Via email

February 5, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
commissionerlara@insurance.ca.gov

Re: State Farm Request for Emergency Interim Rate Approvals:
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Commissioner Lara:

Consumer Watchdog submits this preliminary response in opposition to State Farm General Insurance Company's ("State Farm") letter request ("Letter Request") for emergency interim rate increase approvals that it addressed to you on February 3, 2025.

In its Letter Request and subsequent communications, State Farm has emphasized that its emergency interim rate requests stem primarily from concerns about its credit rating—not from any immediate or long-term inability to process and pay wildfire claims. But one of the leading credit rating agencies, S&P Global Ratings, gave it a "AA" rating, and noted it was unlikely to change its ratings in the next two years, specifically taking into account risks to State Farm's capital from natural catastrophe losses.[1]

Consumers impacted by the recent wildfires in Los Angeles County should be confident in their ability to focus their limited resources on rebuilding their homes and households—not on propping up State Farm's credit rating. As State Farm itself has acknowledged, only one agency has downgraded its rating.[2] Meanwhile, other credit rating agencies have seen no need for a downgrade. State Farm's

[1] S&P Global Ratings, *State Farm Mutual Automobile Insurance 'AA' Ratings Affirmed*, June 28, 2024 ("S&P Rating"), available at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3205015.
[2] See Letter Request at p. 1.

parent company, State Farm Mutual Automobile Insurance Company ("SFMAIC"), has supported its affiliates following catastrophes before, and there is no reason to expect it will not do so again—just as it did when its Texas affiliate faced financial trouble—given its nearly $200 billion in surplus and reserves.[3]

As an intervenor representing consumers in the pending rate proceedings for State Farm's homeowners, renters/condo, and rental dwelling rate applications, Consumer Watchdog has identified significant issues with State Farm's request for emergency interim rate approvals, which seeks to bypass the statutorily mandated prior approval process. Our concerns focus on the following four critical issues:

Proposition 103 and the Department's Regulations Require State Farm to Justify Its Request Before You Can Approve It.

The Proposition 103 system is designed to prevent unjustified, panic-driven rate increases from being approved, ensuring that any rate adjustments are thoroughly vetted and justified before implementation. Here, State Farm's request for immediate approval of substantial rate increases—22% for homeowners, 15% for renters and condo owners, and 38% for rental dwellings—without prior justification, lacks foundation in California's Proposition 103 regulatory framework. Proposition 103 mandates that the Insurance Commissioner must approve any rate changes before they take effect, ensuring that rates are not excessive and that thorough, impartial reviews are conducted.

Historically, when a rate has been challenged by a consumer advocate, as Consumer Watchdog has intervened here, no Commissioner has approved a rate increase exceeding 7% without a noticed public hearing, except when all parties have agreed to a settlement. State Farm has had ample opportunity since August to pursue or amend its dormant request but has chosen not to meaningfully engage with the California Department of Insurance or Consumer Watchdog in the required public rate review process to demonstrate that its proposed rates are justified.

If State Farm were genuinely concerned about expediting approval, it would follow proper procedure and promptly amend its rate applications—which, even a month after the fires started, it has failed to do. This process can proceed quickly—Consumer Watchdog remains willing to work with all parties on an expedited basis in response to these unprecedented wildfires. However, regulatory decisions must adhere to due process under the existing statutes and regulations and be supported

[3] SFMAIC financial statement as of September 30, 2024.

by evidence and analysis, not by unsupported claims of corporate urgency. In these circumstances, if State Farm is continuing to invoke its financial condition as a justification for its requested rate hikes, such a decision should at a minimum consider whether State Farm has overpaid for reinsurance purchased from its parent company, as well as the $194 billion available to State Farm's parent to support it.

Lack of Justification for Rate Increase

State Farm originally filed its request for an approximate $1 billion per year (30%) rate increase for its homeowners polices on June 27, 2024, invoking a provision of the prior approval regulations that requires demonstrating its "financial condition is such that its maximum permitted earned premium [allowed under the standard regulatory prior approval ratemaking formula] should be increased in order to protect the insurer's solvency" (Cal. Code Regs., tit. 10, § 2644.27(f)(6) ["Variance 6"]). Consumer Watchdog challenged the application, and its intervention was granted on August 14.[4]

Since then, State Farm has taken only minimal steps to advance its homeowners rate application and has failed to provide any valid justification for its requested rate increases in response to requests for information from Consumer Watchdog. For example, it has not disclosed critical information about the reinsurance it purchases from its parent company, SFMAIC, nor has it provided the actuarial data necessary to support its loss projections. Despite having three pending rate applications since last summer, State Farm has made no meaningful effort to meet its burden of proving that its requested increases comply with California's rate regulations, which protect consumers from excessive rates.

Without substantial justification, any emergency approval would be both premature and unwarranted. This shift raises serious concerns about State Farm's credibility, as it seeks preemptive approval, refuses to engage in the required review process,

[4] Also on June 27, 2024, State Farm filed an application for an overall 41.8% ($112 million) per year increase to its California Renters and Condominium Unitowners Programs and on July 5, 2024, filed an application for an overall 38.0% ($119 million) per year increase to its California Rental Dwelling Program. Consumer Watchdog challenged these applications and was granted intervention in both proceedings on September 3 and September 10, 2024, respectively.

and then retroactively attempts to justify its request by changing its rationale months later.

Credit Rating Concerns vs. Claims Distress

State Farm's primary concern, according to its Letter Request, is the risk of a Wall Street credit rating downgrade, which State Farm says would lead some banks to no longer accept its homeowners insurance policies as collateral backing for mortgages. But one of the world's leading credit rating agencies—S&P Global Ratings ("S&P")—does not segregate State Farm as a separate operating entity in its rating of SFMAIC. On June 28, 2024—one day after State Farm requested a rate increase based in part on credit rating concerns—S&P "affirmed the 'AA' insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core subsidiaries," and noted "[t]he stable outlook indicates our expectation that the company will remain the largest U.S. personal line insurer and maintain capital at the 99.99% level."[5]

Furthermore, if State Farm's primary concern is its credit rating rather than its ability to pay claims, this raises serious questions about whether the rate-setting process is the appropriate mechanism to address its problem. State Farm is essentially using credit rating risks as a pretext for an immediate rate increase, asking policyholders to protect it from a speculative downgrade, all while avoiding the requirement to disclose relevant financial data in a rate hearing.

While the Insurance Code grants the Insurance Commissioner a role in monitoring the financial condition and fundamental solvency of insurers, this power is intended to protect consumers' ability to have future claims paid, not to attempt to guarantee uncertain Wall Street credit opinions. Credit ratings are forward-looking assessments of the relative credit risks of an entity's financial obligations, considering factors such as business operations, marketplace conditions, financial ratios, cash flow, debt levels, market position, regulatory environment, management quality, geopolitical factors, peer comparisons, and industry trends. These evaluations go far beyond—and have little in common with—the actuarial risk assessments used in insurance rate-setting. The Commissioner and CDI do not have the expertise—nor should they attempt—to implement a rate increase solely to preserve a particular credit rating for a specific insurer. More importantly, the risk of a temporary credit downgrade, while undesirable for any company, is vastly different from risks of actual insolvency or an inability to pay claims as they come

[5] S&P Rating, *supra* note 1.

due—particularly when here the credit risks are complicated by the available support of SFMAIC.

State Farm Is Responsible for Six Months of Delay

State Farm's suggestion in its Letter Request that intervenors are somehow responsible for delays in the approval process is false. Since submitting its applications for proposed rate increases in June and July 2024, State Farm has made no meaningful effort to engage with Consumer Watchdog or provide the necessary information to justify its proposed homeowners insurance rates. Over the past five months since it was granted intervention, Consumer Watchdog has made at least 14 attempts to encourage State Farm to actively engage in the process and respond to its requests for information on its homeowners rate application, but the company has consistently declined.[6] State Farm's request could have been resolved months ago had it pursued the process diligently. It is State Farm's own inaction—not Consumer Watchdog's involvement—that has delayed this review. Therefore, State Farm should not now be allowed to claim urgency due to its own failure to engage with the required regulatory process.

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[6] This includes emails from Consumer Watchdog to counsel for State Farm on at least the following dates: 9/13/24 (initial request for a three-way call with State Farm and CDI); 9/17/24 (follow-up on 9/13 email); 9/23/24 (follow-up on 9/17 email); 10/1/24 (follow-up email requesting a three-way call); 10/7/24 (email asking State Farm to respond to CDI); 10/10/24 (email confirming State Farm counsel's voicemail); 10/21/24 (follow-up on 10/10 email after no response); 11/26/24 (follow-up email stating still no response from State Farm counsel); 12/5/24 (email requesting expected response date); 12/16/24 (follow-up on 12/5 email asking for expected response date); 1/8/25 (follow-up email re responses to requests for information on its homeowners rate application); 1/21/25 (follow-up email to State Farm counsel re 12/5, 12/16, and 1/8 emails); 1/29/25 (call to CDI requesting a three-way call due to no State Farm response). The timeline shows repeated delays by State Farm's counsel in responding to requests for three-way calls and responses to requests for information related to their homeowners rate increase proposal. Despite multiple follow-ups from Consumer Watchdog between September 2024 and January 2025, State Farm counsel frequently postponed responses, citing personal and work-related reasons. This pattern indicates a lack of urgency and engagement from State Farm in responding to requests for information and conferences to move its homeowners rate application forward.

State Farm Has Not Proved That Its Reserves Will Not Cover Wildfire Losses

State Farm has yet to fully justify its emergency request. In the Nontenant Homeowners Note to Reviewer submitted in SERFF 2/5/25, State Farm's calculations indicate that $6.4 billion of catastrophe losses for 2025 would be needed to support a 22% increase to its Homeowners insurance rates. However, those calculations also substantially increase the amount of weight given to the latest year of data (2025 in this case), in order to inflate the catastrophe load used in the rate indication. Using the unadjusted weighting scheme from State Farm's latest Homeowners rate filing, Consumer Watchdog's preliminary calculations suggest that State Farm's claims payouts from the recent wildfires would need to be on the order of $10 billion to justify the 22% increase. State Farm has not substantiated that wildfire claims are expected to reach even the lower of these amounts ($6.4 billion). As of the end of September 2024, State Farm held approximately $4.4 billion in loss & LAE reserves and policyholder surplus.[7] Additionally, the company has not provided detailed information regarding the reinsurance it has purchased from its parent company, nor has it explained why none of its parent's substantial resources are available to help protect California consumers, as they were available for Texas consumers in support of SFMAIC's Texas subsidiary.[8]

Given these circumstances, State Farm's request appears to be an attempt to shift speculative Wall Street risks (as opposed to basic solvency or ability to pay claims) onto consumers, rather than addressing a true financial shortfall that impacts its ability to pay wildfire claims. State Farm has not demonstrated why it cannot cover these anticipated claims without immediate premium increases. California consumers should not bear the burden of an unjustified rate hike when the company likely has the financial resources to meet its obligations, at least until it can provide the legally required proof that it needs additional funds.

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[7] State Farm financial statement as of September 30, 2024.

[8] *State Farm Lloyds v. Rathgeber* (Tex. App. 2014) 453 S.W.3d 87, review granted, judgment vacated, and remanded by agreement (Tex., Mar. 6, 2015, No. 15-0023) 2015 WL 13954099 at *10–11 (noting "Amid its losses, there is no dispute that State Farm Lloyds would have been rendered statutorily insolvent absent large cash infusions, and thus it had turned to an affiliate, State Farm Mutual Automobile Insurance Company (State Farm Mutual), and obtained three advances—in November 2001, February 2002, and September 2002—in amounts totaling over one billion dollars.")

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The bottom line is that State Farm is entitled to a homeowners rate increase only if it can provide actuarial data, subject to public review, that demonstrates the increase is necessary to cover expected claims, reasonable expenses, and a fair profit. As outlined above, State Farm chose not to actively pursue its rate request or engage with the parties involved in the pending proceedings. Instead, it is attempting to use the emergency conditions faced by thousands of Los Angeles-area homeowners to impose an unjustified rate increase on policyholders statewide. This request is based on a rationale unsupported by the Insurance Code. Given these facts, Consumer Watchdog urges the Commissioner and the Department of Insurance to reject State Farm's request for emergency interim rate approval. The Department should follow the existing procedures outlined in the Insurance Code and regulations, allowing this matter to proceed to a hearing or settlement, even on an expedited basis. Approving State Farm's proposed interim rate without sufficient justification and in disregard of the required procedures would set a dangerous precedent and unfairly impact California policyholders.

Sincerely,

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cc:

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