Consumer Watchdog

Via email

March 6, 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: Analysis of Information Presented by State Farm at the February 26 Informal Conference Re: State Farm's Request for Emergency Interim Rate Approval
In the Matter of the Rate Applications of State Farm General Insurance Company
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:

New information from the February 26, 2025, informal conference *confirms* that you should *reject* State Farm General's "emergency interim rate" requests: 22% for homeowners insurance (an average increase of $600 annually per homeowner policy), 38% for rental dwelling policies, and 15% for renters and condos. State Farm has demonstrated its claimed need for these increases stems from its own mismanagement and potentially unlawful, anticompetitive behavior that has damaged California's insurance market, not the recent Los Angeles fires. State Farm has not presented a basis for approving any "interim" rates without holding the mandatory public hearing required by Insurance Code section 1861.05(c) because there has been no showing that the company's current rates are plainly invalid or inadequate – and it would thus be unlawful to approve the emergency rate under these circumstances.

Key Findings from the Meeting

- **State Farm Can Cover Los Angeles Wildfire Losses**: State Farm's Treasurer and Chief Financial Officer confirmed to you that its "ability to handle [claims from] the fires is not in question."[1] State Farm has sufficient resources to pay anticipated Los Angeles wildfire claims-estimated at $212 million after reinsurance – even before likely payments from potentially responsible third parties such as Southern California Edison.[2]

[1] Feb. 26, 2025 Transcript at 15:20-16:9.
[2] Feb. 26, 2025 Transcript at 15:20-16:6.

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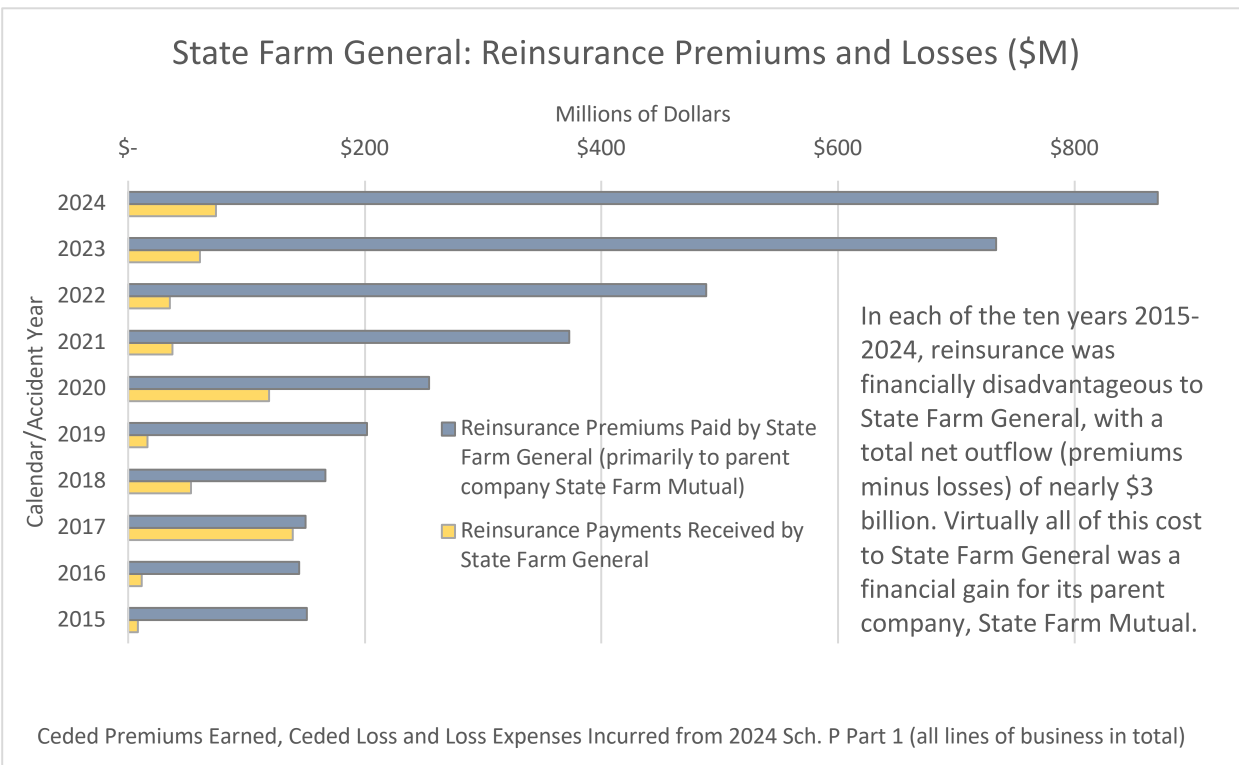
- **Financial Mismanagement, Not Catastrophe Losses**: You confirmed at the hearing that State Farm failed to seek the full rate increases it claimed it needed between 2017 and early 2023.[3] As you noted, under Proposition 103, the company could have requested higher rates to maintain financial stability.[4] Instead, per a *Wall Street Journal* analysis, State Farm engaged in an anticompetitive strategy to underprice competitors to gain market share. You should not sanction this type of predatory pricing by rewarding this now-failed business strategy with customer-funded bailouts. You should instead take seriously the allegations in the article and investigate these alleged anticompetitive pricing strategies that weakened the California insurance market and has harmed thousands of consumers.[5]

- **Reinsurance Transfers Benefit the Parent, Not Policyholders**: State Farm has long denied that its parent company took advantage of State Farm through reinsurance contracts that benefitted the parent at the direct expense of California policyholders. It has repeatedly claimed that the reinsurance contracts State Farm bought from its parent company "significantly benefitted" California policyholders. Data provided by State Farm as presented by Consumer Watchdog in our February 26 letter and the graph below refute the company's argument:



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[3] Feb. 26, 2025 Transcript at 19:5-15.

[4] Feb. 26, 2025 Transcript at 23:5-13 (Commissioner Lara noting "nothing in Prop 103 impedes you from asking for the actual rate that you need" and "this is an ongoing frustration with me that we keep asking, you know, companies to be forthwith about what is the actual rate they need . . . as opposed to simply, you know, death by 1,000 cuts here with constant 6.9's; right?")

[5] J. Eaglesham & S. Pulliam, "State Farm Was All In on California—Until It Pulled the Plug Before the Fires," WSJ, Feb. 6, 2025.

As shown in this graph, in each of the ten years 2015-2024, reinsurance was disadvantageous to State Farm General but beneficial to its parent State Farm Mutual – a total de-capitalization of the California affiliate to the multistate parent to the tune of nearly $3 billion. Moreover, at the February 26 conference, State Farm acknowledged in response to a question from Consumer Watchdog that all of the $5 billion the company claims that SFG has benefitted from its reinsurance program with State Farm Mutual came from one single event – the 2025 Los Angeles wildfires.[6]

Without the 2025 fires, State Farm has lost money on its reinsurance agreements every year for the past decade—including during the severe wildfire years of 2017 and 2018, when it paid nearly $5 billion in direct claims. Even in those years, while all other major homeowners insurers in California received substantial net recoveries from reinsurance, State Farm paid out more in reinsurance premiums than it received in recoveries.

Moreover, the majority of State Farm's reinsurance is provided by its parent company. Between 2015 and 2024, over 80% of State Farm's reinsurance premiums were paid to affiliates, with 85% of that amount going directly to the parent. As a result, the parent has consistently profited from its reinsurance agreements with State Farm, while State Farm's surplus has steadily declined.

- **Lack of Transparency:** Despite repeated requests from CDI staff and Consumer Watchdog, State Farm has chosen not to share data that might justify its requested rate hikes. As you noted, under Proposition 103, when an insurance company wants to change its rates, it must apply for and publicly justify the change. After first requesting the rate increases last June and July, both Consumer Watchdog and CDI staff immediately sought more information. At the February 26 conference, a CDI official stated: "we are not currently satisfied that State Farm has proven it is entitled to an overall rate increase at the level that they've requested…."[7] We agree. Notwithstanding over a dozen requests Consumer Watchdog has made since last summer, State Farm has to date refused to provide the data that would support its demands.

- **No Commitment to Expanding Coverage**: Under your questioning, State Farm made clear that approving the rate increases will *not* result in the company doing more business in California. When you asked that question, State Farm's Treasurer and Chief Financial Officer said, "No."[8] He described this as a "short term" problem. But that is the same answer State Farm gave Consumer Watchdog when it asked that question of State Farm related to its 2023 rate increase requests, including the 20% homeowners insurance rate increase that took effect in March 2024. There is no end in sight – either for further requests for "emergency" rate increases or State Farm's non-renewal of more and more customers.

- **Parent Company Abandoning State Farm**: At the meeting, State Farm tried to orphan itself from its parent company. The company's representatives – people who are actually *employed by State Farm Mutual* – went so far as to suggest that your approval of the "emergency" rate increases was necessary to convince its parent company to come to its aid,

[6] Feb. 26, 2025 Transcript at 58:10-23.
[7] Feb. 26, 2025 Transcript at 28:1-6.
[8] Feb. 26, 2025 Transcript at 37:10-15.

equating the parent to just another potential investor. The parent company has benefitted enormously from California policyholders' premiums over the preceding decades – but now that the consequences of the company's mismanagement are plain to see due to anticompetitive policies that decreased market access for homeowners, it wants to use California consumers as an unlimited, untapped source of bailout funds.

As you know, Consumer Watchdog disputes your assertion that you have the power to grant "interim" rate increases without a public hearing required by law, unless the rate is plainly invalid under the regulations, which neither State Farm nor CDI has ever claimed here.

But the immediate question is whether State Farm has justified its request for a massive rate increase. It has not, and indeed, amidst State Farm's smokescreen of assertions, it is clear that its concern is its credit rating status on Wall Street and to escape the market consequences of its alleged anticompetitive misconduct. Rather than explore other means of raising capital available to any business, State Farm wants you to allow them to reach into the wallets of their own customers as a source of bailout funds for its own mismanagement – over $600 more per homeowners insurance customer every year. If it were raising capital from these same consumers through other means, through some form of securities or bonds, they would at least receive some benefit.

If State Farm's financial condition due to its own actions is so dire that it cannot wait for its rate applications to be approved under the required procedures, however, rather than requiring State Farm's customers to bail out the company without receiving any stake in the company in return, State Farm's Illinois parent company should use some of its $145 billion in surplus to replenish State Farm's coffers.

Consumer Watchdog urges you to reject State Farm's request for "emergency interim rate" increases.

Sincerely,

William Pletcher

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CONSUMER WATCHDOG

cc: Michael Martinez, Chief Deputy Commissioner
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