	7.0	7.7	9.9	9.0	64.4	B
WY	2.5	13.8	12.0	5.1	3.3	7.5	20.0	64.1	B
NH	5.5	12.1	6.7	6.5	8.5	14.9	9.0	63.2	B
KS	0.0	10.6	12.4	7.3	7.8	14.5	9.7	62.3	B-
IA	2.5	13.7	10.7	5.7	6.6	14.9	7.7	61.9	B-
AL	7.5	12.0	12.3	6.3	4.9	14.4	3.9	61.1	B-
MI	4.5	13.3	15.2	0.6	7.8	12.9	6.5	60.7	B-
NJ	2.5	13.6	12.4	6.1	8.6	14.3	2.6	60.2	C+
WA	0.0	12.0	19.5	8.6	7.9	7.5	3.9	59.4	C+
OH	2.5	13.9	11.6	6.1	7.5	7.2	10.3	59.0	C+
GA	0.0	12.7	11.0	4.8	5.6	14.6	10.3	59.0	C+
DE	0.0	14.2	13.2	3.5	5.4	14.9	7.7	58.9	C+
CO	7.0	13.8	12.3	2.2	3.5	10.8	9.0	58.6	C
RI	3.5	14.0	10.1	4.8	8.9	7.0	10.3	58.6	C
TX	6.0	11.7	7.6	6.5	7.1	9.0	10.3	58.3	C
OK	0.0	11.3	12.9	4.1	4.8	12.8	12.3	58.1	C
MN	2.5	12.9	10.2	4.5	6.0	13.9	7.7	57.8	C
OR	6.0	3.2	13.0	7.5	7.1	9.6	9.0	55.3	C
SC	2.5	12.1	11.8	4.5	7.1	13.6	3.2	54.9	C-
MD	4.5	12.4	12.3	3.0	7.5	12.6	1.3	53.6	C-
MT	0.0	11.3	10.9	7.1	4.0	10.6	9.7	53.5	C-
WV	2.5	10.1	12.2	1.8	5.8	14.9	5.2	52.5	D+
MA	3.0	6.2	12.7	5.8	10.0	7.3	7.1	52.0	D+
ND	0.0	12.3	12.2	6.9	8.3	7.5	3.9	51.0	D+
CA	0.0	13.4	13.1	8.5	2.0	13.4	0.0	50.3	D
AK	3.5	11.1	15.8	0.3	0.0	15.0	4.5	50.1	D
MS	0.0	10.7	11.1	6.8	4.4	13.5	3.2	49.6	D
HI	3.5	12.8	16.0	0.7	1.7	12.9	1.3	48.8	D
NC	0.0	13.3	11.7	8.7	8.8	0.0	5.2	47.7	D
NY	2.5	11.3	10.2	0.9	7.8	11.6	0.6	45.0	F
LA	0.0	8.5	12.6	0.0	4.6	11.9	5.8	43.4	F

ABOUT THE AUTHOR

R.J. Lehmann is editor-in-chief and senior fellow of the International Center for Law and Economics and an associate fellow of the R Street Institute. Lehmann was previously R Street's director of finance, insurance and trade policy and was a co-founder of the institute in June 2012.

He previously served as deputy director of the Heartland Institute's Center on Finance, Insurance and Real Estate. Before joining Heartland, he spent nearly a decade covering the insurance and financial services industries, first as manager of A.M. Best Co.'s Washington bureau and later as a senior industry editor with SNL Financial (now S&P Global Market Intelligence).