



Via email

February 7, 2025

Nikki McKennedy, Assistant Chief Counsel
Melissa Wurster, Attorney
Rate Enforcement Bureau
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
nikki.mckennedy@insurance.ca.gov
melissa.wurster@insurance.ca.gov

Re: Consumer Watchdog's Response to Proposed Stipulation For Emergency Interim
Rate Approval
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Nikki:

Four days ago, on Monday, February 3, State Farm issued a news release accompanied by a letter it sent directly to the Insurance Commissioner (copying the Department and Consumer Watchdog) asking that he bypass the prior approval rate review process required by California law in the pending rate proceedings and unilaterally take unprecedented "emergency action" to immediately approve, effective May 1, 2025, "interim" rate increases of 22% (\$760 million) for the company's homeowners insurance policies, 38% (\$122 million) for its rental dwelling policies, and 15% (\$39 million) for its renters and condo policies. State Farm's letter request portrayed its financial condition after the Los Angeles wildfires as dire, primarily emphasizing concerns about its credit rating, but it did not provide *any* data or calculations to support its proposed "interim" rates.

On our three-way call with the Department and State Farm later that same Monday afternoon, Consumer Watchdog requested that State Farm submit updated rate templates and financial data that would support its proposed "interim" rate increases. The next day on Tuesday morning, you circulated a proposed draft stipulation under which the Commissioner would immediately approve the "interim" rate increases proposed by State Farm *before* they have been fully justified, and then a hearing would be noticed for State Farm to subsequently meet its burden of proof that it was entitled to the "interim" rates or some potentially higher or lower rates subject to refunds. On Wednesday morning, the company submitted partially updated rate templates that primarily changed the effective date to May 1 and updated and changed its methodology for calculating its provision for projected catastrophe losses, including an "estimated" provision for the January 2025 wildfires of more than \$6 billion that was not adequately supported. These

unjustified changes to the catastrophe provision calculation resulted in a more than 100% increase in the catastrophe ratio compared to what was contained in the actual filing submitted by State Farm to CDI last June. State Farm now claims that almost half of its loss payments in California for homeowners insurance will come from catastrophe events, which is completely unrealistic and unsupported. Later on Wednesday afternoon, State Farm provided some additional information about its Wall Street credit rating. You granted Consumer Watchdog's request for 48 hours to review this information and decide whether we would join the Commissioner and State Farm in the proposed stipulation.

After giving very serious consideration to State Farm's unprecedented request for a total of \$921 million in "interim" rate increases together with the information provided to date, Consumer Watchdog has determined it cannot agree to the proposed stipulation for the following reasons:

- 1) State Farm's proposal seeking "interim" rate relief does not comport with the requirements of California law. There has been no showing that State Farm's current rates are inadequate as calculated under the standard regulatory ratemaking formula. In fact, State Farm's own "interim" calculations show that the current rate falls in between the "maximum permitted earned premium" (10 CCR § 2644.2) and the "minimum permitted earned premium" (10 CCR § 2644.3). Therefore, according to the Department's rate review regulations, even using State Farm's updated "interim" rate calculation, the current rates are not inadequate (10 CCR § 2644.1). Furthermore, our actuaries have concluded that the limited information provided to us does not justify any increase under the applicable ratemaking regulations for State Farm's homeowners line. Based on our actuaries' preliminary review of the updated templates State Farm provided on Wednesday along with all other data and information provided to date, Consumer Watchdog's calculations of the *maximum* permitted rates under the regulations without any solvency variance (which has yet to be justified) are -0.1% for homeowners, +8.1% for renters and condo, and +30.6% for rental dwelling. (See attached analysis by Consumer Watchdog's actuary Ben Armstrong.)
- 2) There is no basis for granting interim rate relief and diverting from the statutory requirement to hold a hearing on State Farm's requests for rates exceeding 7% based on its claims of deteriorating financial strength. Despite repeated requests over the last five months, State Farm has yet to turn over any documents requested by Consumer Watchdog that would be necessary to support its claims that it is at risk of becoming insolvent, including information that would show whether State Farm is overpaying for reinsurance purchased from its parent company.
- 3) State Farm has not explained why its parent company, with \$194 billion in reserves and surplus, is unable to help protect California consumers.¹ In contrast to SFMAIC not being willing to assist SFG, SFMAIC provided more than \$1 billion to its Texas affiliate—State Farm Lloyds ("SFL").²

¹ SFMAIC financial statement as of September 30, 2024.

² State Farm Lloyds 2002 Annual Statement, Page 3, Line 31 "Surplus Notes".

- 4) State Farm says it needs the money to maintain its credit rating, so it can continue to insure mortgages. But State Farm provides no authority or justification for ordering massive rate hikes in order to improve State Farm's Wall Street credit rating. Under California law, State Farm is entitled to rates that are necessary to cover claims, reasonable expenses, and a fair profit. Forcing policyholders to recapitalize the company in order to maintain State Farm's credit rating, without any return on their investment, is improper under the law. This is especially true given that State Farm is a wholly-owned subsidiary of SFMAIC, which has \$194 billion in reserves and surplus. Indeed, State Farm's letter request relies on the opinion of only one credit rating agency to the exclusion of contradictory ratings. As noted in our February 5 letter to the Commissioner and the parties, one of the world's leading credit rating agencies—S&P Global Ratings—does not segregate State Farm as a separate operating entity in its rating of SFMAIC and has “affirmed the ‘AA’ insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core subsidiaries,” noting “[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.”³
- 5) The proposed stipulation does not contain any commitments by State Farm agreeing that it will not immediately file a new or amended rate application seeking even higher rates under new regulations allowing for catastrophe models to project greater cat losses and including reinsurance costs or that it will not challenge the Commissioner's final rate order and any ultimate refund obligation in court.

Under these circumstances, absent a three-way stipulation including petitioner Consumer Watchdog, the Insurance Code requires that the Commissioner must hold a hearing in response to our timely petition on State Farm's requested rates exceeding 7% prior to approval. Any stipulations that the parties may reach in the course of the proceeding must be reviewed by an impartial administrative law judge with the opportunity for objections and a hearing, or the matter can proceed to an evidentiary hearing as required by the Insurance Code, the Administrative Procedure Act, and the Department's rate proceeding regulations.

Sincerely,



PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc:

Vanessa Wells, Esq., Hogan Lovells
Counsel for State Farm General

³ <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3205015>.



Date: February 7, 2025

To: All Parties

From: Ben Armstrong, FCAS, MAAA
Staff Actuary, Consumer Watchdog

Re: Consumer Watchdog's Review of Proposed Stipulation For Emergency Interim Rate Approval
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

In connection with considering the Department's proposed settlement stipulation for emergency "interim" rates requested by State Farm, we have reviewed the above-captioned filings, as well as the updates and additional information submitted by State Farm General Insurance Company (State Farm), along with other information.

The files we received from State Farm on 2/5/25 in support of their proposed 22% interim rate increase for non-tenant homeowners, 38% for its rental dwelling policies, and 15% for its renters and condo policies are problematic for several reasons:

- The partially-updated Rate Templates and Exhibit 9 files are inconsistent with one another from a timing perspective. Exhibit 9, used to calculate the catastrophe adjustment factor, uses actual catastrophe loss data through 2024 along with "estimated" catastrophe loss data for the first weeks of January, 2025. The Rate Template use non-catastrophe loss data through 2023Q4.
- Exhibit 9, page 2 uses an unsupported weighting scheme, which is different than that proposed by State Farm in its original filing, that pushes additional weight to the latest partial year (January 2025 in this case), apparently to leverage the effects of the devastating wildfires in Los Angeles.
- Exhibit 9, page 5 uses the same Projected Annual AIY Trend values as the original filings from mid-2024.
- State Farm's revised catastrophe adjustment factors, along with its original excessive selected trends and development factors result in inflated rate indications in all three filings.

Based on the limited information we have received, Consumer Watchdog has prepared updated rate indications that attempt to initially address, within the severe time constraints imposed by CDI, many of the issues noted above. The following corrections to the State Farm calculations are reflected in this analysis:

- We have reverted to the CAT/AIY weighting schemes used by State Farm in their original filings, to avoid placing an excessive amount of weight on the partial 2025 year.
- In the cat load calculation, we are using a Projected Annual AIY trend derived from the AIY data provided on Exhibit 9, page 2.
- We are selecting trend and development factors that are more actuarially sound and result in a more reasonable rate indication.

Based on my preliminary review of the updated templates State Farm provided on Wednesday along with all other data and information provided to date, my analysis indicates the *maximum* permitted rates under the regulations without any solvency variance (which has not been justified) are -0.1% for homeowners, +8.1% for renters and condo, and +30.6% for rental dwelling. (See attached Rate Templates.)

PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Minimum Permitted Earned Premium (\$)	Maximum Permitted Earned Premium (\$)	Change at Minimum %	Change at Maximum %	Proposed %
Non-Tenant Homeowners	3,430,903,314	2,490,877,162	3,427,122,660	-27.4%	-0.1%	-0.1%
Combined	3,430,903,314	2,490,877,162	3,427,122,660	-27.4%	-0.1%	-0.1%

Combined Total Earned Exposures for Latest Year:

1,241,211

Coverage/Form/Program	Average Earned Premium \$ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
Non-Tenant Homeowners	2,764.16	2,006.81	2,761.11	2,761.11	1,241,211
Combined	2,764.16	2,006.81	2,761.11	2,761.11	1,241,211

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Latest Year Projected Ultimate Loss & DCCE (\$)	Latest Year Projected Ultimate Loss & DCCE Ratio
Non-Tenant Homeowners	3,430,903,314	2,130,036,805	62.1%
Combined	3,430,903,314	2,130,036,805	62.1%

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by: Ben Armstrong, FCAS, MAAA
Date Completed: 2/6/2025
Prior Effective Date: 9/1/2024
Proposed Effective Date: 5/1/2025
Detailed Line Description: Homeowners Multiple Peril
Coverage: Non-Tenant Homeowners

Data Provided by Filer	20214	20224	20234	Projected
Prem_Written			2,227,883,896	2,227,883,896
Prem_Earned			2,154,664,657	2,154,664,657
Prem_Adj			1.275	
Prem_Trend			1.248	8.1%
Misc_Fees			0	0
Exposures_Earned			1,241,211	1,241,211
Losses			462,360,937	462,360,937
DCCE			7,077,408	7,077,408
Loss_Devt			1.725	
DCCE_Devt			6.943	
Loss_Trend			1.389	12.3%
DCCE_Trend			1.389	12.3%
CAT_Adj			1.811	
Anc_Income			0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters

FIT_UW				21.0%
EffStd_Final		Data as of:	2022	33.2%
LevFact_Final		Data as of:	2022	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR		Data as of:	2022	0.52
ResRatio_Loss		Data as of:	2022	0.87
ROR_RiskFree		Data as of:	April 2024	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	20214	20224	20234	
Prem_Adjusted			3,430,903,314	3,430,903,314
Losses_Adjusted			2,006,410,076	2,006,410,076
DCCE_Adjusted			123,626,729	123,626,729
LossDCCERatio_Adjusted			62.1%	62.1%
TCRLP_perExp			2,764.16	2,764.16
LossDCCE_perExp			1,716.09	1,716.09
CompLossDCCE_perExp			1,761.34	1,761.34
CredLoss_perExp			1,716.09	1,716.09
Anc_Inc_perExp			0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				3.8%
Comp_Trend				2.5%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				\$2,006.81
Max_Premium				\$2,761.11
CHANGE_AT_MIN				-27.4%
CHANGE_AT_MAX				-0.1%

PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Minimum Permitted Earned Premium (\$)	Maximum Permitted Earned Premium (\$)	Change at Minimum %	Change at Maximum %	Proposed %
Rental Dwelling	316,197,286	300,031,035	412,803,639	-5.1%	30.6%	30.6%
Combined	316,197,286	300,031,035	412,803,639	-5.1%	30.6%	30.6%

Combined Total Earned Exposures for Latest Year:

268,242

Coverage/Form/Program	Average Earned Premium \$ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
Rental Dwelling	1,178.78	1,122.81	1,544.84	1,538.92	268,242
Combined	1,178.78	1,118.51	1,538.92	1,538.92	268,242

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Latest Year Projected Ultimate Loss & DCCE (\$)	Latest Year Projected Ultimate Loss & DCCE Ratio
Rental Dwelling	316,197,286	235,409,726	74.5%
Combined	316,197,286	235,409,726	74.5%

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by: Ben Armstrong, FCAS, MAAA
Date Completed: 2/7/2025
Prior Effective Date: 9/1/2024
Proposed Effective Date: 5/1/2025
Detailed Line Description: Homeowners Multiple Peril
Coverage: Rental Dwelling

Data Provided by Filer	20214	20224	20234	Projected
Prem_Written		250,686,950	264,147,957	514,834,907
Prem_Earned		224,541,727	237,052,820	461,594,546
Prem_Adj		1.116	1.114	
Prem_Trend		1.275	1.197	6.5%
Misc_Fees		0	0	0
Exposures_Earned		269,166	268,242	537,408
Losses		90,011,514	53,841,768	143,853,283
DCCE		2,494,294	1,099,047	3,593,341
Loss_Devt		1.243	1.887	
DCCE_Devt		4.224	9.781	
Loss_Trend		1.588	1.408	12.8%
DCCE_Trend		1.588	1.408	12.8%
CAT_Adj		1.443	1.488	
Anc_Income		0	0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters

FIT_UW				21.0%
EffStd_Final		Data as of:	2022	33.2%
LevFact_Final		Data as of:	2022	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR		Data as of:	2022	0.52
ResRatio_Loss		Data as of:	2022	0.87
ROR_RiskFree		Data as of:	April 2024	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	20214	20224	20234	
Prem_Adjusted		319,723,512	316,197,286	635,920,797
Losses_Adjusted		256,440,065	212,882,274	469,322,338
DCCE_Adjusted		24,145,653	22,527,453	46,673,106
LossDCCERatio_Adjusted		87.8%	74.5%	81.1%
TCRLP_perExp		1,187.83	1,178.78	1,183.31
LossDCCE_perExp		1,042.43	877.60	960.16
CompLossDCCE_perExp		766.77	760.93	763.85
CredLoss_perExp		1,042.43	877.60	960.16
Anc_Inc_perExp		0.00	0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				5.9%
Comp_Trend				3.9%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				\$1,122.81
Max_Premium				\$1,544.84
CHANGE_AT_MIN				-5.1%
CHANGE_AT_MAX				30.6%

PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Minimum Permitted Earned Premium (\$)	Maximum Permitted Earned Premium (\$)	Change at Minimum %	Change at Maximum %	Proposed %
Renters	92,588,089	73,332,284	100,895,675	-20.8%	9.0%	9.0%
Condominium Unitowners	182,031,850	142,445,062	195,985,858	-21.7%	7.7%	7.7%
Combined	274,619,939	215,777,346	296,881,533	-21.4%	8.1%	8.1%

Combined Total Earned Exposures for Latest Year:

707,971

Coverage/Form/Program	Average Earned Premium \$ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
Renters	167.67	132.80	182.71	182.71	552,216
Condominium Unitowners	1,168.71	914.55	1,258.30	1,258.30	155,755
Combined	387.90	304.78	419.34	419.34	707,971

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Latest Year Projected Ultimate Loss & DCCE (\$)	Latest Year Projected Ultimate Loss & DCCE Ratio
Renters	92,588,089	62,709,019	67.7%
Condominium Unitowners	182,031,850	121,809,790	66.9%
Combined	274,619,939	184,518,809	67.2%

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by: Ben Armstrong, FCAS, MAAA
Date Completed: 2/7/2025
Prior Effective Date: 4/1/2021
Proposed Effective Date: 5/1/2025
Detailed Line Description: Homeowners Multiple Peril
Coverage: Renters

Data Provided by Filer	20214	20224	20234	Projected
Prem_Written			81,891,624	81,891,624
Prem_Earned			91,684,036	91,684,036
Prem_Adj			1.000	
Prem_Trend			1.010	0.3%
Misc_Fees			0	0
Exposures_Earned			552,216	552,216
Losses			30,203,359	30,203,359
DCCE			348,278	348,278
Loss_Devt			1.610	
DCCE_Devt			8.628	
Loss_Trend			1.116	3.9%
DCCE_Trend			1.116	3.9%
CAT_Adj			1.088	
Anc_Income			0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters

FIT_UW				21.0%
EffStd_Final				33.2%
LevFact_Final			<i>Data as of: 2022</i>	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR			<i>Data as of: 2022</i>	0.52
ResRatio_Loss			<i>Data as of: 2022</i>	0.87
ROR_RiskFree			<i>Data as of: April 2024</i>	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	20214	20224	20234	
Prem_Adjusted			92,588,089	92,588,089
Losses_Adjusted			59,060,196	59,060,196
DCCE_Adjusted			3,648,824	3,648,824
LossDCCERatio_Adjusted			67.7%	67.7%
TCRLP_perExp			167.67	167.67
LossDCCE_perExp			113.56	113.56
CompLossDCCE_perExp			119.98	119.98
CredLoss_perExp			113.56	113.56
Anc_Inc_perExp			0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				3.6%
Comp_Trend				15.1%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				\$132.80
Max_Premium				\$182.71
CHANGE_AT_MIN				-20.8%
CHANGE_AT_MAX				9.0%

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by: Ben Armstrong, FCAS, MAAA
Date Completed: 2/7/2025
Prior Effective Date: 9/1/2024
Proposed Effective Date: 5/1/2025
Detailed Line Description: Homeowners Multiple Peril
Coverage: Condominium Unitowners

Data Provided by Filer	20214	20224	20234	Projected
Prem_Written			116,579,826	116,579,826
Prem_Earned			113,491,565	113,491,565
Prem_Adj			1.268	
Prem_Trend			1.265	8.6%
Misc_Fees			0	0
Exposures_Earned			155,755	155,755
Losses			51,217,017	51,217,017
DCCE			1,032,009	1,032,009
Loss_Devt			1.485	
DCCE_Devt			4.644	
Loss_Trend			1.391	12.3%
DCCE_Trend			1.391	12.3%
CAT_Adj			1.083	
Anc_Income			0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters

FIT_UW				21.0%
EffStd_Final				33.2%
LevFact_Final			Data as of: 2022	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR			Data as of: 2022	0.52
ResRatio_Loss			Data as of: 2022	0.87
ROR_RiskFree			Data as of: April 2024	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	20214	20224	20234	
Prem_Adjusted			182,031,850	182,031,850
Losses_Adjusted			114,589,220	114,589,220
DCCE_Adjusted			7,220,569	7,220,569
LossDCCERatio_Adjusted			66.9%	66.9%
TCRLP_perExp			1,168.71	1,168.71
LossDCCE_perExp			782.06	782.06
CompLossDCCE_perExp			742.60	742.60
CredLoss_perExp			782.06	782.06
Anc_Inc_perExp			0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				3.4%
Comp_Trend				2.2%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				\$914.55
Max_Premium				\$1,258.30
CHANGE_AT_MIN				-21.7%
CHANGE_AT_MAX				7.7%