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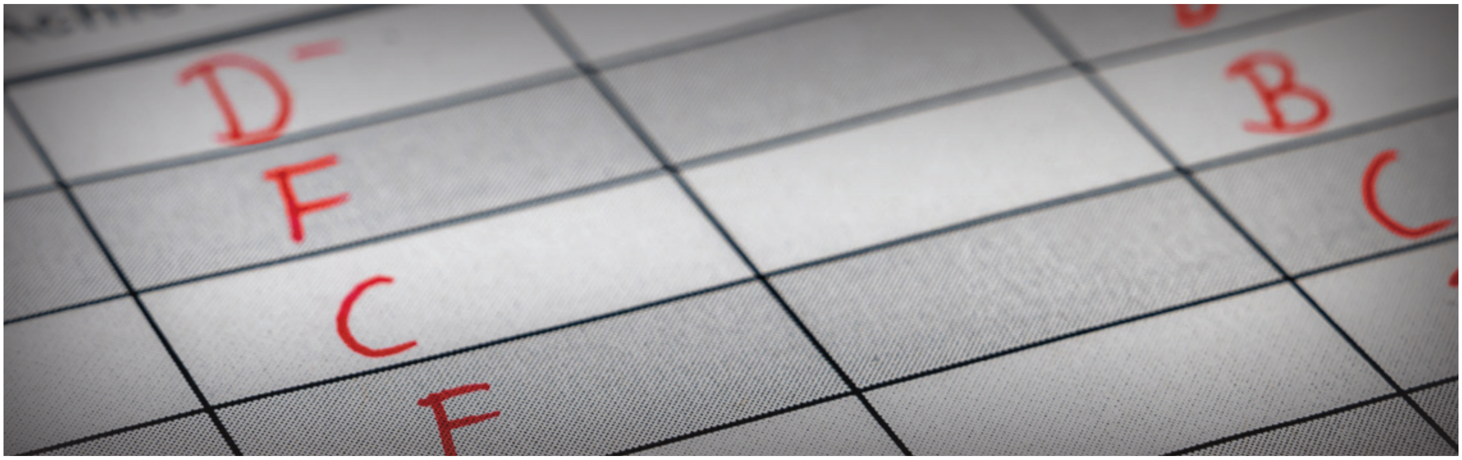
R Street Policy Study
No. 314
December 2024



2024 Insurance Regulation Report Card

By Jerry Theodorou

Innovative, new products could be more widely available if more states were to free their insurance markets by embracing regulatory modernization.

Executive Summary

We are pleased to present the 11th edition of the R Street Institute's Insurance Regulation Report Card. The Report Card analyzes and evaluates the effectiveness of U.S. insurance regulation of property and casualty insurance. R Street published its first Insurance Regulation Report Card study in June 2012. This 2024 edition largely follows the format of prior reports.[1] It opens with a brief introduction to the current landscape of U.S. insurance regulation; reviews relevant, recent federal and state-based regulatory and legislative changes impacting the regulatory environment; presents a detailed evaluation of the effectiveness of each state's regulation of insurance in seven key categories; and synthesizes those category evaluations into a "report card" grade for each state.

This report draws on 2023 year-end statutory insurance financial statistics and the most recent data and reports available for non-financial information. Sources include data and reports from the National Association of Insurance Commissioners (NAIC), S&P Capital IQ Pro, and R Street insurance research, collected through Sept. 15, 2024.

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1. R.J. Lehmann, "Insurance Regulatory Report Card," *R Street Policy Study* No. 1, June 2012. https://www.rstreet.org/wp-content/uploads/2018/04/2012-Insurance-Regulation-Report-Card1-1.pdf.

In this report, we seek to shed light on the same three issues we have focused on in past iterations of this report card:

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

Introduction

The insurance industry, though simple in its concept (i.e., the premiums of the many pay for the losses of the few) is remarkably complex in its execution. Successful insurers must master a welter of underwriting, pricing, case reserving, bulk reserving, claims adjustment, executive management, strategy, customer service, distribution, legal, accounting, reporting, compliance, regulatory, ceded reinsurance, enterprise risk management, treasury, and investment issues. Publicly traded insurers have even more requirements.

The insurance market is the largest financial services sector to be regulated almost entirely at the state level. Although state banking and securities regulations are preempted by federal law, Congress reserved the duty to oversee the "business of insurance" for the states as part of the 1945 McCarran-Ferguson Act.[2] This means that insurance regulation is largely shaped by state regulators, state law, and state court decisions; it is influenced to a lesser degree by federal bodies.

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The objectives of insurance regulation are to:[3]

- Help maintain solvency of insurers operating in regulators' respective states
- Support the promulgation of rates that are not excessive, inadequate, or unfairly discriminatory
- Review policy language
- License insurance companies
- Support the availability of insurance coverage
- Help consumers understand coverage, oversee sales practices, and maintain protection against fraud and unscrupulous actors
- Collect premium tax

The role of state insurance departments and their insurance commissioners is a delicate balancing act. Not only do they provide policyholder protection, but they also seek to protect insurer solvency. They cannot provide one at the expense of the other. Nevertheless, some insurance departments and commissioners are more focused on policyholder protection, whereas others are more focused on protecting insurers in their state. Skilled insurance regulators recognize the need to deliver on both objectives.

This report demonstrates that, overall, states do an effective job of encouraging competition and ensuring solvency in insurance markets. In most U.S. states, markets for "personal lines" policies—private passenger automobile, homeowners, and farmowners insurance—do satisfy common statutory definitions of competitiveness, and insolvencies of these property and casualty insurers are relatively rare. One study

2. Alan M. Anderson, "Insurance and Antitrust Law: The McCarran-Ferguson Act and Beyond," *William and Mary Law Review* 25:1 (October 1983), p. 81. http://scholarship.law.wm.edu/cgi/viewcontent.cgi?article=2189&context=wmlr.
3. George E. Rejda and Michael J. McNamara, *Principles of Risk Management and Insurance, 14th edition* (Pearson, 2020).

found that, over the long term, approximately seven such insolvencies occur per year, representing less than 0.33 percent of the 2,656 U.S. property and casualty insurers.[4] Additionally, in the aftermath of the great 2008/2009 financial crisis, there were 17 insurer failures in 2010 and 15 in 2011—approximately twice the long-term average.[5] In contrast, there were 92 bank failures in 2009, 157 in 2010, and 140 in 2011—more than 10 times insurers' long-term average failure rate.[6] And when insurance failures do occur, policyholders in nearly every state are protected by guaranty funds and regulators' intervention in rehabilitation and orderly run-off. Thus, the property and casualty insurance industry is exceptionally stable, especially compared to other financial services industries.

However, there are ways in which the thicket of state-by-state regulations can lead to inefficiencies, as well as ways in which state policies discourage capital formation, thereby stifling competition and concentrating risk. Among these are regulators' authority to approve insurance rate changes. While explicit price and wage controls have largely fallen by the wayside in most industries outside of semi-monopolies such as utilities, pure rate regulation remains commonplace in insurance; some degree of rating and underwriting regulation persists in nearly all states.[7]

The role of states in approving rates is a remnant of an earlier era when nearly all insurance rates and forms were established collectively by industry-owned rate bureaus because individual insurers did not have enough data to make credible actuarial projections. McCarran-Ferguson charged states to review rates submitted by these bureaus to counter anticompetitive collusion. Only North Carolina has its own state rate bureau, the North Carolina Rate Bureau. Many larger insurers establish rates using their own proprietary formulas rather than relying on rate bureau recommendations.

An open, free insurance market maximizes the effectiveness of competition and best serves consumers.

In some cases, regulations may hinder the speed with which new products are brought to market. But innovative, new products could be more widely available if more states were to free their insurance markets by embracing regulatory modernization.

An open, free insurance market maximizes the effectiveness of competition and best serves consumers. We hope this report provides useful information that can help support the liberalization of any unnecessarily restrictive regulation of rates and policy wordings that hinder free competition.

Recent Developments in Insurance Regulation

In 2023 and 2024, the insurance industry was struck by rising loss costs that led to several insurance company failures and to congressional hearings on the availability and affordability of homeowners insurance.[8] Key drivers of the rising loss costs were inflation in the cost of building materials, rising automobile repair costs, skilled labor

4. "Property/Casualty Insurance Company Insolvencies," American Academy of Actuaries, September 2010. https://www.actuary.org/sites/default/files/pdf/casualty/PC_Insurance_Company_Insolvencies_9_23_10.pdf.
5. "Insurance Markets: Impacts of and Regulatory Response to the 2007-2009 Financial Crisis," Government Accountability Office, June 2013. https://www.gao.gov/assets/gao-13-583.pdf.
6. Matthew Goldberg, "List of failed banks: 2009-2024," Bankrate, July 2, 2024. https://www.bankrate.com/banking/list-of-failed-banks; "Bank Failures in Brief—Summary," Federal Deposit Insurance Corporation, last accessed Oct. 24, 2024. https://www.fdic.gov/bank/historical/bank.
7. "Commercial Insurance: Regulation," Insurance Information Institute, last accessed Oct. 24, 2024. https://www.iii.org/publications/commercial-insurance/how-it-functions/regulation; Gene Healy, "Remembering Nixon's wage and price controls," *Washington Examiner*, Aug. 15, 2011. https://www.washingtonexaminer.com/news/2064436/remembering-nixons-wage-and-price-controls.
8. Jerry Theodorou, "Insurance Companies Feeling the Pressure in Iowa and the Midwest," *Insurance Journal*, May 15, 2024. https://www.insurancejournal.com/blogs/right-street/2024/05/15/774327.htm.

costs, and loss payments caused by catastrophic storms in September and October 2024, hurricanes Helene and Milton.[9] The rise in losses also stimulated research on the impact of climate change on insurance rates and the potential need for government intervention to help stabilize insurance markets.[10]

In this section, we summarize key insurance-related developments in insurance regulation and legislation that took place since the 10th edition of this study, as well as external factors that may impact insurance regulation.

Federal and National Developments

Climate. In 2023 and 2024, several hearings were held in the House and Senate on climate change, natural disasters, and homeowners insurance. A common theme at the hearings was the availability and affordability of homeowners insurance. In addition, the Congressional Budget Office (CBO) produced a report on the relationship between climate change, natural disasters, and homeowners insurance.[11] R Street was consulted by the CBO in the report's production.

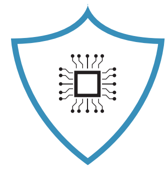
R Street was also invited to testify at four insurance-related congressional hearings in 2023 and 2024. Specifically U.S. Senate Budget Committee conducted a hearing in March 2023 on the relationship between climate change and insurance cost, and R Street gave testimony.[12] Likewise, R Street testified at the U.S. Senate Banking, Housing, and Urban Affairs Committee hearing on the availability and affordability of homeowners insurance in September 2023.[13] In November 2023, the U.S. House of Representatives Financial Services Committee held a hearing on insurance cost. R Street provided testimony for that hearing.[14] And, in June 2024, the Senate Budget Committee conducted another hearing on climate change and insurance for which R Street produced testimony.[15]

National Flood Insurance Program. In July 2024, the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program issued a new rule implementing the Federal Flood Risk Management Standard, which would require FEMA to evaluate the impact of climate change on future flood risk when considering new construction projects.[16]

Insurance Business Transfers. In December 2023, the National Association of Insurance Companies (NAIC) introduced amendments to the Property and Casualty Insurance Guaranty Association Model Act that address the impact of insurance business transfers on the availability of guaranty association coverage.[17]

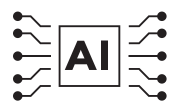
9. Scott Horsley, "Damage from Helene and Milton could cost tens of billions of dollars to fix," NPR, Oct. 24, 2024. https://www.npr.org/2024/10/24/nx-s1-5161587/damage-from-helene-and-milton-could-cost-tens-of-billions-of-dollars-to-fix.
10. "Climate Change, Disaster Risk, and Homeowner's Insurance," Congressional Budget Office, August 2024. https://www.cbo.gov/system/files/2024-08/59918-Climate-Change-Insurance.pdf.
11. Ibid.
12. "Risky Business: How Climate is Changing Insurance Markets," United States Senate Committee on the Budget, March 22, 2023. https://www.budget.senate.gov/hearings/risky-business-how-climate-change-is-changing-insurance-markets.
13. "Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers," United States Senate Committee on Banking, Housing, and Urban Affairs, Sept. 7, 2023. https://www.banking.senate.gov/hearings/perspectives-on-challenges-in-the-property-insurance-market-and-the-impact-on-consumers.
14. Jerry Theodorou, "Jerry Theodorou Statement for the Record, Hearing on 'The Factors Influencing the High Cost of insurance for Customers," R Street Institute, Nov. 2, 2023. https://www.rstreet.org/outreach/jerry-theodorou-statement-for-the-record-hearing-on-the-factors-influencing-the-high-cost-of-insurance-for-customers.
15. "Risky Business: How Climate is Challenging Insurance Markets." https://www.budget.senate.gov/hearings/riskier-business-how-climate-is-already-challenging-insurance-markets; Jerry Theodorou, "De-risking Risky Business: Climate and Insurance Markets," R Street Institute, June 20, 2024. https://www.rstreet.org/commentary/de-risking-risky-business-climate-and-insurance-markets.
16. Joel Scata, "FEMA Flood Rule Will Lead to Safer Rebuilding Post-Disaster," Natural Resources Defense Council, July 11, 2024. https://www.nrdc.org/bio/joel-scata/fema-flood-rule-will-lead-safer-rebuilding-post-disaster.
17. "Sidley Global Insurance Review," Sidley Austin LLP., March 2024. https://www.sidley.com/-/media/publications/2024-sidley-global-insurance-review.pdf?la=en&rev=49a0f2e4ba4f4a7eac3e4b6e82829799.

Phantom Medical Billing. Phantom medical billing refers to the difference between the amount billed for medical services rendered versus the amount that was actually paid. This disparity contributes to higher tort awards. There are 25 states that allow the full recovery of phantom damages under most or all conditions, with little opportunity for defendants to question juries about whether medical bills reflect a reasonable market value.[18] In 2023, a tort reform bill in Florida took aim at the practice, reducing the number of states allowing phantom billing from 25 to 24.[19]



Cyber Insurance. In March 2023, the Biden Administration released the National Cybersecurity Strategy report.[20] The report highlighted policy priorities to secure America's future in the digital age and to protect cyberspace. One of the strategic objectives listed involved creating a federal cyber insurance backstop, which would support the existing cyber insurance market and stabilize the economy in the face of a catastrophic cyber attack.[21] The 2023 Federal Insurance Office (FIO) annual report noted that the cyber insurance market is growing, but represents less than one percent of total property and casualty market premium.[22] The FIO Annual Report also noted that the industry is still heavily concentrated, with the top 25 cyber insurance writers holding a combined 86 percent of the line's market share.[23]

Data and Privacy. On Sept. 18, 2023, Rep. Scott Fitzgerald (R-WI-5) introduced H.R. 5535, which would bar the Office of Financial Research and the FIO from subpoenaing insurance companies.[24]



Artificial Intelligence. Thirteen states have adopted the NAIC Model Bulletin on the Use of Artificial Intelligence Systems by Insurers. As of June 11, 2024, the states that have adopted the bulletin are Alaska, Connecticut, Illinois, Kentucky, Maryland, Nebraska, Nevada, New Hampshire, Pennsylvania, Rhode Island, Vermont, and Washington, as well as the District of Columbia.[25]

Federal Insurance Office Annual Report. The U.S. Department of the Treasury's FIO issued its annual report in September 2023.[26] The report presented data on the financial performance of the industry's 667 life insurers, 2,656 property and casualty insurers, and 1,355 health insurers licensed in the United States in 2022.[27] The report estimated total assets of the U.S. insurance industry (including life and health insurance) at approximately $11 trillion. The breakout of the $11 trillion was $2.6 trillion with property and casualty insurers and $8.1 trillion with life and health insurance companies.[28]

It is important to note that all of the data presented in FIO reports is available from other sources. For example, the NAIC makes available a rich depository of insurance

18. Judicial Hellholes, "Phantom Damages and the Trial Bar's Efforts to Game the System," ATR Foundation, 2020-2021. https://www.judicialhellholes.org/phantom-damages-and-the-trial-bars-efforts-to-game-the-system.
19. "ATA Applauds Lawsuit Abuse Reform in Florida," American Trucking Associations, March 24, 2023. https://www.trucking.org/news-insights/ata-applauds-lawsuit-abuse-reform-florida.
20. "National Cybersecurity Strategy," The White House, March 1, 2023. https://www.whitehouse.gov/wp-content/uploads/2023/03/National-Cybersecurity-Strategy-2023.pdf.
21. Ibid.
22. Federal Insurance Office, "Annual Report on the Insurance Industry," U.S. Department of the Treasury, September 2023. https://home.treasury.gov/system/files/311/FIO%20Annual%20Report%202023%209292023.pdf.
23. Ibid.
24. H.R. 5535, Insurance Data Protection Act, 118th Congress.
25. Paige Waters and Stephanie O'Neill Macro, "Nebraska Adopts AI Guidance," Locke Lord, June 24, 2024. https://www.insurereinsure.com/2024/06/24/nebraska-adopts-ai-guidance.
26. Federal Insurance Office. https://home.treasury.gov/system/files/311/FIO-2021-Annual-Report-Insurance-Industry.pdf.
27. Ibid.
28. Ibid., pp. 9-27.

industry data by state, by line of business, and in aggregate.[29] It presents data on premiums, losses, and much more and is freely available at no cost. Much of the data cited in this report is taken from NAIC reports. This raises questions about the utility of and justification for FIO reports and the FIO in general, which R Street has explored in a study on the accomplishments of the FIO in its first decade of existence.[30]

The FIO has no regulatory authority. Its purpose is to monitor the insurance industry. On April 27, 2023, Rep. Ben Cline (R-VA) introduced repeal legislation to dismantle the FIO.[31] The FIO abolition argument rests on the observation that it was created as part of the post-financial-crisis Dodd-Frank financial industry reform measures. Its framers failed to recognize that not only was the insurance industry unshaken by the crisis, but—importantly—it also did not cause the crisis. Because the FIO was created on false assumptions, serious consideration ought to be given to limiting its scope in the interest of reducing unnecessary, duplicative governance.

State-by-State Developments

In this section, we identify select significant regulatory, state legislative, and external (non-insurance) developments in 2023 and 2024 impacting insurers.

Alabama. The Strengthen Alabama Homes program, introduced in 2011, continues to make grants available that pay 100 percent of the cost of mitigation up to $10,000.[32] An example of a mitigation measure that would be covered is wind retrofitting to minimize property loss from hurricanes and other catastrophic windstorm events. The program is available for Alabama residents for residential wind mitigation on existing, owner-occupied, single-family homes. The program is funded by the insurance industry in Alabama. It is not funded by the state's general budget or the federal government.

Arkansas. In July 2024, the Arkansas Insurance Department issued Bulletin 13-2024 on the use of artificial intelligence (AI) in insurance, adopting NAIC model wording.[33] It informs insurers that "decisions or actions impacting consumers that are made or supported by advanced analytical and computational technologies, including AI, must comply with all applicable insurance laws and regulations."[34]

California. On April 17, 2024, the Workers' Compensation Insurance Rating Bureau of California voted to increase the pure premium rate filing an average of 0.9 percent.[35] The increase follows several years of workers' compensation insurance rate increases in all states, including California.

California Insurance Commissioner Ricardo Lara issued a new rule allowing insurance companies to use forward-looking modeling to improve pricing accuracy in insurance markets.[36]

29. "Resources for Insurance Industry Insights and Tools," National Association of Insurance Commissioners, last accessed Oct. 17, 2024. https://content.naic.org/publications.
30. Jerry Theodorou, "The Federal Insurance Office: Looking Back, Looking Forward," *R Street Policy Study* No. 231, May 2021. https://www.rstreet.org/research/the-federal-insurance-office-looking-back-looking-forward.
31. H.R. 2933, Federal Insurance Office Elimination Act, 118th Congress.
32. "What is SAH?," Strengthen Alabama Homes, last accessed Sept. 27, 2024. https://www.strengthenalabamahomes.com.
33. Hugh McDonald and Alan McClain, "Use of Artificial Intelligence Systems in Insurance," Arkansas Insurance Department, July 31, 2024. https://portal.insurance.arkansas.gov/LegalPubsPublic/Documents/Bulletins/bulletin_13-2024.pdf.
34. Ibid.
35. "Workers' Comp Rating Bureau of California Governing Committee Oks Higher Pure Premium Rate Filing," *Insurance Journal*, April 17, 2024. https://www.insurancejournal.com/news/west/2024/04/17/770521.htm.
36. Becca Habegger, "California Department of Insurance proposes change to companies' rate-setting process," ABC 10, March 15, 2024. https://www.abc10.com/article/money/proposed-change-to-home-owner-insurance-costs/103-94d7ff7f-b133-440f-815d-682f062a6cd1.

Colorado. Colorado's SB 169, introduced in 2021, was the first legislation in any state to require insurers to analyze their data to show that they are not unfairly discriminating.[37] Analyzed data includes information on credit scores, social media habits, geography, purchasing habits, homeownership, education, occupation, licenses, and civil judgments.[38] However, the methodology for determining whether an insurer is engaging in discriminatory behavior has not yet been established. In 2023, Colorado Insurance Commissioner Michael Conway indicated that he has confidence in the Bayesian Improved First Name, Surname, and Geocoding method (BIFSG) as a proxy for inferring race and ethnicity.[39]

In May 2024, a Colorado appellate court found that COVID met the statutory definition of an occupational disease for workers' compensation insurance in *Life Care Centers v. ICAO*.[40] The court backed awarding benefits to Vincent Gaines. Gaines was a floor technician at Life Care Centers who died after contracting COVID-19. The court found that there was sufficient evidence that Gaines became infected at work. There was no credible evidence that Gaines contracted COVID-19 at home or elsewhere.[41] This decision contributed to the debate regarding presumption, i.e., whether one can presume that COVID was contracted at work.

Connecticut. The Connecticut Insurance Department issued a bulletin on Feb. 26, 2024 reminding insurers that decisions of actions affecting consumers made and supported by advanced analytical and computational technologies, including AI, must comply with all applicable insurance laws and regulations.[42] This includes unfair trade practices and unfair discrimination laws. This was the NAIC's model wording, adopted in many other states as well.

Connecticut Insurance Commissioner Andrew Mais completed his 1-year term as NAIC President at the end of 2024. During his term, Mais chaired the organization's Government Relations and Leadership Council and the Executive Committee. He was also co-chair of the NAIC's Special Executive Committee on Race and Insurance.

Delaware. The winner of the election for Delaware Insurance Commissioner, held on Nov. 5, 2024, was Trinidad Navarro. Then incumbent Commissioner Navarro defeated Kayode Abegunde in the state's Sept. 10 Democratic primary for the position with 74 percent of the vote and then faced Republican Ralph Taylor, who ran unopposed in the Republican primary, in the November general election.[43]

District of Columbia. In July 2024, the District of Columbia Department of Insurance, Securities and Banking (DISB) issued a draft report exploring the potential for unintentional bias in automobile insurance.[44] The examination found that inferred

37. Division of Insurance, "SB21-169 - Protecting Consumers from Unfair Discrimination in Insurance Practices," Colorado Department of Regulatory Agencies, last accessed Sept. 27, 2024. https://doi.colorado.gov/for-consumers/sb21-169-protecting-consumers-from-unfair-discrimination-in-insurance-practices.
38. "Landmark Big-Data Law Demands Patience in Unprofitable Colorado," *Auto Insurance Report* 30:37 (May 29, 2023). https://df9fd9b6ab64495ad759-f14ba961ae89374e6d5a8ee602c09059.ssl.cf5.rackcdn.com/1621.pdf.
39. Ibid.
40. Andrew G. Simpson, "COVID-19 Can Be Occupational Disease, Colorado Court Says in Worker Death Case," *Claims Journal*, May 7, 2024. https://www.claimsjournal.com/news/west/2024/05/07/323411.htm.
41. Ibid.
42. "Use of Artificial Intelligence Systems by Insurers," State of Connecticut Insurance Department, Feb. 26, 2024. https://portal.ct.gov/cid/-/media/cid/1_bulletins/bulletin-mc-25.pdf.
43. "2024 Primary Election Report," Delaware Government Elections, Sept. 13, 2024. https://elections.delaware.gov/results/html/index.shtml?electionId=PR2024.
44. "Report on Market Conduct Examination: Evaluating Unintentional Bias in Private Passenger Automobile Insurance," District of Columbia Department of Insurance, Securities and Banking, last accessed Sept. 27, 2024. https://disb.dc.gov/sites/default/files/dc/sites/disb/page_content/attachments/Unintentional%20Bias%20report%20-%20v.2%20draft.pdf.

Black drivers pay 1.46 times more than inferred white drivers, inferred Hispanic drivers pay 1.20 times more, and inferred Asian drivers pay 1.02 times more. In dollar terms, that translates into an average annual premium of $705 for white drivers, $1,031 for Black drivers, $849 for Hispanic drivers, and $722 for Asian drivers. The controversial report drew numerous rebuttal comments, which can be found on the DISB website.[45]

Florida. On March 24, 2023, Governor Ron DeSantis signed HB 837 into law.[46] HB 837 is the most significant tort reform in Florida in the past quarter century. The law aims to "decrease frivolous lawsuits and prevent predatory practices of trial attorneys who prey on hardworking Floridians."[47] The sweeping tort reform package amends Florida's comparative fault statute, reduces the statute of limitations for negligence claims, mandates transparency and disclosure of medical damages, prohibits phantom damages, adopts the lodestar approach for determining attorney's fees, modifies one-way attorney's fees, and modifies apportionment of fault in premises liability actions involving criminal acts of third parties.[48]

On March 13, 2023, Michael Yaworsky was appointed as Florida's Insurance Commissioner by the Financial Services Commission.[49] Before his appointment as Commissioner, Yaworsky, served as Interim Commissioner for one month and was previously vice chairman of the Florida Gaming Control Commission. Yaworsky holds a J.D. from Samford University's Cumberland School of Law in Alabama.

On April 24, 2024, Governor DeSantis signed SB 7028, which provides an additional $200 million to the My Safe Florida Home Program. This program grants up to $10,000 for qualified homeowners to update their homes to make them more resilient to severe storms. HB 1029, also signed into law, makes available grants up to $1,000 for condo associations to renovate homes with wind protection measures.[50]

Florida's proposed Statute 623.4073 would prevent insurance company executives who served at insurers that became insolvent from being an officer or director at another Florida insurer. Some argue that the law would violate due process because of its officer-removal process.[51] Others maintain that the law would hold insurance executives accountable for mismanagement.[52]

On April 17, 2024, Sen. Rick Scott (R-FL) proposed the Flood Insurance Relief Act.[53] The Act would create a non-refundable tax deduction for flood insurance premiums for private insurers as well as the federal National Flood Insurance Program. Rep. Byron Donalds (R-FL-19) introduced a companion bill in the House.[54]

45. Ibid.
46. "Governor Ron DeSantis Signs Comprehensive Legal Reforms into Law," Ron DeSantis 46th Governor of Florida, March 24, 2023. https://www.flgov.com/eog/news/press/2023/governor-ron-desantis-signs-comprehensive-legal-reforms-law.
47. "Governor Ron DeSantis Announces Comprehensive Lawsuit Reforms to Protect Floridians from Predatory Billboard Attorneys," Ron DeSantis 46th Governor of Florida, Feb. 14, 2023. https://www.flgov.com/2023/02/14/governor-ron-desantis-announces-comprehensive-lawsuit-reforms-to-protect-floridians-from-predatory-billboard-attorneys.
48. Ibid.
49. "Florida," National Association of Insurance Commissioners, last accessed Sept. 27, 2024. https://content.naic.org/node/7783.
50. "Florida Governor Signs Wind-Mitigation Funding Bills for Homes, Condos," *Insurance Journal*, April 29, 2024. https://www.insurancejournal.com/news/southeast/2024/04/29/771963.htm.
51. William Rabb, "Fla. Regulators' Effort to Remove Insurer Execs May Not Pass Constitutional Muster," *Insurance Journal*, April 30, 2024. https://www.insurancejournal.com/news/southeast/2024/04/30/772008.htm.
52. Ibid.
53. S.4143 - Flood Insurance Relief Act, 118th Congress. https://www.congress.gov/bill/118th-congress/senate-bill/4143/text.
54. "Sen. Rick Scott: Floridians Deserve Flood Insurance Tax Relief," Office of Senator Rick Scott, April 24, 2024. https://www.rickscott.senate.gov/2024/4/sen-rick-scott-floridians-deserve-flood-insurance-tax-relief.

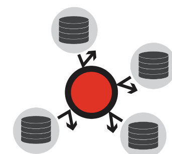
Georgia. On Feb. 13, 2024, SB 426 was passed in the Senate. This bill would limit plaintiffs' ability to take direct action against motor carriers and their insurers.[55]

In July 2024, former Georgia Insurance Commissioner John Oxendine pled guilty to submitting fraudulent insurance medical claims for unnecessary laboratory tests in exchange for kickbacks to his insurance consulting business.[56] He was sentenced to three and a half years and ordered to pay restitution ($760,175) and a fine ($25,000).[57]

Illinois. In April 2024, Governor J.B. Pritzker announced that Dana Popish Severinghaus, Director of the Illinois Department of Insurance, had stepped down. State Senator Ann Gillespie is serving as acting director.[58]

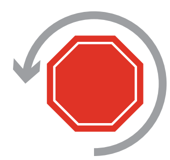
While serving as the director, Severinghaus had pushed for prior approvals for rate increases.[59] She had also called for limiting the use of socioeconomic factors and predictive models in determining rates due to their discriminatory impacts.[60]

On Jan. 31, 2024, State Representative Thaddeus Jones introduced HB 4611 in the Illinois General Assembly. It would prevent insurance companies from using external data that could cause discrimination based on a protected class and auto insurance companies from raising rates based on the policyholder's age.[61]



On Feb. 6, 2024, State Representative Will Guzzardi introduced HB 4767 in the Illinois General Assembly. The bill would require prior approval for any auto insurance rate increases. It would also prevent auto insurance companies from using factors such as credit-based scores and other measures of consumer price demand elasticity.[62]

Iowa. In April 2024, Gov. Kim Reynolds signed SF 2431 into law. This law retroactively waives the statute of limitations for Iowa men who were victims of child molestation as part of the Boy Scouts of America bankruptcy settlement.[63]



Kansas. In April 2024, Gov. Laura Kelley signed SB 430 into law. This expands the accessibility of workers' compensation programs and increases maximum benefits.[64]

Kentucky. On July 15, 2024, HB 7 was passed into law in Kentucky. This law sets up a framework for allowing autonomous vehicles on the road and establishes how the state can regulate them.[65]

Louisiana. Tim Temple was elected as the Louisiana Commissioner of Insurance in October 2023. Before serving in this role, Temple was the President of Temptan, an

55. "Lt. Governor Burt Jones Protects Georgia Businesses; Senate Passes Tort Reform Measure," Lieutenant Governor of Georgia, Feb. 13, 2024. https://ltgov.georgia.gov/press-releases/2024-02-13/lt-governor-burt-jones-protects-georgia-businesses-senate-passes-tort.
56. Dave Williams, "Oxendine sentenced to prison in health-care fraud scheme," *Capitol Beat*, July 12, 2024. https://capitol-beat.org/2024/07/oxendine-sentenced-to-prison-in-health-care-fraud-scheme.
57. "Former Georgia Insurance Commissioner Sentenced to Prison," United States Attorney's Office Northern District of Georgia, July 12, 2024. https://www.justice.gov/usao-ndga/pr/former-georgia-insurance-commissioner-sentenced-prison.
58. "Illinois State Senator Ann Gillespie Named Acting Director of DOI," *Insurance Journal*, April 9, 2024. https://www.insurancejournal.com/news/midwest/2024/04/09/768657.htm.
59. "Illinois Lawmakers Poised to Make A U-Turn on Auto Rate Reg," *Auto Insurance Report* 31:28 (March 25, 2024). https://df9fd9b6ab64495ad759-f14ba961ae89374e6d5a8ee602c09059.ssl.cf5.rackcdn.com/1761.pdf.
60. Ibid.
61. Ibid.
62. Ibid.
63. Hannah Fingerhut, "Iowa Governor Signs Measure to Increase Compensation for Boy Scouts Abuse Victims," *Insurance Journal*, April 22, 2024. https://www.insurancejournal.com/news/midwest/2024/04/22/770922.htm.
64. Jack Harvel, "Laura Kelly signs workers compensation bill for Kansas, after labor and business negotiate," *The Topeka Capital-Journal*, April 12, 2024. https://www.cjonline.com/story/news/politics/state/2024/04/12/laura-kelly-signs-kansas-workers-compensation-bill-into-law/73294792007.
65. Daniel Kehn, "Kentucky Now Allowing Self-Driving Vehicles in State," Government Technology, July 15, 2024. https://www.govtech.com/transportation/kentucky-now-allowing-self-driving-vehicles-in-state.

investment management business, and served as chair of the Louisiana Committee of 100 for Economic Development.[66]

In March 2024, Jim Donelon, former Louisiana Commissioner of Insurance, joined the McGlinchey Stafford law firm.[67]

Also in March 2024, Tim Temple advocated for the Louisiana state legislature to update its insurance regulations after State Farm decided to non-renew 72,000 California property policies because of the state's onerous regulations and catastrophe exposure.[68]

In May 2024, Louisiana governor Jeff Landry signed insurance reform bills to encourage insurers to write more business in the state's property market.[69]

Additionally in May 2024, HB 611, authored by Rep. Gabe Firment, repeals a law unique to Louisiana that prevents carriers from canceling, non-renewing, or raising deductibles on policies that have been in effect for more than three years, except under certain conditions. Insurers can non-renew up to 5 percent of their three-year policies each year.[70]

SB 295, authored by Louisiana Senator Heather Cloud, increases speed-to-market for insurance products and rate changes by updating the Louisiana Department of Insurance's rate and form filing approval process from a prior approval method to a file-and-use system. Insurers can immediately start selling policies as long as they meet current benchmarks.[71]

SB 323, authored by Senate Insurance Committee Chairman Kirk Talbot, establishes that insurers will have 14 days to initiate loss adjustments for non-catastrophic claims and 30 days for post-catastrophe claims. This provides more time to resolve disagreements outside of court, streamlining the claims process.[72]

HB 120, authored by Rep. Matthew Willard, extends the Louisiana Fortify Homes Program, which was created in 2023 with $30 million of funding. It offers grants of up to $10,000 to homeowners who retrofit their roofs to the fortified standard set by the Insurance Institute for Business & Home Safety.[73]

The Louisiana House of Representatives also voted to pass HB 337 in March 2024, which amends insureds' ability to take direct action against insurers under certain circumstances, such as bankruptcy.[74]

In addition, the House voted to pass HB 510, which allows insurance companies to provide mandatory binding arbitration, and HB 609, which creates an appraisal process for disagreements between insurance companies and claimants.[75]

66. "Tim Temple: Louisiana Commissioner of Insurance," Louisiana Department of Insurance, last accessed June 12, 2024. https://ldi.la.gov/about-timtemple.
67. "People Moves: Former Louisiana Commissioner of Insurance Donelon Joins McGlinchey," *Insurance Journal*, March 15, 2024. https://www.insurancejournal.com/news/southcentral/2024/03/15/764888.htm.
68. Ezra Amacher, "Louisiana's Temple Seeks Reform in Response to State Farm's California Cuts.' *Insurance Journal*, March 28, 2024. https://www.insurancejournal.com/news/southcentral/2024/03/28/766936.htm.
69. "Insurance Reform: Auto Insurance Reform Bills in 2024," Office of the Governor, last accessed Sept. 27, 2024. https://gov.louisiana.gov/page/insurance-reforms.
70. Ezra Amacher, "Louisiana Governor Signs Package of Property Insurance Reform Bills," *Insurance Journal*, May 8, 2024. https://www.insurancejournal.com/news/southcentral/2024/05/08/773415.htm.
71. Ibid.
72. Ibid.
73. Ibid.
74. Tyler Bridges, "Louisiana House OK's bill allowing insurance companies to drop more policyholders," NOLA, March 27, 2024. https://www.nola.com/news/politics/state-house-votes-to-end-unique-insurance-rule-for-louisiana/article_afbe8ac4-ec9c-11ee-89bd-c3ec3443d1d2.html.
75. Ibid.

In June 2024, Louisiana Insurance Commissioner Tim Temple called for a special session of the Louisiana State Legislature after Governor Jeff Landry vetoed measures aimed at making insurance more affordable.[76]

Maine. On Feb. 28, 2024, Robert L. Carey became Maine's Superintendent of Insurance.[77]

Maryland. Maryland Insurance Commissioner Kathleen Birrane resigned on April 30, 2023.[78] Joy Hatchett then served as commissioner in an interim capacity before Governor Wes Moore appointed Marie Grant to the position on July 26, 2023.[79] Grant holds a B.A. in public health from Johns Hopkins University and a J.D. from Georgetown University Law Center.

Massachusetts. On Oct. 2, 2024, Massachusetts Governor Maura Healey appointed Michael T. Caljouw as Commissioner of the Division of Insurance. The agency is overseen by the Massachusetts Office of Consumer Affairs and Business Regulation.[80]

Michigan. The NAIC'S *Journal of Insurance Regulation* published an article examining the history of no-fault insurance in Michigan. The paper found that the intent of no-fault coverage in Michigan backfired and raised insurance premiums instead of lowering them.[81]

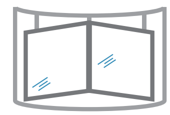
Mississippi. Mississippi passed HB 1705, which transfers $5 million from the Mississippi Surplus Lines Association to pay for the Comprehensive Hurricane Damage Mitigation Program.[82] Although the program was formed in 2007, 2024 was the first year it received funding. It is intended to help Mississippi homeowners fortify their homes before natural disasters strike.

New Hampshire. In March 2024, Jason Dexter was promoted to Assistant Commissioner of the New Hampshire Insurance Department, and Michelle Heaton was promoted to Director of Life and Health in the New Hampshire Insurance Department.[83]

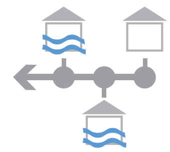
New Jersey. New Jersey introduced a law to increase the minimum limits of commercial auto liability insurance coverage required for covered commercial motor vehicles.[84] The new limit is $1.5 million for commercial vehicles 26,001 pounds or higher and $300,000 for commercial vehicles weighing between 10,001 and 26,001 pounds. The new minimum limits may be satisfied with a commercial automobile policy, a commercial umbrella policy, or an excess liability policy. The new law is for commercial vehicles registered in or principally garaged in New Jersey.

76. Rob Masson, "Louisiana Insurance Commissioner calls for special session," Fox 8, June 21, 2024. https://www.fox8live.com/2024/06/19/louisiana-insurance-commissioner-calls-special-session.
77. "Carey Assumes Post as Maine Insurance Regulator," *Insurance Journal*, March 26, 2024. https://www.insurancejournal.com/news/east/2024/03/26/766384.htm.
78. "Maryland Insurance Commissioner Kathleen A. Birrane announces decision to step down June 30," Maryland Insurance Administration, April 17, 2024. https://insurance.maryland.gov/Pages/newscenter/NewsDetails.aspx?NR=2024339.
79. "Governor Moore Appoints Marie Grant as Maryland Insurance Administration Commissioner," The Office of Governor Wes Moore, July 26, 2024. https://governor.maryland.gov/news/press/pages/governor-moore-appoints-marie-grant-as-maryland-insurance-administration-commissioner.aspx.
80. "Governor Healey Appoints Michael T. Caljouw as Division of Insurance Commissioner," Commonwealth of Massachusetts, Oct. 2, 2024. https://www.mass.gov/news/governor-healey-appoints-michael-t-caljouw-as-division-of-insurance-commissioner.
81. Patricia Born et al., "No-Fault Auto Insurance Reform in Michigan: An Initial Assessment," *Journal of Insurance Regulation* (Feb. 27, 2024). https://content.naic.org/sites/default/files/cipr-jir-2023-10.pdf.
82. Jay Harrison, "Mississippi passes bill supporting hurricane mitigation program," WDAM7, May 26, 2024. https://www.wdam.com/2024/05/27/mississippi-passes-bill-supporting-hurricane-mitigation-program.
83. "Promotions at the New Hampshire Insurance Department," *Captive International* (March 14, 2024). https://www.captiveinternational.com/promotions-at-the-new-hampshire-insurance-department.
84. "New Jersey Increase in Minimum Insurance Limits Effective as of July 1," TCA, June 24, 2024. https://truckload.org/news/tca-legal-comment-new-jersey-increase-in-minimum-insurance-limits-effective-as-of-july-1.

New York. There has been significant turnover in the role of the head insurance regulator at the New York Department of Financial Services, the Executive Deputy Superintendent. In less than a decade, since 2016, this role has been held by Scott Fischer, Laura Evangelista, My Chi To, John Finston, and now Bhavna Agnihotri.



North Carolina. In April 2024, the North Carolina Rate Bureau requested an average rate increase of 83 percent for mobile home fire policies and a 50 percent rate increase for mobile home casualty policies over the next 3 years.[85]

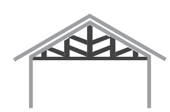


In February 2024, incumbent North Carolina Insurance Commissioner Mike Causey announced that he would run for re-election. The Nov. 5, 2024, election for North Carolina Insurance Commissioner was between Causey (R) and Natasha Marcus (D). Causey won the race, setting a record for the most nominations for the position, with this being his seventh.[86]

On July 1, 2024, the North Carolina Real Estate Commission approved a rule requiring homeowners to disclose their home's flooding history to potential buyers.[87]

North Dakota. In June 2024, North Dakota lawmakers approved $1.5 million for the state's insurance department to research policy alternatives to assist North Dakotans who are having difficulty obtaining property insurance.[88] Jon Gotfread was re-elected in the Nov. 5, 2024, insurance commissioner election; there was no Democratic candidate in the race. Gotfread also recently became President-Elect of the NAIC. He assumes the role in January 2025 from outgoing president Andrew Mais, Connecticut's Insurance Commissioner.

Oklahoma. In February 2024, Gov. Kevin Stitt signed the Strengthen Oklahoma Homes Act into law. This law provides grants through the Oklahoma Insurance Department for residential property owners of owner-occupied, single-family primary residences. These grants help homeowners reinforce their roofs to meet Insurance Institute for Business & Home Safety standards and will be distributed in 2025.[89] This program was inspired by the Strengthen Alabama Homes Program.



Pennsylvania. On Feb. 26, 2024, a budget hearing was held with Pennsylvania Insurance Department Commissioner Michael Humphreys, Chief of Staff Jodi Franz, and Bureau Director for Budget and Procurement Anu Upadhyaya before the House Appropriations Committee. It discussed the Governor's proposal to transfer $50 million from the Workers' Compensation Security Fund to benefit low- and middle-income families' health insurance premiums with subsidies.[90]

Michael Humphreys was confirmed as Pennsylvania Insurance Commissioner on June 27, 2023, after being named commissioner on Feb. 28, 2022.

85. "NC Rate Bureau Wants 83% Elevation in Mobile Home Fire Rates," *Insurance Journal*, April 17, 2024. https://insurancejournal.com/news/southeast/2024/04/17/770351.htm.
86. John Hood, "Insurance commissioner seeks third term," *The Carolina Journal*, Feb. 5, 2024. https://www.carolinajournal.com/opinion/insurance-commissioner-seeks-third-term.
87. Brianna Kraemer, "Homeowners must now disclose flooding history to buyers under new real estate rules," *The Carolina Journal*, July 1, 2024. https://www.carolinajournal.com/homeowners-must-now-disclose-flooding-history-to-buyers-under-new-real-estate-rules.
88. Mary Steurer, "Lawmakers approve $1.5M to study volatile insurance industry," *North Dakota Monitor*, June 19, 2024. https://northdakotamonitor.com/2024/06/19/lawmakers-approve-1-5m-to-study-volatile-insurance-industry.
89. Glen Mulready, "Special Notice," Oklahoma Insurance Department, Feb. 28, 2022. https://www.oid.ok.gov/special-notice-to-property-and-casualty-insurers-regarding-reduction-in-coverage-during-renewal.
90. "Budget Hearing Wrap with PA Dept. of Insurance," Pennsylvania House Republican Caucus, Feb. 26, 2024. https://www.pahousegop.com/News/33715/Latest-News/Budget-Hearing-Wrap-with-PA-Dept-of--Insurance.

Rhode Island. Rhode Island Superintendent of Financial Services Elizabeth (Beth) Kelleher Dwyer was elected as NAIC Secretary and Treasurer in 2024. Dwyer was appointed as Rhode Island Superintendent of Insurance on Jan. 11, 2016, and, effective May 2023, named Director of Rhode Island's Department of Business Regulation.

Tennessee. The Tennessee Supreme Court ruled that companies cannot use vicarious liability to block direct negligence claims and discovery.[91]

Vermont. Following widespread catastrophic flooding in Vermont in 2023, state lawmakers joined other states in passing bills mandating disclosure to prospective homebuyers, renters, and manufactured home purchasers about flood risks for real estate transactions.[92]

Virginia. On April 9, 2024, Virginia Governor Glenn Youngkin returned SB 256 to the General Assembly. This would require insurance companies to pay double the judgment along with court costs if the company did not pay a claim submitted by a policyholder and a court found them to be acting in bad faith.[93]

Washington. Mike Kreidler, Insurance Commissioner of Washington, announced that he would not be seeking re-election for another term as commissioner. He left the office amid allegations of a toxic work environment.[94] Eight candidates announced that they would be vying to replace him.[95] In the Nov. 5, 2024, election the two final candidates were Patricia Kuderer (D) and Phil Fortunato (R), with Kuderer winning with 57 percent of the vote.

Methodology

Shifting to the "report card" section of this paper, we examined and evaluated the regulatory environments in each of the 50 states using objective metrics to develop a grade for each state. Seven broad categories were considered and given different weights in the calculation based on their value in promoting a healthy, competitive market (Table 1).

Table 1: Report Card Categories

Category
1. Solvency regulation
2. Underwriting freedom
3. Residual markets
4. Fiscal efficiency
5. Politicization
6. Auto insurance market competitiveness
7. Homeowners insurance market competitiveness

91. William Rabb, "Employers Can't Use Vicarious Liability to Block Negligence Claims, TN High Court Says," *Insurance Journal*, April 10, 2024. https://www.insurancejournal.com/news/southeast/2024/04/10/768744.htm.
92. Carly Berlin, "Lawmakers pass flood disclosure requirements for home sellers, landlords," *VTDigger*, May 14, 2024. https://vtdigger.org/2024/05/14/lawmakers-pass-flood-disclosure-requirements-for-home-sellers-landlords.
93. Andrew G. Simpson, "Virginia Gov. Youngkin Seeks to Fix 'Bad Faith' Bill That Insurers Wish He'd Veto," *Insurance Journal*, April 9, 2024. https://www.insurancejournal.com/news/east/2024/04/09/768713.htm.
94. "Washington insurance commissioner Kreidler won't seek re-election," Insurance NewsNet, May 23, 2023. https://insurancenewsnet.com/innarticle/washington-insurance-commissioner-kreidler-wont-seek-re-election.
95. Ellen Dennis, "Washington will soon elect a new insurance commissioner for the first time in decades. Here's a look at who's running and why you should care," *The Spokesman-Review*, July 7, 2024. https://www.spokesman.com/stories/2024/jul/07/washington-will-soon-elect-a-new-insurance-commiss.

Our analysis focuses on property and casualty insurance, particularly personal lines—private passenger automobile and homeowners insurance—because these lines of business most directly affect people's personal finances. These also tend to be the lines of business more subject to legislative and regulatory interventions such as price controls and the provision of insurance products by state-sponsored, -supported, or -mandated institutions.

For each of the seven categories, we used the most recent data available (year-end 2023 in most cases) wherever relevant and available. The two factors given the greatest emphasis in our grade calculation—solvency regulation and underwriting freedom—are the conditions that we believe most strongly influence states' abilities to promote healthy, competitive markets.

This report is not a referendum on specific regulators. An "F" does not mean that a state's insurance commissioner or insurance department perform poorly, nor is an "A" an endorsement of those who run the insurance department. Insurance markets in some states are influenced by factors beyond the insurance department's control, such as runaway litigation or unusually catastrophic storms. Significant changes in states' scores most often would be possible only through action by state legislatures.

Insurance markets in some states are influenced by factors beyond the insurance department's control, such as runaway litigation or unusually catastrophic storms. Significant changes in states' scores most often would be possible only through action by state legislatures.

Because we were limited to factors that could be quantified for all 50 states, many important influences were not factored into this report card. For example, 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. Although the NAIC has data that could demonstrate 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 a comprehensive analysis of such factors—across 50 states in multiple lines of business—beyond the scope of this report.[96]

Below, we explore the seven broad categories shown in Table 1 to offer more detail on the factors that were considered in that category's calculations and provide summary tables for each category. We then offer a comprehensive report card score for each state that combines the seven separate category rankings into a single grade.

1 Solvency Regulation

A critical function of insurance regulators is to monitor the solvency of insurers operating in their state. Insurers must maintain sufficient solvency levels to be able to satisfy their claims-paying obligations. In this section of the report, we examine three key metrics to ascertain, both quantitatively and qualitatively, how well states discharge their duties to regulate insurer solvency. These metrics are financial exams, run-off liabilities, and financial ratios measuring capitalization, using data from insurers' income statements and balance sheets.

Financial Exams. The first metric we used to assess solvency regulation was how frequently the state insurance department examined the financial strength of companies operating in its state. Under the state-based system of insurance regulation, each domiciliary state has primary responsibility for monitoring its respective domestic insurers' solvency.

1 2 3 4 5 6 7
Solvency Regulation

96. See, e.g., Ian Adams, "The Troublesome Legacy of Prop 103," *R Street Policy Study* No. 43, October 2015. https://www.rstreet.org/research/the-troublesome-legacy-of-prop-103.

States vary greatly in size and number of domestic insurers (i.e., insurers admitted by and formed under the laws in which insurance is written). Because state insurance departments are funded primarily by fees paid by regulated insurers and insurance producers, states with an unusually large number of domestic companies benefit from having ample resources. In fact, as discussed in the Fiscal Efficiency section of this report below, for most states, insurance regulation is treated as a profit center.

States conduct two major types of examinations of the companies they regulate: financial exams, which evaluate insurers' assets, liabilities, and policyholder surplus, and market conduct exams, which examine insurers' business practices and how well they treat consumers. Sometimes, states conduct joint financial and market conduct exams to look at both sets of factors together.

States are generally free to subject any company operating 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.[97]

In our analysis, we attempted to gauge how well states kept up with their duties to examine the companies they regulate. We did this by drawing on NAIC data on the number of financial exams and combined financial/market conduct exams reported as having been completed for domestic companies in each year from 2018 through 2022.[98] We then compared those figures to the number of domestic companies operating in the state for each of those five years to calculate the proportion of domestic companies that were examined.

Because 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. We found that 40 of the 50 states met that minimum standard; 10 states did not. The mean percentage of domestic insurers examined was 163.3 percent with a standard deviation of 96.1 percentage points. This means that, on average, companies were examined 1.63 times over the course of five years, exceeding the baseline expectation of a single examination every five years.

For our initial score, we set the mean as zero and added and subtracted points based on how far each state deviated from that mean. The states ranged from Utah, which was slightly more than 1.5 standard deviations below the mean, to Massachusetts, which was more than 3 standard deviations above it. We then converted those scores into a scale of 0.0 to 10.0 points.

Run-offs. Measuring the number of financial exams completed offers a quantitative assessment of how robust a state's solvency regulation regime is, but qualitative assessments are needed as well. A state could examine every company every year, but if it does not actually identify problems that may lead to insolvency, this would offer little benefit to policyholders. Thus, the best measure to consider for assessing the quality of solvency regulation is regulatory run-offs. A run-off takes place when an insurer ceases to write new business and winds down its remaining obligations over time.

Solvency Regulation

97. "Model Law on Examinations," National Association of Insurance Commissioners, October 1999. https://content.naic.org/sites/default/files/MO390.pdf.

98. "Insurance Department Resources Report: Volume 1," National Association of Insurance Commissioners, September 2023, pp. 46-50. https://content.naic.org/sites/default/files/publication-sta-bb-volume-one.pdf.

Although run-offs are often voluntary, an insurance department may intervene with a financially troubled company by placing it into receivership. If the company may be saved, a court can order it into a conservatory rehabilitation or a supervisory rehabilitation. These are reorganization processes that may allow the company to resume writing new business. If rehabilitation is deemed impossible, a liquidation order is signed, and the company's assets are sold off to make good on remaining obligations. Guaranty fund coverage may be triggered to pay claims.

For this report card, we summed all claims liabilities reported by the NAIC as "in-progress" as of Dec. 31, 2022, for each state's insurers that were placed into run-off, supervision, conservation, receivership, or liquidation.[99] The totals ranged from Pennsylvania's $6.6 billion to 16 states that had no in-progress run-off claims liabilities. We scored states on the basis of the proportion of their total 2022 net written premiums represented by outstanding run-off liabilities. States with a higher proportion of run-off liabilities were given lower grades.

For our initial score, we set the mean as zero and added and subtracted points based on how far each state deviated from that mean. The results ranged from the 16 states with no liabilities to New Hampshire, whose $4 billion of runoff liabilities represented 37.5 percent of 2022 net written premiums (more than 6 standard deviations above the mean), and Pennsylvania, with $6.6 billion of run-off liabilities. Those scores were then converted into a scale of 0.0 to 5.0 points.[100]

Capitalization. The third measure in our analysis of how well states monitor insurer solvency was insurer capital—the amount of capital and surplus that firms doing business in a given state have to back up the promises they make to policyholders. An important element of a state insurance department's review of the data insurers report to the NAIC is the calculation of statutory surplus (the extent to which assets exceed liabilities). The net premium-to-surplus ratio is a valuable way to assess solvency. A healthy insurer has policyholder surplus greater than its net premiums, rendering the premium-to-surplus ratio less than 1.0. Premium-to-surplus ratios above 1.5 or 2.0, by contrast, are signs of high leverage and elevated susceptibility to impairment in the event of large losses, which could wipe out an insurer's surplus. The 2023 premium-to-surplus ratio of the overall property and casualty insurance industry was 0.76.

1 2 3 4 5 6 7

Solvency Regulation

Most insurer groups are either national or regional writers and operate in multiple states. As such, they do not formally allocate surplus to individual states unless they have individual subsidiary companies writing exclusively in one state. For example, Castle Key Insurance Company, a member company of the Allstate group, is a Florida-only insurer and reports its capital and surplus separately from other Allstate companies.

One way to assess the adequacy of insurers' solvency in a particular state is to examine the financials of insurers whose business is concentrated in that state and have significant market share there. Perhaps the best state on which to perform such a state solvency review is Florida, where several insurers focus exclusively or primarily on the Florida homeowners insurance market and command a significant market share in that state. The analysis below of a group of Florida-focused homeowners insurers demonstrates that most Florida insurers are highly leveraged and thinly capitalized (Table 2).

99. Ibid.
100. Ibid.

Table 2: Analysis of Florida-Focused Homeowner Insurers Premium-to-Surplus Ratios

Florida-Focused Homeowner Insurers	2023 Homeowners DPW ($M)	Percent of Business in Florida	Percent of Business that is Homeowners	2023 Surplus ($M)	2023 P-S Ratio (%)
First Protective	683	75	93	137	499
Florida Peninsula	843	100	100	190	444
HCI Group	615	85	92	255	241
Heritage	394	41	83	143	276
Security First	322	100	79	77	418
Universal	1,463	80	95	376	389
Average					**378**

DPW = direct premiums written; P-S = premium to surplus.
Source: S&P Capital IQ Pro.

It is worth noting that the Florida insurer premium-to-surplus table in the last (2022) edition of this report card included two other Florida-focused insurers—FedNat and UPC—neither of which are still in business. FedNat was placed into receivership in 2022, and UPC was declared insolvent in 2023.

Although regulators should encourage new company formations—a factor that contributes to a higher score in the homeowners and auto insurance sections of this report card—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.

One early warning sign of potential solvency issues is when an unusually large market share is held by thinly capitalized insurers.

For this study, we calculated the premium-to-surplus ratio of property and casualty insurers doing business in each state using year-end 2023 statutory data.[101] Multiplying that ratio by the company's market share across all lines of business and then summing those totals yields a proxy for capitalization ratio in the state. (These results exclude statutory entities such as wind pools, joint underwriting authorities, and some state workers' compensation funds where such entities do not report policyholder surplus.)

The methodology for calculating premium-to-surplus ratios at the state and product level is only an approximation for two reasons. First, multiline national insurers write many different lines of insurance, some of which, such as long-tailed liability insurance and specialty lines insurance, require more surplus because of those lines' higher risk and longer-duration claims process, which can span many years. Thus, if an insurer writes mainly automobile insurance nationally, it will have higher leverage than one that writes commercial liability insurance. The auto insurer's higher leverage does not mean that a higher premium-to-surplus ratio for the single-state auto writer makes it less solvent. Second, insurers do not explicitly allocate capital according to line of business.

Solvency Regulation Overall Score Calculation. For our initial score, we set the mean as zero and added and subtracted points based on how far each state deviated from that mean. These scores and the combined score with financial exams, run-offs, and capitalization included are in shown in Table 3.

101. *P&C Market Share Application*, S&P Capital IQ, 2022.

Table 3: Solvency Regulation

State	Financial Exams		Run-Offs			Capitalization		Combined
	Raw (%)	Score	Raw ($M)	Total Premium ($M)	Points	P/S (%)	Points	
AK	340.0	10	0	1,994	5	59.0	5	20
AL	133.3	-5	12	13,146	5	68.6	3	3
AR	115.4	-5	24	7,931	5	71.1	3	3
AZ	85.0	-5	157	17,959	5	70.7	3	3
CA	407.0	10	2,719	111,237	4	69.9	3	17
CO	168.5	0	0	20,582	5	70.7	3	8
CT	298.1	5	0	11,508	5	72.7	2	2
DE	227.7	0	1,137	3,842	0	65.3	4	4
FL	66.7	-10	2,145	88,063	4	67.4	4	-2
GA	134.7	-5	0	32,039	5	66.7	4	4
HI	66.0	-10	1	3,490	5	59.4	5	0
IA	105.4	-5	0.00	9,843	5	75.6	2	2
ID	150.0	-5	0	4,757	5	62.8	5	5
IL	143.7	-5	2,329	35,938	3	66.1	4	2
IN	114.0	-5	1	16,321	5	72.3	3	3
KS	123.3	-5	9	9,565	5	74.6	4	4
KY	250.0	5	0	10,147	5	56.6	5	15
LA	121.2	-5	292	16,226	4	67.7	4	3
MA	394.1	10	300	21,453	4	76.0	2	16
MD	250.0	5	63	16,186	5	68.3	3	13
ME	104.4	-5	0	3,616	5	64.2	4	12
MI	211.3	0	0	24,427	5	66.9	4	9
MN	72.0	-5	0	17,081	5	70.9	3	3
MO	111.1	-5	453	17,261	4	69.3	3	2
MS	89.1	-5	0	7,505	5	73.9	2	2
MT	153.1	0	10	3,807	5	73.4	2	7
NC	116.8	-5	2,801	24,036	2	72.9	2	-1
ND	106.1	-5	0	3,826	5	84.7	1	1
NE	125.4	-5	0	7,573	5	77.5	2	2
NH	147.4	-5	4,034	3,342	0	69.6	3	-2
NJ	86.9	-5	0	29,103	5	67.4	4	4
NM	200.0	0	123	5,038	4	68.3	3	7
NV	137.5	-5	568	8,561	2	69.9	3	0
NY	79.9	-5	5,560	61,861	2	71.2	3	0
OH	107.3	-5	1	23,397	5	73.0	3	3
OK	117.1	-5	235	11,325	4	70.6	3	2
OR	137.5	-5	8	10,510	5	66.1	4	4
PA	180.0	0	6,563	32,532	1	74.4	2	3
RI	83.3	-5	15	3,361	1	70.1	3	-1
SC	98.9	-5	34	15,078	5	67.6	4	4
SD	123.7	-5	56	3,970	4	78.6	2	1
TN	190.8	0	0	17,442	5	61.5	5	10
TX	152.0	-10	2076	92,317	4	73.7	2	-4
UT	44.0	-10	136	8,100	4	70.9	3	-3
VA	210.5	0	11	20,316	5	72.5	3	8
VT	85.1	-5	34	1,640	4	70.1	3	2
WA	152.9	10	0	18,109	5	73.2	2	17
WI	68.2	-10	695	14,620	3	70.7	3	-4
WV	245.5	5	0	3,643	5	63.6	5	15
WY	75.0	-10	25	1,820	4	73.5	2	-4

Sources: NAIC, S&P Capital IQ5.

2 Underwriting Freedom

The high degree of competition in the property and casualty insurance market, with over 1,000 insurer groups and over 2,000 operating companies, means that there are a wide range of products and prices for insurance coverage. Studies have found that insurance buyers in states with more rate competition generally pay less for their insurance coverage than buyers in states with rigid rate-regulation rules.[102]

Statute-Based Rate Regulation. States employ a variety of methods to approve how quickly or how sharply premium rates can increase or decrease and have rules on the use (or prohibition) of certain factors in rating and underwriting calculations. It is, however, ultimately not possible to compel an insurer to sell coverage at levels that do not generate adequate risk-adjusted returns. If insurers in a state are mandated or coerced to write business below risk-adjusted rates, they may cease writing business in that state.

1 2 3 4 5 6 7
Underwriting Freedom

We examined the processes states employed to review rates in five key property and casualty insurance markets: private auto, homeowners, workers' compensation, medical professional liability (also referred to as medical malpractice or "med mal" insurance), and general commercial lines. For each state and market, we assigned points based on specific criteria (Table 4).

Rate Regulation.

Table 4: Point Assignments for State-Based Rate Regulation Calculations

Points	Criteria
Zero Points	For states that employ a prior-approval filing system, in which all rates must be filed by an insurer or its rating bureau and approved by the commissioner before they can be employed. Zero points were also given for states in which rates are set by a rating bureau and insurers were prohibited from deviating from those rates.
+1 Point	For states that employ "flex band" systems, in which rate changes that exceed a modest percentage range must be submitted for approval before use.
+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 timeframe 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 "open competition" or "no file" systems, in which the state either does not require rates to be filed or in which such filings are a formality.

1 2 3 4 5 6 7
Underwriting Freedom

Wyoming was found to have the most liberal rate regulation rules (Table 5). 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.

102. "Analysis of Property/Casualty Insurance Rate Regulatory Laws," Property Casualty Insurers Association of America, Nov. 29, 2010. https://www.leg.state.nv.us/Session/76th2011/Exhibits/Assembly/CMC/ACMC279L.pdf.

Table 5: **Rate Regulation**

State	Private Auto	Homeowners	Workers' Compensation	Medical Malpractice	General Commercial Lines	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	2	2	2	2	5	13
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

Inputs on state rate and form filing requirements were presented in the NAIC Model Laws and Compendium of State Laws on Insurance Topics publication, which has not been published since 2018. https://content.naic.org/publications.

Source: NAIC Model Laws and Compendium of State Laws on Insurance Topics.

HISTORY OF U.S. INSURANCE RATING

Until the 1950s, all U.S. states had passed some form of insurance rating laws. In some states, insurers were allowed to file deviations from bureau rates. In other states, bureau membership and prior approval of rates were strictly enforced. Through the late 1950s, the industry attempted to protect the bureau rating system through regulation.

In 1959, the U.S. Senate antitrust subcommittee, known as the O'Mahoney Committee, began to investigate bureau practices and concluded that competition should be the principal driver of industry regulation. Shortly thereafter, certain states began to make it easier for insurers to set new rates, thereby loosening the bureau's tight hold on rates.

Source: Dalit Baranoff, "Fire Insurance in the United States," Economic History Association, last accessed Oct. 1, 2024. https://eh.net/encyclopedia/fire-insurance-in-the-united-states.

1950s All U.S. states had passed some form of insurance rating laws

1959 The O'Mahoney Committee concluded that competition should be the principal driver of industry regulation

Underwriting Freedom

Desk Drawer Rules. Although Table 5 evaluates states' official rules for insurance rate regulation as specified in state statutes, there are instances in which state insurance departments deviate from formally promulgated rate rules. An example of such deviation is when regulators use "desk drawer" rules. These are rules that are not specified in statute or issued in a formal bulletin. This term is used because the practice deviates from formal rulemaking and is thus said to reside in the regulator's desk drawer. Such rules are challenging to follow because insurers cannot effectively and consistently anticipate or respond to them.

This type of practice persists in many states. In fact, a 2020 study on insurance commissioner behavior found that individual commissioners have considerable leeway in how they conduct their regulatory activities.[103] The study noted that some commissioners may use their position as a "revolving door" to achieve a better post-term position in the insurance industry, which gives them an incentive to be more lax with financial exams, the consequences of those exams, and insurer risk-taking.[104] An example of this practice has been reported with regard to group property insurance, which may be prohibited by insurance departments' desk drawer rules, even though statutes are silent on the issue.[105]

In prior iterations of this report card study, informal discussions with experts who work in regulatory compliance provided information to support our evaluation of the breadth and depth of these desk drawer rules on a scale of 0 to 3 points, which we have again included in our calculations in Table 6 below. Although we received no reports of significant desk drawer rules in 25 of the 50 states, five states—Arkansas, Georgia, New Jersey, New York, and Washington—were penalized 3 points for having the most voluminous or onerous desk drawer rules.

Louisiana is an example of a state where legacy desk drawer rules are being phased out. Such rules included limiting insurer profit margins to 10 percent, having rate reviews done within the stipulated 45 days, and limiting insurers to one rate

103. Ana-Maria Tenekedjieva, "Revolving Door and Insurance Solvency Regulation," University of Chicago Booth School of Business, Jan. 12, 2020, p. 2. https://www.hhs.se/contentassets/bee955be56624b83854b8367ca889fbf/200116-jmp_-a_m-tenekedjieva_revolvingdoor.pdf.

104. Ibid.

105. Zachary N. Lerner, "Group P&C Insurance: Admitted and Surplus Lines Issues," Locke Lord, December 2017. https://www.lockelord.com/newsandevents/publications/2017/12/group-pc.

increase per year.[106] The erosion of historical desk drawer rules is making Louisiana more free-market friendly.

Rating Restrictions. Some state rules bar or severely restrict insurers' use of underwriting variables that have been shown to be actuarially credible because they are correlated with risk magnitude. The discovery of actuarially credible variables tied to credit characteristics and other factors has allowed individual insurers to construct their own innovative, proprietary rating models that can assign risk-adjusted rates to virtually any potential insured. However, the use of credit in insurance has periodically proven to be politically contentious. Despite studies by the Federal Trade Commission (FTC) and the Texas Department of Insurance, among others, demonstrating conclusively that credit-based insurance scores are predictive of future claims, some states prohibit or severely proscribe their use as an underwriting and rate-setting variable.[107]

Underwriting Freedom

Although most states restrict insurers from using credit-based insurance scores as the sole underwriting variable, six states go beyond that approach by banning the practice altogether. California and Massachusetts explicitly ban the use of credit in both auto and homeowners insurance underwriting and ratemaking; Hawaii and Michigan have banned its use in auto insurance rate setting; and Maryland has banned its use in homeowners insurance.[108] Minnesota permits the use of credit-based insurance scores in rate-setting but does not permit its consideration in underwriting.[109] We deducted 2 points for each of the six states with restrictive rules on credit-based insurance score use.

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 South Dakota—that impose especially stringent restrictions on the use of territory in underwriting and rate-setting.[110] The location of insured property or the location where a car is garaged and driven can have a significant impact on the likelihood that the property or car will experience claims-generating losses.

Underwriting Freedom Overall Score Calculation. Taken together with the rate regulation scores, we summed these additional adjustments for rating restrictions to produce overall scores (Table 6). California, which scored the lowest in this metric, was the most restrictive state with regard to underwriting freedom; Wyoming offered the most underwriting freedom and had the highest score for this metric.

106. "A New Day Dawns in Louisiana As Temple Aims to Revive Markets," *Auto Insurance Report* 31:31 (April 15, 2024). https://www.sedgwick.com/wp-content/uploads/2024/04/AIR04-15-24-Reprint-v2.pdf.

107. "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.

108. Louis DeNicola, "Which States Restrict the Use of Credit Scores in Determining Insurance Rates?," Experian, Jan. 12, 2024. https://www.experian.com/blogs/ask-experian/which-states-prohibit-or-restrict-the-use-of-credit-based-insurance-scores.

109. "Compendium of State Laws on Insurance Topics: Use of Credit Reports/Scoring in Underwriting," National Association of Insurance Commissioners, June 2020, pp. III-MC-20-1 to III-MC-45-12. https://content.naic.org/sites/default/files/inline-files/prod_serv_CSL_TOC_0.pdf.

110. "Compendium of State Laws on Insurance Topics: Prohibitions Against Redlining and Other Geographic Discrimination," National Association of Insurance Commissioners, June 2020, pp. III-MC-45-1 to III-MC-20-20. https://content.naic.org/sites/default/files/inline-files/prod_serv_CSL_TOC_0.pdf.

Table 6: **Underwriting Freedom**

State	Rate Regulation	Desk Drawer	Credit Scoring	Territory	Combined
AK	3	-2	0	0	1
AL	2	-2	0	0	0
AR	12	-3	0	0	9
AZ	14	0	0	0	14
CA	0	-2	-2	-2	-6
CO	11	-1	0	0	-1
CT	8	-2	0	-2	4
DE	10	-2	0	-2	6
FL	11	-2	0	0	9
GA	13	-3	0	0	10
HI	0	-2	-2	0	-4
IA	6	0	0	0	6
ID	12	0	0	0	12
IL	20	0	0	0	20
IN	11	0	0	0	11
KS	11	-2	0	0	9
KY	15	0	0	0	15
LA	5	0	0	0	3
MA	8	-1	-2	0	5
MD	2	-2	-2	-2	-4
ME	10	-2	0	0	8
MI	8	0	-2	-2	4
MN	8	0	-2	0	6
MO	15	0	0	-2	13
MS	0	-1	0	0	-1
MT	10	-1	0	0	9
NC	3	-1	0	0	2
ND	0	0	0	0	0
NE	10	0	0	0	10
NH	10	0	0	-2	8
NJ	3	-3	0	-2	-2
NM	17	0	0	0	17
NV	8	-1	2	0	7
NY	0	-3	0	-2	-5
OH	10	0	0	0	10
OK	15	0	0	-2	13
OR	8	0	2	0	10
PA	7	-2	0	0	5
RI	11	-1	0	0	10
SC	0	-1	0	0	-1
SD	13	0	0	-2	11
TN	6	0	0	0	6
TX	10	0	0	0	10
UT	14	0	2	0	16
VA	11	0	0	0	11
VT	12	0	0	0	12
WA	3	-3	0	0	-2
WI	12	0	0	0	12
WV	2	0	0	0	2
WY	25	0	0	0	25

Sources: NAIC Model Laws, R Street analysis.

California, which scored the lowest in this metric, was the most restrictive state with regard to underwriting freedom; Wyoming offered the most underwriting freedom and had the highest score for this metric.

3 Residual Markets

Residual insurance markets serve consumers who cannot secure coverage in the private market for a reasonable price. Except in a handful of cases, residual market mechanisms generally do not have the explicit backing of state government treasuries. However, because no state has ever allowed its residual market to fail, there is typically an implicit assumption that states will stand behind 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 0.5 percent of the market would have serious consequences for automobile insurance prices in any state or affect consumers more broadly. But when states have large residual markets, it is an indicator that regulatory restrictions may be preventing insurers from meeting consumers' needs. In such states, large residual markets represent a state subsidy for policyholders who take risks that 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 data from the most recent Property Insurance Plans Service Office (PIPSO) and Automobile Insurance Plans Service Office (AIPSO) reports, respectively. We also used statutorily reported data on workers' compensation state funds.

1 2 3 4 5 6 7
Residual Markets

Residual Auto Market. The residual auto insurance markets accounted for 0.62 percent of the nation's total private auto insurance markets in 2023.[111] In five states—North Carolina, Massachusetts, Maryland, Rhode Island, and New York—residual markets account for more than 1 percent of auto insurance policies. Table 7 ranks these states and shows that North Carolina's residual private passenger automobile insurance market accounts for nearly 14 percent of the overall market premium in the state.[112]

Table 7: 2023 Residual Private Automobile Insurance Premium as a Percent of Total Auto Market

State	Percent of Total Auto Market
North Carolina	13.9
Massachusetts	4.4
Maryland	1.5
Rhode Island	1.3
New York	1.1
New Jersey	0.8
Illinois	0.4
Ohio	0.3
Michigan	0.1
California	0.1

Source: AIPSO, Written Premium Report. Ranking of States by Residual and Total Market Premium.

111. "Ranking of States by Residual and Total Market Premium," Automobile Insurance Plans Service Office, 2023. https://www.aipso.com/Portals/0/AIPSOOpenAccess.
112. Ibid.

For each state, we assigned a penalty of between 0.0 and -10.0 points, according to market share. The states with residual markets accounting for more than 1.0 percent of market share received higher penalties to their score (Massachusetts, Maryland, North Carolina, and Rhode Island for automobile insurance markets and California, Florida, Louisiana, Massachusetts, Mississippi, North Carolina, Rhode Island, and Texas for homeowners insurance markets). The results ranged from 36 states with *de minimis* residual markets, which received no penalty, to North Carolina, which received a penalty of -10 points.

Residual Homeowners Market. The residual homeowners insurance mechanism, like the auto residual market, exists to serve consumers who cannot find coverage in the private voluntary market. Thirty states and the District of Columbia operate 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.[113]

Residual Markets

Five states sponsor specialized pools for coastal windstorm risks, also referred to as "beach plans." Mississippi, North Carolina, and Texas operate both FAIR plans and wind pools; Alabama and South Carolina operate only wind pools. Florida's and Louisiana's Citizen Property Insurance Corporation are state-run insurance companies that serve both the coastal and FAIR plan markets.

Although most FAIR plans are small, the burdensome price controls in place in some states have prompted significant growth of state-sponsored insurance mechanisms, particularly in the wake of heavy losses from hurricanes. The percentage of premium in FAIR plans for Beach Plan states in 2022 was 2.56 percent.[114] For all states, it was 2.06 percent.[115] The states in which the FAIR plan and Beach Plan markets grew the most were Florida and California. This is to be expected, considering the magnitude of natural catastrophe losses in those states. Table 8 below presents data on FAIR and Beach Plan premium as a percent of total property premium for states with over 2 percent in such plans.

Table 8: FAIR and Beach Plan Premium as a Percent of Total Property Premium

	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
California	0.8	0.9	1.5	1.7	2.3
Massachusetts	6.5	6.3	5.8	5.5	5.1
Florida	4.2	4.0	4.5	5.3	8.4
North Carolina	2.7	2.8	2.8	2.9	3.1

Note: The data table presented above does not include premiums develop by Florida Citizens Property Insurance Corporation or the Texas plans.

Source: Compendium of Property Insurance Plans, 2023 Edition.

We tallied the total market share of the FAIR plans and Beach Plans for each state and arrayed them on a scale of 0 points for North Carolina to 10 points for the 18 states that had no residual property insurance plan.

Workers' Compensation Funds. Four states—Ohio, North Dakota, Washington, and Wyoming—provide workers' compensation insurance solely through a state-run insurer. These four states are therefore often called "monopolistic states." In an

Residual Markets

113. See, e.g., "Glossary: Redlining," IRMI, last accessed Oct. 1, 2024. https://www.irmi.com/term/insurance-definitions/redlining.
114. "2023 FAIR and Beach Plan Underwriting Results and Market Penetration Report (Residual Market Plan Years 2018 through 2022)," Property Insurance Plans Service Office, 2023. https://pipso.com/publications.
115. Ibid.

additional 23 states, the residual market for workers' compensation is satisfied by a "competitive" state fund, which in some cases writes more than half of the coverage in the state. A competitive state fund is one that competes with the private market in the state. Our analysis on residual markets for states with competitive state funds used statutory financial data for those funds as reported to the NAIC. An analysis of residual funds in states without state funds used data reported to the National Council on Compensation Insurance (NCCI).[116]

The percentage of workers' compensation premium in reinsurance pools serviced by the NCCI declined from 6.7 percent in 2019 to 5.3 percent in 2023. This is not surprising because workers' compensation results have been profitable in recent years, resulting in fewer policies being excluded by the private market and seeking cover in the residual market.

6.7%
5.3%
The percentage of workers' compensation premium in reinsurance pools serviced by the NCCI declined from 6.7 percent in 2019 to 5.3 percent in 2023.

In the four monopolistic states where the state-run fund is the sole provider of workers' compensation for the state, the market share is 100 percent. We used S&P Capital IQ Pro market share data and NCCI residual market data to show the respective share of the market written by competitive state funds or by the residual market.[117] For Arizona, Michigan, Idaho, New Mexico, Oregon, and South Carolina—the six states with both a state fund and NCCI-serviced residual pools—the data was combined. We deducted between 0.0 and -10.0 points based on each state fund's market share.

Residual Markets Overall Score Calculation. We summed the auto, homeowners, and workers' compensation scores to reach a single score for this residual market category (Table 9).

Table 9: Residual Markets

State	Auto		Homeowners		Workers' Comp		Combined
	Share (%)	Score	Share (%)	Score	Share (%)	Score	
AK	0.004	0	0.0	0	9.4	-10	-10
AL	0.000	0	1.5	-5	3.3	5	0
AR	0.003	0	0.0	0	3.5	5	5
AZ	0.005	0	0.0	0	5.0	0	0
CA	0.053	0	6.3	-7	10.7	-10	-17
CO	0.032	0	0.0	0	5.1	0	0
CT	0.047	0	0.1	0	6.5	-5	-5
DE	0.107	-5	0.1	0	4.7	0	-5
FL	0.005	0	29.3	-10	3.9	5	-5
GA	0.001	0	0.3	0	5.7	0	0
HI	0.326	-5	0.0	0	10.0	-10	-15
IA	0.482	-5	0.1	0	7.1	-5	-10
ID	0.008	0	0.0	0	11.1	-10	-10
IL	0.559	-5	0.1	0	7.0	-5	-10
IN	0.005	0	0.1	0	5.2	0	0
KS	0.158	-5	0.4	-5	4.6	5	-5
KY	0.007	0	0.2	-5	5.7	0	-5
LA	0.007	0	21.4	-10	5.5	0	-10
MA	3.392	-7	9.8	-7	6.5	-5	-19
MD	0.968	-0	0.0	0	5.8	0	0
ME	0.025	0	0.0	0	8.8	-10	-10

116. "Residual Market Management Summary," National Council on Compensation Insurance, 2023. https://www.ncci.com/Articles/Documents/RM_ManagementSummary_2023.pdf.

117. P&C Market Share Application, S&P Capital IQ, 2022.

State	Auto		Homeowners		Workers' Comp		Combined
	Share (%)	Score	Share (%)	Score	Share (%)	Score	
MI	0.000	0	0.3	0	4.4	5	5
MN	0.065	0	0.1	0	6.1	-5	-5
MO	0.036	0	0.1	0	6.3	-5	-5
MS	0.000	0	3.0	-5	4.7	0	-5
MT	0.001	0	0.0	0	8.1	-5	-5
NC	12.584	-10	18.8	-10	6.3	-5	-25
ND	0.003	0	0.0	0	0.2	-10	-10
NE	0.019	0	0.0	0	5.3	0	0
NH	0.099	0	0.0	0	7.0	-5	-5
NJ	0.821	-5	0.1	0	9.1	-10	-15
NM	0.055	0	0.7	0	6.0	-5	-5
NV	0.036	0	0.0	0	5.6	0	0
NY	0.621	-5	0.4	0	5.7	0	-5
OH	0.405	0	0.3	0	0.1	-10	-10
OK	0.011	0	0.0	0	5.7	0	0
OR	0.002	0	0.1	0	7.7	-5	-5
PA	0.041	0	0.1	0	7.9	-5	-5
RI	1.136	-7	4.4	-10	7.0	-5	-22
SC	0.014	0	2.2	-7	5.8	0	-7
SD	0.006	0	0.0	0	4.9	0	0
TN	0.005	0	0.0	0	4.8	0	0
TX	0.007	0	4.8	-9	2.9	5	-4
UT	0.007	0	0.0	0	6.4	-5	-5
VA	0.054	0	0.5	0	4.9	0	0
VT	0.077	0	0.0	0	11.3	-10	-10
WA	0.012	0	0.0	0	0.2	-10	-10
WI	0.049	0	0.1	0	13.4	-10	-10
WV	0.139	-5	0.0	0	7.2	-5	-10
WY	0.071	0	0.0	0	0.4	0	0

Sources: AIPSO, PIPSO, NCCI, and S&P Capital IQ Pro.

4 Fiscal Efficiency

Ideally, state insurance regulators perform their duties competently and transparently and with minimal cost to consumers, companies, and taxpayers. Taxes and fees paid to support insurance regulation are passed on as part of the cost of insurance coverage.

Ideally, state insurance regulators perform their duties competently and transparently and with minimal cost to consumers, companies, and taxpayers.

States vary in how they collect and allocate funding for their insurance departments. According to the most recent edition of the NAIC's Insurance Department Resources Report (IDRR), 16 states and the District of Columbia derive 100 percent of their insurance department revenue from regulatory fees and assessments.[118] Fees and assessments account for more than 90 percent of the budget in 17 other states and for more than 70 percent of the budget in an additional seven states.[119]

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 derive any revenues from the fees and assessments

118. "Insurance Department Resources Report: Volume 1," p. 31. https://content.naic.org/sites/default/files/publication-sta-bb-volume-one.pdf.
119. Ibid.

they levy, although fees and assessments also account for less than 15 percent of the budget in North Carolina, Pennsylvania, and Rhode Island.[120] In all five of those states, the bulk of the insurance department's operating funds comes from the state's general fund.

The percentage of insurance department budget to department revenues was 5.34 percent in 2022. The NAIC's IDRR also shows that the aggregate insurance department budget for the 50 states, Puerto Rico, and the District of Columbia was $1.88 billion in 2024, unchanged from the prior year.[121] However, it is important to note that state insurance departments collected more than twice that amount, an estimated $3.76 billion, in regulatory fees and assessments from the insurance industry.[122] State insurance departments also collected $190.6 million in fines and penalties and another $1.07 billion outside of taxes, fees, assessments, fines, and penalties.[123] States separately collected $27.5 billion in insurance premium taxes.[124] Thus, of the total $32.7 billion in revenue that states collected from the insurance industry in 2022, only 5.34 percent was spent on insurance regulation. Using this data, we constructed two variables to measure departments' budgetary efficiency and the financial burden states place on insurance products: regulatory surplus (or shortfall) and tax and fee burden.

Fiscal Efficiency

Regulatory Surplus (or Shortfall). Total fees and assessments collected by state insurance departments typically comprise more than twice the amount spent on insurance regulation. This does not include premium taxes, which are a form of sales tax that goes 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 such behavior. Limiting the consideration to the regulatory fees and assessments paid by insurers and insurance producers, states collected over $2 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. 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.

For our score, we set the mean as zero and added and subtracted points based on how far each state deviated from that mean. The states ranged from those 11 with no regulatory surplus to Oregon, whose surplus was more than 20 times the size of its insurance department budget.

Fiscal Efficiency

Tax and Fee Burden. We also looked at total revenues from premium taxes, fees, and assessments, as well as from 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. This analysis drew on Volume 2 of the NAIC's annual IDRR and Volume 1 of the NAIC's data on state revenues.

Fiscal Efficiency Overall Score Calculation. States scores for fiscal efficiency incorporating the combination of regulatory surplus and tax and fee burden points ranged from a low of 0 points for Arizona, Hawaii, Maryland, and Michigan, to a high of 26 points for Oregon (Table 10).

120. Ibid.
121. Ibid., p. 29.
122. Ibid., p. 32.
123. Ibid.
124. Ibid.

Table 10: Fiscal Efficiency

State	Regulatory Surplus		Tax and Fee Burden		Combined
	Raw (%)	Points	Raw (%)	Points	
AK	386	3	4.0	0	3
AL	106	1	4.3	0	1
AR	1,387	13	5.6	0	13
AZ	68	0	4.0	0	0
CA	173	1	3.3	1	1
CO	76	0	2.0	2	2
CT	500	5	1.9	3	8
DE	141	1	4.3	0	1
FL	153	1	0.6	4	5
GA	324	3	4.6	0	3
HI	96	0	6.1	0	0
IA	20	0	1.6	3	3
ID	335	3	3.3	1	4
IL	209	2	1.8	3	5
IN	204	2	2.6	2	4
KS	172	1	5.0	0	1
KY	374	3	4.6	0	3
LA	549	5	7.8	0	5
MA	2,051	20	3.5	1	21
MD	92	0	4.1	0	0
ME	265	2	4.6	0	2
MI	87	0	4.4	0	0
MN	172	1	8.9	0	1
MO	157	1	2.6	2	3
MS	469	4	5.7	0	4
MT	184	1	4.0	0	1
NC	100	1	4.4	0	1
ND	1,309	13	0.3	5	18
NE	201	2	7.5	0	2
NH	283	2	4.6	0	2
NJ	208	2	2.7	2	4
NM	247	2	0.8	5	7
NV	635	6	0.8	0	6
NY	474	4	4.9	0	4
OH	178	1	3.6	1	2
OK	528	5	3.6	1	5
OR	2,637	26	4.9	0	26
PA	19	0	2.8	2	2
RI	192	1	6.2	0	1
SC	230	2	2.0	2	4
SD	573	5	3.0	1	6
TN	140	1	7.3	0	1
TX	345	3	3.7	1	4
UT	144	1	2.7	2	3
VA	780	7	3.6	1	9
VT	607	6	6.9	0	6
WA	214	2	4.9	0	2
WI	403	4	2.1	2	6
WV	185	1	6.2	0	1
WY	111	1	3.2	1	2

Source: R Street analysis of NAIC IDRRs.

States scores for fiscal efficiency incorporating the combination of regulatory surplus and tax and fee burden points ranged from a low of 0 points for Arizona, Hawaii, Maryland, and Michigan, to a high of 26 points for Oregon.

5 Politicization

States with commissioners focused on sound, nonpartisan regulation develop reputations for excellence, independence, and reliability in the support and guidance they provide to policyholders and insurers operating in those states. Academic studies have found that the absence of partisanship is associated with higher levels of effectiveness in government functions; bureaucracies characterized by this kind of impartiality, professionalism, and competence are positively correlated with economic growth and negatively correlated with corruption.[125]

The insurance industry is highly complex. As noted in the Introduction, the successful operation of an insurance company requires that more than a dozen functions be effectively managed. These include underwriting, pricing, case reserving, bulk reserving, claims adjustment, executive management, strategy, customer service, distribution, legal, accounting, reporting, compliance, regulatory, ceded reinsurance, enterprise risk management, treasury, counterparty risk management, and investment management. Publicly traded insurers must also comply with the demanding requirements laid out by the SEC.[126] A successful insurer must execute all these functions proficiently, without undue intervention based on political considerations unrelated to the normal business operations of an insurer. Political economy scholarship has shown that elected regulatory officials tend to be more consumer friendly than appointed ones because voters are responsible for putting them into office.[127] When regulators are appointed, it can "lead to a regulatory policy that favors industry stakeholders to whom they are politically beholden, as political parties see this as a way of enhancing their political agenda on non-regulatory issues."[128]

POLITICAL PRESSURE

POLITICAL PRESSURE

When political pressure is introduced into insurance regulation, it can create issues that require extra-legislative remedies for what should be legislative concerns.

Effective government bureaucracies require competence and political neutrality. Neutral competence has been described as "the ability to do the work of government expertly, and to do it according to explicit, objective standards rather than to personal or party or other obligations and loyalties."[129] Such competence, combined with legislative responsiveness to public will, can lead to effective administration. When political pressure is introduced into insurance regulation, it can create issues that require extra-legislative remedies for what should be legislative concerns. Because insurance regulators are public servants, it is necessary and valuable for the public to have oversight of their activities. Trained, professional regulators can enforce the laws more effectively when uninfluenced by political considerations.

For this report card, we examined insurance commissioner political independence in three ways: first, how they come into office; second, what the process is for their removal from office; and third, whether or not they possess a level of expertise relevant to the field. We downgraded states in which insurance regulation was explicitly politically driven and rewarded structures that properly insulated insurance regulators from politics.

125. Peter Evans and James E. Rauch, "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth," *American Sociological Review* 64:5 (October 1999), pp. 748-765. https://www.jstor.org/stable/2657374?seq=1#page_scan_tab_contents.
126. "Exchange Act Reporting and Registration – Annual and Quarterly Reports," U.S. Securities and Exchange Commission, last accessed Oct. 19, 2024. https://www.sec.gov/resources-small-businesses/going-public/exchange-act-reporting-registration.
127. Timothy Besley and Stephen Coate, "Elected versus Appointed Regulators: Theory and Evidence," *Journal of the European Economic Association* 1:5 (September 2003), pp. 1-33. https://econ.lse.ac.uk/staff/tbesley/papers/jeea.pdf.
128. Ibid.
129. Herbert Kaufman, "Emerging Conflicts in the Doctrines of Public Administration," *The American Political Science Review* 50:4 (December 1956), pp. 1057-1073. https://www.jstor.org/stable/1951335.

Politicization

Selection and Appointment. Based on descriptions provided by the National Conference of State Legislatures, we identified five different systems for selecting and appointing insurance commissioners.[130] Each of these systems was assigned a value on a point scale of -5 to +5 (Table 11).

Table 11: Point-Scale Assignments for Systems for Selecting and Appointing Insurance Commissioners

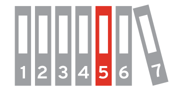
Points	Appointments
-5 points for elected commissioner	The 11 states in which the insurance commissioner is elected received -5 points in the politicization measure. Those states are California, Delaware, Georgia, Kansas, Louisiana, Mississippi, Montana, North Carolina, North Dakota, Oklahoma, and Washington State.[131] When insurance commissioners are elected, there are two concerns: (1) they might be influenced by their corporate supporters or campaign donors or (2) they might be influenced by populist sentiment or "consumer advocates" who argue for insurers to provide coverage at unprofitably low rates, without regard for the impact of politically influenced measures on company solvency. To be sure, the two main functions of insurance regulators are policyholder protection and maintaining insurer solvency. In a populist environment, the latter may be ignored at the expense of the former.
0 points for gubernatorial appointment with legislative consent	The ideal arrangement is a commissioner appointed by, and serving at the pleasure of, the state's governor. There are 26 states where such appointments are subject to the advice and consent of the state Senate (or unicameral legislature, in the case of Nebraska). This is the most common insurance commissioner selection process.
+1 point for gubernatorial appointment without legislative consent	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. This provides slightly more insulation from political considerations. In Connecticut, for example, the commissioner is appointed by the governor and the advice and consent of either the house or the General Assembly.[132] We also included in this category 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.[133]
+2 points for administrative appointment	In six states, the commissioner is not appointed by the governor directly but 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.
+5 points for independent commission	In three states, the insurance commissioner is selected by an independent public board. These structures provide the greatest independence for the regulator. 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, four are selected by the governor (with two each representing insurance industry and consumer interests and with additional partisan balance requirements), and the eight appointed members select the ninth member. Florida's insurance commissioner is appointed by 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.

130. "Insurance Commissioner (state executive office)," Ballotpedia, last accessed Dec. 4, 2024. https://ballotpedia.org/Insurance_Commissioner_(state_executive_office).

131. "Insurance Department Directory," National Association of Insurance Commissioners, last accessed Oct. 25, 2024. https://content.naic.org/sites/default/files/publication-ins-ou-insurance-directory.pdf.

132. "Connecticut General Statutes 4-6 – Appointment and term of department heads," Law Server, Aug. 10, 2022. https://www.lawserver.com/law/state/connecticut/ct-laws/connecticut_statutes_4-6.

133. "Welcome," State of New Hampshire Executive Council, last accessed Oct. 25, 2024. https://www.nh.gov/council/about-us/index.htm.



Politicization

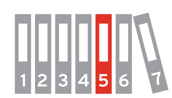
Removal. In addition to considering how insurance regulators are appointed, we examined how they can be removed. Where a commissioner serves at the pleasure of the governor—or, in states with administrative appointments, at the pleasure of another executive officer—there is little check on the potential for regulatory decisions to be politicized. Among the 39 states with appointed commissioners, 24 serve at the pleasure of a single executive officer.[134]

We awarded a 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 13 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, Iowa, Kentucky, Maryland, Michigan, Minnesota, New Mexico, and New York; +5 points for Maine and New Hampshire; and +6 points for West Virginia.

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, only a majority of the commission can act to remove the commissioner. Both the governor and the chief financial officer must vote with the majority for a motion to remove to prevail.

A more abrupt reason for the "removal" of an insurance commissioner is when they become involved in the justice system, which happened recently in Georgia when the insurance commissioner was sentenced to prison in July 2024 and in the more distant past in Louisiana, when insurance commissioners Edwin Edwards, Jim Brown, Sherman Bernard, and Doug Green were sentenced.[135]



Politicization

Expertise. A working understanding of the insurance industry, its providers, and policyholder needs is key to a regulator's ability to oversee the business of insurance with professionalism and competence. It is important that insurance commissioners focus their energies on the requirements of the role, rather than view the position as a stepping stone to a future, highly compensated position at an insurance industry association or insurer.

One study analyzed the professional careers of insurance commissioners from 2000 to 2018, both before and after their terms as commissioners.[136] It found that:

> 51.5% of commissioners had at least one job before/after their term in the insurance industry. More specifically, 38% had at least one job after the end of their term (post-term revolvers) in the insurance industry. Additionally, 29% exited immediately, or within a year into the insurance industry after their term ended (immediate post-term revolvers). Furthermore, 35% of commissioners had at least one job in insurance before their commissioner term started (pre-term revolvers), and 16% came from and exited back into insurance.[137]

134. "Insurance Commissioner (state executive office)." https://ballotpedia.org/Insurance_Commissioner_(state_executive_office).
135. "Former Georgia Insurance Commissioner Sentenced to Prison," United States Attorney's Office Northern District of Georgia, July 12, 2024. https://www.justice.gov/usao-ndga/pr/former-georgia-insurance-commissioner-sentenced-prison; "Louisiana Commissioner Sentenced to Six Months in Prison," Informa Insurance News 24 (February 2012). https://www.i-law.com/ilaw/doc/view.htm?id=19449.
136. Tenekedjieva. https://www.hhs.se/contentassets/bee955be56624b83854b8367ca889fbf/200116-jmp_-a_m-tenekedjieva_revolvingdoor.pdf.
137. Ibid.

In four-fifths of the states we examined, there was no requirement that an insurance commissioner have insurance-industry expertise. We gave a bonus of +5 points to the 10 states whose statutory codes required expertise or experience in the business of insurance as a prerequisite for appointment as insurance commissioner. For example, Indiana statutes stipulate that "[t]he insurance commissioner shall […] be familiar with and known to possess a knowledge of the subject of insurance and be skilled in matters pertaining thereto and shall be chosen solely for fitness, irrespective of political beliefs or affiliations."[138] The states with such a requirement are Alabama, Arizona, Colorado, Florida, Idaho, Indiana, Nevada, Oregon, South Dakota, and Texas.

Politicization Overall Score Calculation. The results of these three factors were summed to grant states between 0.0 and 10.0 points in the politicization category. Florida led with 10.0 points, whereas the 11 states with elected commissioners tied as the most politicized markets in the country and were given 0 points in this category (Table 12).

f(x)

Table 12: Politicization

State	Selection	Removal	Expertise	Combined	Points
AK	2	0	0	2	4
AL	1	4	5	10	8
AR	0	0	0	0	3
AZ	0	0	5	5	5
CA	-5	0	0	-5	0
CO	0	0	5	5	7
CT	0	0	0	0	3
DE	-5	0	0	-5	0
FL	5	5	5	15	10
GA	-5	0	0	-5	0
HI	2	0	0	2	4
IA	0	4	0	4	3
ID	0	0	5	5	5
IL	0	0	0	0	3
IN	1	0	5	6	6
KS	-5	0	0	-5	0
KY	0	4	0	4	5
LA	-5	0	0	-5	0
MA	1	0	0	1	3
MD	0	4	0	4	5
ME	0	5	0	5	5
MI	0	4	0	4	5
MN	0	4	0	4	3
MO	0	0	0	0	3
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	3
NH	1	5	0	6	6
NJ	0	0	0	0	3
NM	5	4	0	9	7

Florida led with 10.0 points, whereas the 11 states with elected commissioners tied as the most politicized markets in the country and were given 0 points in this category.

138. Indiana Code Title 27. Insurance § 27-1-1-2. https://codes.findlaw.com/in/title-27-insurance/in-code-sect-27-1-1-2.

State	Selection	Removal	Expertise	Combined	Points
NV	2	0	5	7	6
NY	0	4	0	4	3
OH	0	0	0	0	3
OK	-5	0	0	-5	0
OR	2	0	5	7	6
PA	0	4	0	4	3
RI	2	0	0	2	4
SC	0	0	0	0	3
SD	2	0	5	7	6
TN	1	0	0	1	3
TX	0	2	5	7	6
UT	0	0	0	0	3
VA	5	1	0	6	6
VT	0	2	0	2	4
WA	-5	0	0	-5	0
WI	0	0	0	0	3
WV	0	6	0	6	6
WY	0	0	0	0	3

Sources: NCSL, NAIC, R Street analysis.

6 Auto Insurance Market Competitiveness

We examined empirical data on the competitiveness of states' auto and homeowners insurance markets by analyzing the concentration and market share of insurance groups in each state's market. We also looked at loss ratios reported by companies operating in those markets.

Auto Insurance Market Competitiveness

Market Concentration. For markets to serve consumers well, there should be a variety of competitors with products designed to address different exposures and policyholder budgets. 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.

We calculated the concentration of each state's personal auto insurance market, as measured by the Herfindahl-Hirschman Index (HHI), using data supplied by S&P Capital IQ Pro and the NAIC Competition Database.[139] The HHI is used by the U.S. Department of Justice (DOJ) and the FTC to assess the degree to which markets are subject to monopolistic concentration. It 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 a 1 percent share, the HHI would be 100. In a market with just one monopolistic firm, the HHI would be 10,000. For example, for a market consisting of four firms with shares of 30, 30, 20, and 20 percent, the HHI is 2,600 (302 + 302 + 202 + 202 = 2,600).[140]

For this metric, we measured concentration at the group level using 2022 NAIC data.[141] In most states, however, a single insurance group may do business through several separate operating units.

139. *P&C Market Share Application*, S&P Capital IQ Pro, 2024. https://www.spglobal.com/marketintelligence/en/solutions/sp-capital-iq-pro.
140. Antitrust Division, "Herfindahl-Hirschman Index," U.S. Department of Justice, July 31, 2018. https://www.justice.gov/atr/herfindahl-hirschman-index.
141. "2022 Competition Database Report," National Association of Insurance Commissioners, March 2024. https://content.naic.org/sites/default/files/publication-cdr-im-competition-database-report.pdf.

The DOJ and the FTC consider markets in which the HHI is between 1,500 and 2,500 to be moderately concentrated. Those with an HHI over 2,500 are considered to be highly concentrated. In the aggregate, the nationwide private auto (liability as well as physical damage) insurance market had an HHI of 885 in 2022, up from 810 in 2021, and from 790 in 2020. Using the DOJ and FTC metrics, only Alaska (auto HHI 1,850), New York (HHI 1,527), and Hawaii (auto HHI 1,578) had an HHI over 1,500.

We did not incorporate the HHI scores into our report card scores because, as the HHI data shows, insurance markets in all states are competitive. Using the HHI would dilute the analysis of other factors. We continue to show the HHI scores to demonstrate that auto insurance markets do not suffer from concentration.

New Entries and Exits. In addition to market concentration measured through the HHI, another measure of competition is volume of new entries and exits in the market. By looking at the change over the last five years, it is possible to explore the overall trend of competitiveness, both nationally and on a state-by-state level. The private passenger auto market saw an overall loss of insurers on a countrywide level, with 44 new auto insurers entering the market and 65 exiting in the 5-year period from 2018 to 2022. For all property and casualty lines, there were 177 entrants and 209 exits in the past five years.[142]

1 2 3 4 5 6 7
Auto Insurance Market Competitiveness

Loss Ratios. In addition to looking at market concentrations in the 50 states, we analyzed combined direct simple loss and loss adjustment expense (LAE) ratios—key profitability measures.[143] The direct simple loss ratio is losses divided by premium. The LAE ratio is expenses associated with losses (such as expenses incurred by claims adjusters and legal fees paid to defense attorneys) divided by premium. Insurers that are more profitable have lower loss and LAE ratios. Low loss ratios can point to insufficiently competitive markets. High loss and LAE ratios mean insurers are less profitable and can be an indicator that they are not charging enough to earn their cost of capital or, *in extremis*, to pay policyholder claims.

1 2 3 4 5 6 7
Auto Insurance Market Competitiveness

In our analysis of loss ratios of auto insurance groups in each of the 50 states, loss ratio included claims payments and LAE but excluded agent commissions and other marketing and administrative expenses the industry incurs. To smooth losses over the underwriting cycle, we present five-year averages from 2018 through 2022.

Loss ratios at the state level provide more than measures of states' profitability. Insurance regulators are charged with ensuring that rates are not excessive, inadequate, or unfairly discriminatory. If insurers charge appropriate premiums for the coverage they provide, rates should be higher in states with more risk and lower in states with less risk, but loss ratios would be comparable over the long term.

We looked for those states where average loss ratios stood out as either far above or far below the average. The nationwide five-year average loss ratio from 2018 through 2022 for private passenger automobile insurance, which includes both automobile liability and automobile physical damage, was 67.8 percent, down marginally from the 2017 to 2021 five-year average of 67.9 percent. The mean of the loss ratios of the 50 states was 64.9 percent.

142. Ibid.
143. *P&C Market Share Application.* https://www.spglobal.com/marketintelligence/en/solutions/sp-capital-iq-pro.

Auto Insurance Market Overall Score Calculation. An HHI index of less than 1,500 indicates a competitive market. An HHI score of 1,500 to 2,500 is considered mildly concentrated. An HHI index of greater than 2,500 is considered highly concentrated.

We found automobile insurance market to be highly competitive in all states. The only two states with an HHI above 1,500 were Alaska and Louisiana, with HHI scores of 1,850 and 1,624 respectively. Therefore, in this year's Report Card, we did not assign points for HHI scores.

Instead, we took the concentration and loss ratio scores together, which gave us a raw total on a scale of 0.0 to 10.0 points. The resulting scores ranged from Louisiana, the least competitive market, to Utah, the most competitive market (Table 13). We also present an additional table below showing the number of insurers that have entered and exited a particular state in the past five years (Table 14). The data from this additional table has not been figured into the overall score of this section, but it is useful information to show, as it demonstrates that there have been more exits than entrants in many states.

We assigned points on the basis of 5-year average loss ratio for both automobile and homeowners insurance as follows:

- Below 50 percent — 12 points
- 50.1 percent – 55 percent — 10 points
- 55.1 percent – 60 percent — 8 points
- 60.1 percent – 65 percent — 6 points
- 65.1 percent – 70 percent — 4 points
- 70.1 percent – 75 percent — 2 points
- 75.1 percent – 80 percent — 0 points
- Above 80 percent — –2 points

We found automobile insurance market to be highly competitive in all states. The only two states with an HHI above 1,500 were Alaska and Louisiana, with HHI scores of 1,850 and 1,624 respectively.

Table 13: Auto Insurance Market

State	Concentration HHI	Loss Ratio 5-Year Average (%)	Points
AK	1,850	64.3	6
AL	1,283	65.1	4
AR	1,136	68.5	4
AZ	999	67.7	4
CA	802	69.6	4
CO	987	64.8	6
CT	855	70.0	2
DE	1,408	71.3	2
FL	1,440	74.5	2
GA	1,164	72.5	2
HI	1,499	60.9	6
IA	1,067	66.6	4
ID	926	62.1	6
IL	1,298	67.5	4

State	Concentration HHI	Loss Ratio 5-Year Average (%)	Points
IN	965	64.8	6
KS	912	64.4	6
KY	1,237	68.7	4
LA	1,624	67.5	6
MA	1,009	62.9	6
MD	1,374	68.0	4
ME	913	63.6	6
MI	1,213	69.9	4
MN	1,193	67.7	4
MO	1,009	68.0	4
MS	1,214	68.2	4
MT	1,166	64.2	6
NC	1,092	68.9	4
ND	1,042	64.3	6
NE	991	67.3	4
NH	896	60.0	6
NJ	1,229	69.5	4
NM	1,187	62.0	6
NV	1,082	72.1	2
NY	1,527	74.4	2
OH	967	64.2	6
OK	1,092	65.1	4
OR	1,078	65.2	4
PA	1,011	67.6	4
RI	1,354	65.2	4
SC	1,331	69.7	4
SD	906	67.6	4
TN	1,066	67.6	4
TX	964	70.0	2
UT	795	66.4	4
VA	1,160	65.8	4
VT	939	59.3	8
WA	976	69.7	4
WI	1,089	65.6	4
WV	1,390	62.8	6
WY	1,238	64.7	6

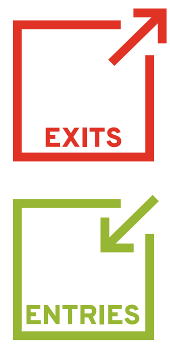
HHI = Herfindahl-Hirschman Index.
Sources: S&P Capital IQ and NAIC Competition Report.

The scores for this auto insurance competitiveness metric ranged from Louisiana, the least competitive market, to Utah, the most competitive market.

Table 14: Auto Insurance Market 5-Year Entries and Exits

State	Total Sellers	5-Year Entrants	5-Year Exits
AK	21	4	6
AL	51	17	19
AR	49	8	18
AZ	77	26	32
CA	66	17	39

State	Total Sellers	5-Year Entrants	5-Year Exits
CO	52	19	26
CT	47	12	14
DE	34	8	12
FL	51	17	23
GA	63	21	23
HI	25	5	6
IA	59	11	17
ID	51	7	9
IL	86	19	22
IN	86	16	20
KS	53	12	15
KY	47	9	16
LA	42	14	15
MA	36	9	9
MD	47	15	16
ME	45	5	7
MI	42	10	14
MN	56	10	15
MO	59	11	19
MS	44	14	20
MT	38	8	14
NC	44	9	14
ND	44	9	13
NE	46	8	15
NH	45	6	8
NJ	39	9	15
NM	41	12	20
NV	51	12	16
NY	41	7	15
OH	76	20	19
OK	61	14	17
OR	50	15	13
PA	70	16	20
RI	39	6	9
SC	47	16	24
SD	48	9	16
TN	66	15	19
TX	70	24	33
UT	56	13	14
VA	65	19	20
VT	42	4	6
WA	42	7	14
WI	66	10	13
WV	36	8	9
WY	38	8	9



Sources: S&P Capital IQ and NAIC Competition Report.

7 Homeowners Insurance Market Competitiveness

We examined data on the competitiveness of states' homeowners insurance markets using similar metrics to those in the automobile insurance analysis.[144]

Homeowners Insurance Market Competitiveness

Market Concentration. The homeowners insurance market had an HHI of 632, up from 553.3 in 2021.[145] As with automobile insurance, the HHI for homeowners insurance markets was not used in the report card calculation because the market is so competitive, as the HHI scores demonstrate.

New Entries and Exits. From 2018 to 2022, there were 67 new entries to the homeowners insurance market and 75 exits nationwide. In this period, there were 19 new entries to the farmowners multiperil insurance market and 18 exits.[146]

Loss Ratios. Homeowners and farmowners insurance typically have higher volatility in underwriting results than other lines of business, such as automobile insurance, because natural catastrophes such as hurricanes, floods, and wildfires can cause loss-ratio spikes. The absence of significant natural catastrophe activity drives a lower loss ratio.[147]

The nationwide homeowners and private auto loss ratios (including LAE) for the past five years are shown in Table 15.[148]

Table 15: Homeowners and Private Auto Loss Ratios, 2019 to 2023

Year	Homeowners Loss Ratio (%)	Private Auto Loss Ratio (%)
2019	54.2	64.6
2020	66.5	56.0
2021	69.0	68.0
2022	70.8	80.1
2023	70.5	75.4

Homeowners Insurance Market Overall Score Calculation.

The five-year average loss ratio for homeowners insurance shows how much the market varies from state to state, ranging from an exceptionally low 45.6 percent for New Hampshire to 158.5 percent for Louisiana (Table 16). We have also provided an additional table showing the number of homeowner and farmowner insurers that have entered the state in the past five years and the number of insurers that have exited a particular state in the past five years (Table 17). This data has not figured into the overall score of this section.

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144. "2022 Competition Database." https://content.naic.org/sites/default/files/publication-cdr-im-competition-database-report.pdf.
145. Ibid.
146. Ibid.
147. Ibid.
148. "2023 Market Share Reports For Property/Casualty Groups and Companies by State and Countrywide," National Association of Insurance Commissioners, August 2024. https://content.naic.org/sites/default/files/publication-msr-pb-property-casualty.pdf.

Table 16: Homeowners Insurance Market

State	Concentration HHI	Loss Ratio 5-Year Average (%)	Points
AK	1,964	53.6	10
AL	1,240	63.4	6
AR	1,169	91.9	0
AZ	859	65.8	4
CA	899	45.5	12
CO	1,112	81.0	0
CT	498	52.4	10
DE	1,095	55.4	8
FL	566	74.1	2
GA	1,102	70.0	2
HI	1,644	109.5	0
IA	1,015	122.3	0
ID	966	66.7	4
IL	1,490	78.0	1
IN	962	65.2	4
KS	1,003	53.3	10
KY	1,319	77.2	1
LA	1,132	158.5	0
MA	525	39.9	12
MD	979	68.2	4
ME	635	43.3	12
MI	933	69.2	4
MN	1,113	101.7	0
MO	1,129	62.9	6
MS	1,088	68.2	4
MT	1,208	79.2	1
NC	728	58.9	8
ND	794	57.8	8
NE	1,034	77.8	1
NH	638	45.6	12
NJ	613	57.9	8
NM	1,126	60.1	6
NV	763	56.0	8
NY	680	51.2	10
OH	864	69.5	4
OK	1,348	66.9	4
OR	1,116	85.6	0
PA	933	60.9	6
RI	685	50.0	10
SC	745	48.1	48
SD	871	91.1	0
TN	1,109	70.6	2
TX	898	70.6	2
UT	808	71.3	2
VA	964	55.4	8
VT	696	45.2	12
WA	957	66.0	4
WI	972	69.4	4
WV	1,360	55.0	8
WY	1,234	62.3	6

HHI = Herfindahl-Hirschman Index.
Sources: S&P Capital IQ and NAIC Competition Report.

The five-year average loss ratio for homeowners insurance shows how much the market varies from state to state, ranging from an exceptionally low 45.6 percent for New Hampshire to 158.5 percent for Louisiana.

Table 17: Homeowners/Farmowners 5-Year Entries and Exits

STATE	Homeowners Entries and Exits			Farmowners Entries And Exits		
	Total Sellers	5-Year Entrants	5-Year Exits	Total Sellers	5-Year Entrants	5-Year Exits
AK	24	7	5	2	1	1
AL	68	28	26	16	6	3
AR	55	18	19	20	7	7
AZ	79	25	21	16	6	7
CA	66	27	25	19	9	6
CO	55	19	24	22	7	7
CT	67	22	16	10	4	1
DE	50	16	15	12	3	3
FL	77	28	33	11	4	1
GA	72	29	25	22	6	6
HI	32	10	10	0	1	3
IA	64	10	15	22	3	7
ID	50	10	9	22	6	5
IL	91	25	20	29	4	5
IN	85	20	18	35	3	4
KS	55	10	13	23	4	7
KY	55	18	17	22	5	5
LA	54	30	41	11	6	6
MA	72	16	22	10	4	2
MD	61	19	16	17	7	4
ME	56	15	11	12	3	0
MI	61	13	9	22	2	0
MN	59	10	16	23	6	4
MO	61	22	22	24	6	9
MS	55	29	28	17	6	4
MT	46	13	13	20	6	3
NC	73	31	27	25	6	4
ND	44	8	11	20	5	6
NE	44	7	14	23	6	6
NH	58	17	16	9	2	2
NJ	74	17	18	14	6	0
NM	49	18	14	15	6	4
NV	59	23	19	13	4	3
NY	103	19	24	38	4	3
OH	78	21	20	31	4	3
OK	61	20	21	26	8	7
OR	54	20	17	20	7	5
PA	96	19	22	35	4	3
RI	55	20	18	5	1	0
SC	77	28	33	15	7	4
SD	50	10	16	25	6	8
TN	73	32	23	25	5	4
TX	84	38	41	17	7	6
UT	58	23	17	18	10	6
VA	78	26	22	24	8	6
VT	49	13	13	11	3	1
WA	47	18	20	19	7	6
WI	77	12	15	35	5	4
WV	44	10	12	12	1	1
WY	42	14	10	14	5	3

Source: NAIC Competition Report.

Report Card Grades

Grading and Results

Table 18: State Grades and Standard Deviation

A:	Above the mean by more than 1 standard deviation
B:	Above the mean by less than 1 standard deviation
C:	Below the mean by less than 1 standard deviation
D:	Below the mean by more than 1 standard deviation
F:	Below the mean by more than 2 standard deviations

Table 19: 50 States Ranked by Total Score

The point scores were translated into letter grades as follows.

>60	A+
51-60	A
41-50	A-
31-40	B
21-30	C
11-20	D+
0-10	D
<0	F

We also designated pluses and minuses to recognize states that were at the margins of the nearest grade range.

Thumbnail summaries of results for the 50 states are presented below, and we have also provided this information in an easy-to-skim tabular format in Appendix 1.

State Capsule Reports

ALABAMA

- **Strengths:** The introduction of the Strengthen Alabama Homes program served as a model for other states
- **Weaknesses:** Concentrated homeowners market (the top five homeowners insurers, State Farm, Alfa, Allstate, USAA, and Liberty Mutual, had 66 percent market share in 2021), little underwriting freedom

2022 Grade	2024 Grade	2024 Score	2024 Rank
D+	C	24	36

ALASKA

- **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

2022 Grade	2024 Grade	2024 Score	2024 Rank
F	D	7	48

ARIZONA

- **Strengths:** No regulatory surplus, significant underwriting freedom
- **Weaknesses:** Thinly capitalized markets

2022 Grade	2024 Grade	2024 Score	2024 Rank
A+	A-	44	12

ARKANSAS

- **Strengths:** Well-capitalized markets, small residual markets
- **Weaknesses:** Desk drawer rules

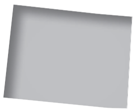
2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	A-	42	14

CALIFORNIA

- **Strengths:** The nation’s largest insurance market
- **Weaknesses:** Tight restrictions on rate increase approvals, elected commissioner, use of intervenors, underwriting restrictions on use of forward-looking models and on factoring in reinsurance cost

2022 Grade	2024 Grade	2024 Score	2024 Rank
F	D+	11	44

COLORADO



- **Strengths:** Low politicization, no regulatory surplus, no runoff obligations
- **Weaknesses:** Extremely high auto loss ratio, extremely high homeowners loss ratio, large workers' compensation state fund, territorial restrictions on reinsurance cost

2022 Grade	2024 Grade	2024 Score	2024 Rank
C	B	33	24

CONNECTICUT

- **Strengths:** Low tax and fee burden, competitive auto market, competitive homeowners market, small residual markets
- **Weaknesses:** Large regulatory surplus, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
C	B	32	25

DELAWARE

- **Strengths:** Low tax and fee burden, small residual markets
- **Weaknesses:** Elected commissioner, large runoff obligations, concentrated auto market, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	C	26	33

FLORIDA

- **Strengths:** Tort reform measures passed in 2023 are addressing the state's litigation epidemic; low politicization; low tax and fee burden; takeout program to reduce Citizens Property market share
- **Weaknesses:** Large homeowners residual market, potential weakness at Florida Hurricane Catastrophe Fund, to which insurers are required to make cessions

2022 Grade	2024 Grade	2024 Score	2024 Rank
A	B	32	26

GEORGIA

- **Strengths:** No runoff obligations
- **Weaknesses:** Georgia's state deputy commissioner for insurance sought to end the file-and-use system in the state and make all rate changes filed with a state regulator on a prior approval basis, elected commissioner, extremely high auto loss ratio, desk drawer rules

2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	B	34	22

HAWAII

- **Strengths:** No regulatory surplus, ahead on financial exams, well-capitalized markets
- **Weaknesses:** Concentrated auto market, elevated homeowners insurance loss ratio, limited underwriting freedom, credit scoring restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
D	F	-9	50

IDAHO

- **Strengths:** No runoff obligations
- **Weaknesses:** Large workers' compensation state fund

2022 Grade	2024 Grade	2024 Score	2024 Rank
B+	B	38	18

ILLINOIS

- **Strengths:** Low tax and fee burden, significant underwriting freedom
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, concentrated homeowners market

2022 Grade	2024 Grade	2024 Score	2024 Rank
A	A-	45	9

INDIANA

- **Strengths:** Low tax and fee burden, small residual markets
- **Weaknesses:** Large runoff obligations

2022 Grade	2024 Grade	2024 Score	2024 Rank
A	A-	45	10

IOWA

- **Strengths:** Low tax and fee burden, no runoff obligations, well-capitalized markets, small residual markets
- **Weaknesses:** Elevated homeowners loss ratio

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	D+	14	43

KANSAS

- **Strengths:** No special strengths
- **Weaknesses:** Elected commissioner, high tax and fee burden

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	B	36	21

KENTUCKY

- **Strengths:** Ahead on financial exams, significant underwriting freedom
- **Weaknesses:** Concentrated homeowners market

2022 Grade	2024 Grade	2024 Score	2024 Rank
A+	A	53	5

LOUISIANA

- **Strengths:** Changed to file and use from prior approval and introduced program to strengthen Louisiana homes, increasing resilience
- **Weaknesses:** Elected commissioner, concentrated elevated auto loss ratio, restrictions on use of credit-based insurance score in underwriting

2022 Grade	2024 Grade	2024 Score	2024 Rank
D-	D+	20	39

MAINE

- **Strengths:** No regulatory surplus, competitive auto market, competitive homeowners market
- **Weaknesses:** Excess auto profits, excess homeowners profits, large workers' compensation state fund

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	A-	45	11

MARYLAND

- **Strengths:** No regulatory surplus
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, concentrated auto market, little underwriting freedom, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
C	C	24	37

MASSACHUSETTS

- **Strengths:** Competitive homeowners market
- **Weaknesses:** Large regulatory surplus, large auto residual market, large homeowners residual market, credit scoring restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
C	A	52	7

MICHIGAN

- **Strengths:** No regulatory surplus
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, extremely high auto loss ratio

2022 Grade	2024 Grade	2024 Score	2024 Rank
B-	B	39	17

MINNESOTA

- **Strengths:** No runoff obligations
- **Weaknesses:** Behind on financial exams, credit scoring restrictions, elevated homeowner insurance loss ratio

2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	D+	20	40

MISSISSIPPI

- **Strengths:** No special strengths
- **Weaknesses:** Elected commissioner, high tax and fee burden, excess homeowners profits, little underwriting freedom

2022 Grade	2024 Grade	2024 Score	2024 Rank
D+	D	8	47

MISSOURI

- **Strengths:** Significant underwriting freedom
- **Weaknesses:** Territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	A-	41	15

MONTANA

- **Strengths:** No special strengths
- **Weaknesses:** Elected commissioner, high tax and fee burden, behind on financial exams, extremely high homeowners loss ratio, large workers' compensation state fund

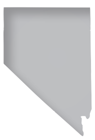
2022 Grade	2024 Grade	2024 Score	2024 Rank
C	C	29	30

NEBRASKA

- **Strengths:** No runoff obligations, small residual markets
- **Weaknesses:** Extremely high homeowners loss ratio

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	B	32	27

NEVADA



- **Strengths:** Low politicization, low tax and fee burden, small residual markets
- **Weaknesses:** Extremely high auto loss ratio

2022 Grade	2024 Grade	2024 Score	2024 Rank
A	B	37	20

NEW HAMPSHIRE

- **Strengths:** Competitive auto market, competitive homeowners market, small residual markets
- **Weaknesses:** Large runoff obligations, thinly capitalized markets, excess auto profits, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	B	37	19

NEW JERSEY

- **Strengths:** No runoff obligations, well-capitalized markets, competitive homeowners market
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, little underwriting freedom, desk drawer rules, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
B-	D	9	45

NEW MEXICO

- **Strengths:** Low politicization, ahead on financial exams, no runoff obligations, significant underwriting freedom
- **Weaknesses:** Large regulatory surplus, high tax and fee burden

2022 Grade	2024 Grade	2024 Score	2024 Rank
B+	A+	62	2

NEW YORK

- **Strengths:** No special strengths
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, behind on financial exams, concentrated auto market, little underwriting freedom, desk drawer rules, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
D	D	9	46

NORTH CAROLINA

- **Strengths:** Well-capitalized markets
- **Weaknesses:** Elected commissioner, large runoff obligations, large auto residual market with complex rules for auto insurance recoupments, large homeowners residual market, little underwriting freedom

2022 Grade	2024 Grade	2024 Score	2024 Rank
D	F	-8	49

NORTH DAKOTA

- **Strengths:** No runoff obligations, well-capitalized markets
- **Weaknesses:** Elected commissioner, excess auto profits, monopolistic workers' compensation fund, little underwriting freedom

2022 Grade	2024 Grade	2024 Score	2024 Rank
C-	C	23	38

OHIO

- **Strengths:** No special strengths
- **Weaknesses:** Excess auto profits, monopolistic workers' compensation fund

2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	C	28	31

OKLAHOMA

- **Strengths:** Significant underwriting freedom
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, elected commissioner, excess auto profits, territorial restrictions

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	A-	43	13

OREGON

- **Strengths:** Low politicization
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, large regulatory surplus, large workers' compensation state fund

2022 Grade	2024 Grade	2024 Score	2024 Rank
D	A	53	6

PENNSYLVANIA

- **Strengths:** No special strengths
- **Weaknesses:** Large runoff obligations

2022 Grade	2024 Grade	2024 Score	2024 Rank
B+	C	25	35

RHODE ISLAND

- **Strengths:** No regulatory surplus
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, behind on financial exams, large homeowners residual market

2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	D+	17	42

SOUTH CAROLINA

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

2022 Grade	2024 Grade	2024 Score	2024 Rank
C	A	55	4

SOUTH DAKOTA

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

2022 Grade	2024 Grade	2024 Score	2024 Rank
A	A-	41	16

TENNESSEE

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

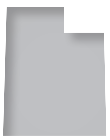
2022 Grade	2024 Grade	2024 Score	2024 Rank
B+	B	32	28

TEXAS

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

2022 Grade	2024 Grade	2024 Score	2024 Rank
C+	C	26	34

UTAH



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

2022 Grade	2024 Grade	2024 Score	2024 Rank
B+	B	34	23

VERMONT

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

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	A-	46	8

VIRGINIA

- **Strengths:** Well-capitalized markets
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting

2022 Grade	2024 Grade	2024 Score	2024 Rank
A	A	57	3

WASHINGTON

- **Strengths:** Ahead on financial exams, no runoff obligations
- **Weaknesses:** Elected commissioner, monopolistic workers' compensation fund, little underwriting freedom, desk drawer rules

2022 Grade	2024 Grade	2024 Score	2024 Rank
B+	D+	18	41

WEST VIRGINIA

- **Strengths:** No runoff obligations, small residual markets
- **Weaknesses:** Restrictions on use of credit-based insurance score in underwriting, high tax and fee burden, excess auto profits, concentrated homeowners market, little underwriting freedom

2022 Grade	2024 Grade	2024 Score	2024 Rank
C	C	30	29

WISCONSIN

- **Strengths:** Low tax and fee burden, well-capitalized markets, small residual markets
- **Weaknesses:** Behind on financial exams

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	C	27	32

WYOMING

- **Strengths:** Significant underwriting freedom
- **Weaknesses:** Extremely high homeowners loss ratio, monopolistic workers' compensation fund

2022 Grade	2024 Grade	2024 Score	2024 Rank
B	A+	63	1

Conclusion

Overall, our analysis and grading of states' insurance regulation found insurance to be regulated effectively. The median and mean grade was a B. There were 17 A grades (including A+ and A-). This finding is consistent with prior iterations of R Street's Insurance Regulation Report Card.

Grade Distribution

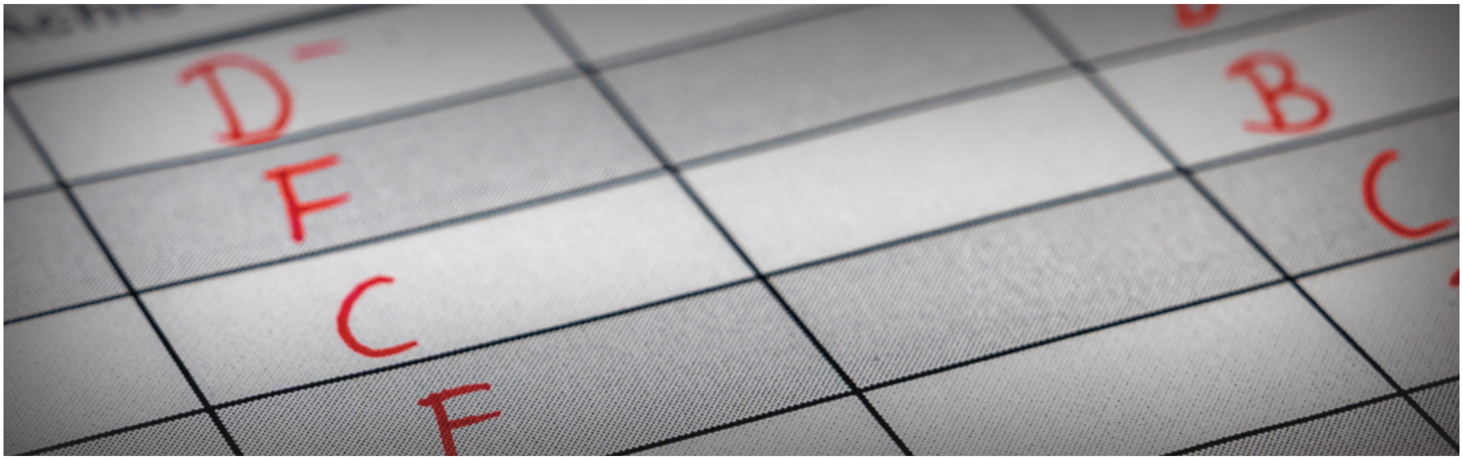
Grade	A+	A	A-	B	C	D+	D	F
States	2	3	12	11	10	5	5	2

The methodology employed in this report was modified somewhat from prior iterations of the report for increased transparency and simplification. Thank you for your support of R Street's Insurance Regulation Report Card. We hope it provides helpful information for consumers, lawmakers, regulators, the insurance industry, and the general public. We also hope it can serve as a useful reference and tool, especially if and when the threat of greater federal involvement in insurance markets looms larger. We welcome your comments and look forward to continuing the conversation.

Our analysis and grading of states' insurance regulation found insurance to be regulated effectively.

Appendix 1: Summary Scoring and Grade Table

State	Solvency Regulations	Rate Regulation	Underwriting Freedom	Residual Markets	Fiscal Efficiency	Politicization	Auto Insurance	Homeowner Insurance	Combined	Grade
AK	20	3	1	-10	3	4	6	10	7	D+
AL	3	2	0	0	1	8	4	6	24	C
AR	3	12	9	5	13	3	4	0	42	A-
AZ	3	14	14	0	0	5	4	4	44	A-
CA	17	0	-6	-17	1	0	4	12	11	D+
CO	8	11	-1	0	2	7	6	0	33	B
CT	2	8	4	-5	8	3	2	10	32	B
DE	4	10	6	-5	1	0	2	8	26	C
FL	-2	11	9	-5	5	10	2	2	32	B
GA	4	13	10	0	3	0	2	2	34	B
HI	0	0	-4	-15	0	4	6	0	-9	F
IA	2	6	6	-10	3	3	4	0	14	D
ID	5	12	12	-10	4	5	6	4	38	B
IL	2	20	20	-10	5	3	4	1	45	A-
IN	3	11	11	0	4	6	6	4	45	A-
KS	4	11	9	-5	1	0	6	10	36	B
KY	15	15	15	-5	3	5	4	1	53	A-
LA	3	13	3	-10	5	0	6	0	20	D
MA	16	8	5	-19	21	3	6	12	52	A-
MD	13	2	-4	0	0	5	4	4	24	C
ME	12	10	8	-10	2	5	6	12	45	A-
MI	9	8	4	5	0	5	4	4	39	B
MN	3	8	6	-5	1	3	4	0	20	D
MO	2	15	13	-5	3	3	4	6	41	A-
MS	2	0	-1	-5	4	0	4	4	8	D+
MT	7	10	9	-5	1	0	6	1	29	C
NC	-1	3	2	-25	1	0	4	8	-8	F
ND	1	0	0	-10	18	0	6	8	23	C
NE	2	10	10	0	2	3	4	1	32	B
NH	-2	10	8	-5	2	6	6	12	37	A-
NJ	4	3	-2	-15	4	3	4	8	9	D+
NM	7	17	17	-5	7	7	6	6	62	A+
NV	0	8	7	0	6	6	2	8	37	B
NY	0	0	-5	-5	4	3	2	10	9	D+
OH	3	10	10	-10	2	3	6	4	28	C
OK	2	15	13	0	5	0	4	4	43	A-
OR	4	8	10	-5	26	6	4	0	53	A
PA	3	7	5	-5	2	3	4	6	25	C
RI	-1	11	10	-22	1	4	4	10	17	D
SC	4	0	-1	-7	4	3	4	48	55	A
SD	1	13	11	0	6	6	4	0	41	A-
TN	10	6	6	0	1	3	4	2	32	B
TX	-4	10	10	-4	4	6	2	2	26	C
UT	-3	14	16	-5	3	3	4	2	34	B
VA	8	11	11	0	9	6	4	8	57	A
VT	2	12	12	-10	6	4	8	12	46	A-
WA	17	3	-2	-10	2	0	4	4	18	D
WI	-4	12	12	-10	6	3	4	4	27	C
WV	15	2	2	-10	1	6	6	8	30	C
WY	-4	25	25	0	2	3	6	6	63	A+
								Average	32	B
								Median	32	B



About the 2024 Insurance Regulation Report Card

The R Street Insurance Regulation Report Card was the brainchild of R Street co-founder and president Eli Lehrer and has been shepherded through nine previous editions by R.J. Lehmann, former R Street resident fellow, editor-in-chief, and Finance, Insurance, and Trade director. If any merit be found in this report, it is because of the trailblazing work of Eli and Ray, who we acknowledge and thank, and on whose shoulders this project continues to stand.

About the Author
Jerry Theodorou is director of the R Street Institute's Finance, Insurance, and Trade Policy Program. Jerry contributes to the public policy debates by developing and advancing effective free market public policy solutions to complex issues where federal and state governments have intervened.

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