COMMISSIONER OF SECURITIES & INSURANCE

MONICA J. LINDEEN
COMMISSIONER

OFFICE OF THE MONTANA
STATE AUDITOR

EXHIBIT 15
DATE 2/18/2011
HB 553

Memorandum

To: Pat Murdo, Research Analyst, Economic Affairs Interim Committee

CC: Commissioner Monica Lindeen, Bob Moon, Walter Schweitzer, Jackie Boyle, John Mudd, Steve Matthews, Carol Roy

From: Mari L. Kindberg, Property/Casualty Actuary, Commissioner of Securities and Insurance

Date: January 7, 2010

Re: Workers Compensation, 33-16-1020, MCA, Herfindahl-Hirschman Index

This memorandum is in response to your request for the Commissioner of Securities and Insurance (CSI) to provide the Herfindahl-Hirschman Index (HHI) to determine market concentration for the workers compensation market in Montana. The HHI is utilized in 33-16-1020, MCA to measure the market concentration among Plan 2 insurers, without including State Fund. As per your request, I have calculated the HHI including State Fund.

The HHI is the test used by the Federal Trade Commission (FTC)/Department of Justice (DOJ) to determine whether to allow a business merger. If a merger will likely create an HHI greater than 1800, according to the FTC/DOJ, no further analysis is needed as it is likely to have adverse competitive effects and raise antitrust concerns.

Herfindahl-Hirschman Index Scale

0-1000	Un-concentrated Market
1001 – 1800	Moderately Concentrated Market
1800 +	Highly Concentrated Market
10,000	Single Writer

**The HHI is determined by summing the squares of the market shares of insurers.*

Montana Workers Compensation Market Concentration:

HHI Plan 2 = **1238**

HHI Plan 2 and Plan 3 = **4807**

The HHI for the 2008 private insurer market (Plan 2) alone is 1238, which according to the FTC/DOJ guidelines indicate a moderately concentrated market.

The HHI for the 2008 workers compensation market for private insurers (Plan 2) and State Fund (Plan 3) combined is 4807, which according to the guidelines indicate a highly concentrated market.

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