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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **NOTICE OF HEARING**

TO: STATE FARM GENERAL INSURANCE COMPANY ("APPLICANT"), YOU ARE HEREBY NOTIFIED:

I. FACTUAL ALLEGATIONS

The Applicant is licensed by the California Department of Insurance ("Department" or "CDI") to conduct insurance business in California.

On or about June 27, 2024 for File Nos. 24-1271 and 24-1273 and on July 5, 2024 for File No. 24-1330, Applicant filed three rate applications (collectively, "Applications") requesting overall rate increases, as follows:

File No.	Line	Rate requested
24-1271	Homeowners Non-Tenant HO-3	+30.0%
24-1273	Overall Renter/Condo Tenant	+41.8%
24-1330	Rental Dwelling	+38.0%

In the Applications, Applicant requests that its maximum permitted earned premium be increased in order to protect Applicant's solvency, pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(6) ("Variance 6").

The Department notified the public of the Applications on July 5, 2024 as to File Nos. 24-1271 and 24-1273, and on July 12, 2024 as to File No. 24-1330, pursuant to Insurance Code section 1861.05, subdivision (c).

On September 3, 2024 for File Nos. 24-1271 and 24-1273 and September 10, 2024 for File No. 24-1330, Applicant waived the 60-day and 180-day "deemed approved" dates set forth in Insurance Code section 1861.05(c) for these Applications with a five-day grace period for reactivation.

On July 26, 2024, as to File No. 24-1271, August 19, 2024 as to File No. 24-1273, and August 26, 2024 as to File No. 24-1330, Intervenor Consumer Watchdog submitted its Petition to Intervene, Petition for Hearing, and Notice of Intent to Seek Compensation in each of the Applications.[1]

On August 12, 2024 as to File No. 24-1271, September 5, 2024 as to File No. 24-1273, and September 3, 2024 as to File No. 24-1330, Applicant submitted its Answer to the intervenor's Petition for Hearing in each of the Applications.[2]

On August 24, 2024 as to File No. 24-1271, September 3, 2024 as to File No. 24-1273, and September 10, 2024 as to File No. 24-1330, the Commissioner granted Consumer Watchdog's Petition to Intervene.[3]

On February 3, 2025, Applicant submitted a letter to the Commissioner, with enclosures,

[1] The Petitions are attached as Exhibits A, B, and C, respectively.
[2] The Answers are attached as Exhibits D, E, and F, respectively.
[3] The Orders Granting Intervention are attached as Exhibits G, H, and I, respectively.

requesting the Commissioner approve an immediate interim rate request of 22% in its homeowners line (File No. 24-1271), 15% in its renter/condo tenant line (File No. 24-1273), and 38% in its rental dwelling line (File No. 24-1330) in the pending Applications (the "Interim Rate Request")[4], subject to refunds with interest following a full rate hearing should the Commissioner ultimately determine the Interim Rate Request was excessive.

On February 7, 2025, Consumer Watchdog sent the Department and Applicant a letter in "Response to Proposed Stipulation for Emergency Interim Rate Order" in which it set forth its objections to and analysis regarding a stipulated interim rate increase.[5]

On February 7, 2025, Applicant and the Department entered into a "Stipulation to Interim Rate Subject to Refunds With Interest Pending a Final Determination of The Legality of The Rate."[6]

On February 7, 2025, the Department submitted a letter to the Commissioner, enclosing the signed "Stipulation to Interim Rate Subject to Refunds With Interest Pending a Final Determination of The Legality of The Rate"; and a "Proposed Interim Rate Order Subject to Refunds Pending a Final Determination of The Legality of The Rate," and recommending that he sign the Order adopting the Stipulation.[7]

On February 14, 2025, the Commissioner sent a letter to all parties with specific questions for Applicant regarding its requested emergency interim rate increase.[8]

On February 25, 2025, Applicant sent the Commissioner a letter, with attachments, in which it responded to the Commissioner's February 14th questions.[9]

On February 26, 2025, the Commissioner held an informal conference with all parties at which time he questioned State Farm about its request for emergency rates and about its financial

[4] The Interim Rate Request is attached as Exhibit J.
[5] Consumer Watchdog's February 7, 2025 letter with enclosures is attached as Exhibit K.
[6] The signed stipulation is attached as part of Exhibit L below.
[7] The February 7, 2025 Letter from Nikki McKennedy to the Commissioner, the enclosed signed stipulation and proposed order adopting the stipulation is attached as Exhibit L.
[8] The February 14, 2025 Letter from the Commissioner is attached as Exhibit M.
[9] State Farm's February 25, 2025 letter to the Commissioner with enclosures is attached as Exhibit N.

condition.[10]

On February 26, 2025, Consumer Watchdog sent the Commissioner and all parties a Memo regarding Applicant's emergency interim rate request.[11]

On March 11, 2025, the Commissioner held a video conference call with all parties regarding a proposed resolution.[12]

Following the March 11, 2025 video conference call, the parties exchanged settlement communications regarding the Commissioner's proposal but were unable to reach resolution.

On March 14, 2025, the Commissioner issued the Order Regarding State Farm General Insurance Company's Request for an Emergency Interim Rate Pending Rate Hearing, in which he: (1) ordered Department staff to issue a Notice of Hearing on the Applications, with the date of the rate hearing to commence no later than June 1, 2025; and (2) provisionally granted Applicant's request for an emergency interim rate of +21.8% for homeowners non-tenant HO-3 (File No. 24-1271); +15% for overall renter/condo tenant (File No. 24-1273); and +38% for rental dwelling (File No. 24-1330), with an effective date of June 1, 2025, subject to Applicant meeting its burden to support the requested interim rates at a hearing on April 8, 2025, pursuant to California Code of Regulations, title 10, section 2656.1, subdivision (g), before an Administrative Law Judge ("ALJ"). Pursuant to the March 14, 2025 Order, the ALJ's proposed decision on the interim rate increase request shall be based upon Applicant's updated rate-setting data through the end of the first quarter of 2025, the two-way stipulation between the Department and State Farm, Consumer Watchdog's objections to the interim rate; argument at the February 26 and March 11, 2025, conferences with the Commissioner, the Commissioner's subsequent proposal to the parties, as well as any such additional correspondence, evidence, and argument as may be submitted to the ALJ, with any interim rate order subject to potential refunds with interest following a full rate hearing on the Applications.[13]

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[10] The transcript from the February 26, 2025 informal conference is attached as Exhibit O.

[11] The February 26, 2025 letter from Consumer Watchdog to the Commissioner and all parties is attached as Exhibit P.

[12] A transcript of the March 11, 2025 conference is attached as Exhibit Q.

[13] The Commissioner's March 14, 2025 Order is attached as Exhibit R.

II. DETERMINATION TO HOLD HEARING

Pursuant to Insurance Code section 1861.05(c)(2) and the California Code of Regulations, title 10, section 2648.3, the Commissioner, on his own motion and in response to the Applications, the Request for Interim Rate, and the Intervenor's Petition for Hearing, has ordered the Department to issue a Notice of Hearing. The Hearing shall address issues including: (1) the maximum and minimum permitted rate(s) for Applicant's homeowners coverages under Proposition 103 and applicable regulations including California Code of Regulations, title 10, sections 2641.1 et seq.; (2) if the interim rate, if any, is supportable and not excessive, inadequate, unfairly discriminatory, or otherwise in violation of Proposition 103 and applicable regulations; (3) if the interim rate, if any, is not supportable, and/or if it is excessive, inadequate, unfairly discriminatory or otherwise in violation of Proposition 103, whether and how much Applicant must pay as refunds and interest based on excessive premiums paid by policyholders after implementation of the interim rate; (4) whether Applicant's request for Variance 6 should be granted; (5) whether Applicant's nonrenewal practices are compliant with Proposition 103, including without limitation whether there is or has been any change(s) to Applicant's in-effect rates as a result of Applicant's currently pending nonrenewal program and, if so, whether Applicant properly sought and received the Commissioner's prior approval before implementing its nonrenewal practices with rating impact, including whether the Department should initiate another proceeding for penalties or other remedies pursuant to Insurance Code section 1858 et seq.; and (6) any other appropriate relief.

Specifically, the Parties to the rate hearing on the Applications shall provide evidence and argument regarding all of the following issues:

a. Based upon the updated data through the first quarter of 2025, or another mutually agreed-upon stipulated data cut-off date, whether the Commissioner should enter findings and an order that Applicant's requested rates are reasonable and not excessive, inadequate, unfairly discriminatory, or otherwise in violation of Proposition 103;

b. Based upon the updated data through the first quarter of 2025, or another mutually

agreed-upon stipulated data cut-off date, whether Applicant owes refunds with interest under the Interim Rate Order, if any, and, if so, in what amounts;

c. Whether the Commissioner should enter findings and an order that Applicant shall reopen to writing new business in the lines affected by the rate order;

d. Whether the Commissioner should enter findings and an order that Applicant shall not make any changes to its eligibility, underwriting, or re-underwriting guidelines that would result in non-renewals of its current existing book of business or render any new business ineligible for inception;

e. Whether the Commissioner should enter findings and an order that Applicant shall not institute any program of inspections, re-inspections, or other similar surveys of its existing policyholders to determine continued underwriting eligibility;

f. Whether Applicant is entitled to amend the Applications to utilize the provisions in California Code of Regulations, title 10, sections 2644.4.5 and 2644.25.1, and if so, whether Applicant is required to comply with section 2644.4.8, subdivision (d);

g. Whether, if Applicant continues to assert it is entitled to Variance 6, it can demonstrate that it meets the requirements of Variance 6, i.e., that its financial condition is such that its maximum permitted earned premium should be increased in order to protect the insurer's solvency;

h. Whether the Commissioner should enter findings and an order that Applicant should change any of its current business practices to address its challenges regarding maintenance and acquisition of surplus sufficient to underwrite its current book of business in California;

i. Whether the Commissioner should enter findings and an order that Applicant should take any specific action(s) to continue to be able to pay claims, operate successfully, and acquire additional surplus during the estimated 12 to 24 months it will take to realize earnings from an interim rate increase;

j. Whether the Commissioner should enter findings and an order that Applicant should take any specific action(s) to be able to pay potential refunds with interest

in the event the interim rate increase is ultimately determined by the Commissioner to be excessive following a rate hearing on the Applications;

k. Whether Applicant's inter-affiliate agreements, reinsurance agreements, investment portfolio, and investment strategy are appropriate to support the amount of insurance it underwrites in California; and

l. Whether Applicant receives, or could or should receive, any (or additional) financial or other support from its corporate parent and/or other affiliates, including whether its parent company provides financial support in the form of surplus notes or other contribution(s).

The above list is without limitation, and the Parties may seek to introduce evidence and argument on other issues that may arise during the course of the hearing, subject to approval by the ALJ.

For purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon updated data cut-off date by and between the parties and as may be ordered by the ALJ.

The hearing will be subject to Insurance Code section 1861.08 and, pursuant to the Commissioner's March 14, 2025 Order, will be held before an ALJ in the Department's Administrative Hearing Bureau ("AHB") commencing no later than June 1, 2025, as set by the AHB. Pursuant to Insurance Code section 1861.05(b) and California Code of Regulations, title 10, section 2646.5 Applicant shall have the burden of proof in the hearing.

This matter may be settled prior to hearing in accordance with California Code of Regulations, title 10, sections 2656.1-2656.3.

If Applicant files another complete rate application during the pendency of this matter, such rate application will be handled independently of and without prejudice to this matter.

This Notice of Hearing is issued pursuant to Insurance Code section 1861.08(b). To respond to this Notice of Hearing, Applicant must file an original and four (4) copies of a "Notice of Defense" or similar responsive document with Department's Administrative Hearing Bureau in Oakland, within fifteen (15) days of service of this Notice. (Gov. Code, §11506.) A copy of the

Applicant's response, with a proof of service, shall be served upon the Department's Rate Enforcement Bureau and all persons and entities identified in the attached service list.

Further communications by the Parties with the Department regarding the Applications shall be directed to the Rate Enforcement Bureau unless otherwise specified.

Dated: March 17, 2025

CALIFORNIA DEPARTMENT OF INSURANCE

By: _____

MICHAEL MARTINEZ
Chief Deputy Commissioner

NOTICE OF HEARING
EXHIBIT A

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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No.: 24-1271 **CONSUMER WATCHDOG'S PETITION FOR HEARING, PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION** [Ins. Code §§ 1861.05 and 1861.10; Cal. Code Regs, tit. 10, §§ 2653.1, 2661.2 and 2661.3]

State Farm General Insurance Company's June 27, 2024 application for a 30% ($1 billion) increase to its homeowners insurance rates (File No. 24-1271 [the "Application"]) is unprecedented in the 36 years since California voters required insurance companies to open their books and justify their rates. State Farm acknowledges that under the standard regulatory ratemaking formula that governs rate filings, which mandates that insurance companies set rates based on reasonable projections of future losses, the company would be required to *reduce* its rates by at least -9.2%.[1] Instead, State Farm seeks the 30% *increase* "to protect its solvency" under a special "variance" request from the regulatory formula. The additional *$1.3 billion* a year for at least four years, or at least $5.2 billion in total, it wants to collect from its California policyholders would be used to "re-capitalize" the company—in other words, to purportedly rescue the company from what State Farm describes as a deteriorating financial condition. However, State Farm has failed to adequately support its purported need for such an extraordinary bail-out by policyholders, especially in light of State Farm's parent company's[2] $100+ billion surplus in recent years.

Therefore, State Farm's Application raises profound legal and policy issues that demand extremely close scrutiny and require data that the Application does not contain:

First, the Application does not include all of the information needed to determine the company's actual financial condition. The Application was submitted by State Farm General Insurance Company ("State Farm" or "Applicant" or "State Farm General"), an essentially California-only company that is 100% owned by the State Farm Mutual Automobile Insurance Company ("SFMAIC"), domiciled in Illinois. State Farm General is California's largest home insurance company, insuring approximately 20% of the homeowners insurance market, and SFMAIC is the nation's largest insurance company by premium dollars, with surplus of $134 billion at the end of 2023. State Farm must meet its burden to show that it is in danger of

[1] The -9.2% rate decrease is based on State Farm's calculations under the standard ratemaking formula without a variance. It is the position of Consumer Watchdog that a much bigger rate decrease is indicated under the standard ratemaking formula.

[2] The Applicant is 100% owned by State Farm Mutual Automobile Insurance Company.

going insolvent *before* asking California policyholders to step in to rescue it. Weighing against State Farm's claims, as set forth in this Petition, there is evidence that State Farm General has transferred more than $600 million to the parent company in 2023 in the form of inflated payments for reinsurance. Based on past State Farm experience, it is likely that a significant portion of the excess premium charges and inflated underwriting profit that would result if the Application is granted will be transferred to the parent company in the form of profits resulting from inflated reinsurance charges.

Second, rather than require California policyholders to subsidize the parent company, why hasn't the parent company stepped in to assist its affiliate financially, as it did when SFMAIC's Texas affiliate writing homeowners insurance encountered financial trouble years ago?

Third, it appears that much of the company's California losses in recent years came from commercial and liability policies, not homeowners.[3] Between 2020 and 2023, State Farm had direct underwriting profits from homeowners insurance of $1.4 billion. Why are homeowners being asked to bear State Farm's losses in commercial and liability policies?

Fourth, State Farm has not complied with the variance regulation's requirements that it present a "plan to restore [its] financial condition" and a "plan to reduce rates once the insurer's condition is restored, in order to ***compensate*** consumers for excessive charges." (Emphasis added.) State Farm's proposal contains no realistic or enforceable plan to compensate California consumers—current and former—for the excessive charges.

As the company's withdrawal from the sale of homeowners insurance to new customers since May of 2023 and more recent nonrenewals illustrate, what happens to State Farm will have a major impact on the state's insurance marketplace. Indeed, State Farm has stated in the Application that it will continue to decrease its sales notwithstanding a policyholder rescue. Similarly, raising rates by 30% will undoubtedly force some portion of its customers to drop their coverage or seek it elsewhere. The 30% requested increase, together with the most recently

[3] As discussed later, the affiliate reinsurance purchased by State Farm also drained surplus.

approved 20.8% increase to its homeowners rates effective March 15, 2024, would have a combined impact of +57.0%. What impact will that have on the marketplace? Will a policyholder-funded infusion of capital actually rescue the company, or will it require further capital infusions? Before California policyholders can be forced to invest in State Farm,[4] the company must provide all of the evidence and information that is required to justify its extraordinary request.

For these reasons, based on its initial analysis of the Application and the evidence it has gathered to date from publicly available sources as set forth below, Consumer Watchdog requests that the Insurance Commissioner immediately notice a public hearing pursuant to the requirements of Insurance Code sections 1861.05, subdivisions (a) and (c), and 1861.10, subdivision (a), on the issues raised in this Petition, at which time Applicant will be directed to appear and respond to the issues raised in this petition. Because the requested rate change exceeds 7%, a formal hearing is mandatory under the statute and necessary in light of the serious and complex issues at stake. Consumer Watchdog also requests that it be granted leave to intervene in the rate proceeding on the Application.

Consumer Watchdog intends to seek compensation in this proceeding, and, pursuant to California Code of Regulations, title 10 ("10 CCR"), section 2661.3, subdivision (c), Consumer Watchdog's proposed budget is attached hereto as Exhibit A.

In support of its Petition, Consumer Watchdog alleges:

I. THE APPLICATION

1. On or about June 27, 2024, State Farm filed the Application (File No. 24-1271) with the California Department of Insurance ("CDI"), seeking approval of an overall 30% ($1 billion) rate increase to its California Non-Tenant Homeowners line of insurance based on its request for a variance under 10 CCR § 2644.27(f)(6) ("Variance 6") from the maximum permitted earned premium "to protect its solvency." This request follows an approved 20.8% ($471 million) overall rate increase to Applicant's Non-Tenant Homeowners line effective

[4] Even though the rate filing requires policyholders to essentially invest in State Farm, it does not grant policyholders any ownership rights.

March 15, 2024 (File No. 23-613), for a combined impact of +57%. Without the requested Variance 6, State Farm's own calculations under the maximum permitted earned premium formula based on its projections of future losses show that it should be *decreasing* its rates by 9.2%.

2. On or about July 5, 2024, the public was notified by the CDI of the Application.

II. PETITIONER

3. Petitioner Consumer Watchdog is a nonprofit, nonpartisan public interest corporation organized to represent the interests of consumers and taxpayers. A core focus of Consumer Watchdog's advocacy is the representation of the interests of insurance consumers and policyholders, particularly as they relate to the implementation and enforcement of Proposition 103, in matters before the Legislature, the courts, and the CDI.

4. Consumer Watchdog's founder authored Proposition 103 and led the successful campaign for its enactment by California voters in 1988. Consumer Watchdog's staff and consultants include some of the nation's foremost consumer advocates and experts on insurance ratemaking matters.

5. Consumer Watchdog has served as a public watchdog to enforce Proposition 103's protections with regard to property-casualty insurance rates and practices by: monitoring insurer rollback settlements and the status of the rollback regulations; reviewing and challenging rate and rule filings made by insurers seeking to implement excessive and/or unfairly discriminatory rates and/or practices; participating in rulemaking and adjudicatory hearings before the CDI to implement and enforce Proposition 103's consumer protections; and educating the public concerning industry underwriting and rating practices, their rights under Proposition 103, and other provisions of state law. Consumer Watchdog has also initiated, intervened, and appeared as amicus curiae in virtually every action in state court involving the interpretation and application of Proposition 103 and the Insurance Code.[5]

[5] For example, *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805; *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216; *Amwest Surety Ins. Co. v. Wilson* (1995) 11 Cal.4th 1243; *Proposition 103 Enforcement Project v. Quackenbush* (1998) 64 Cal.App.4th 1473; *Spanish*

6. Consumer Watchdog has initiated and intervened in numerous proceedings before the CDI related to the implementation and enforcement of Proposition 103's reforms, including over 150 such proceedings in the last twenty years. In every proceeding that has resulted in a final decision and in which Consumer Watchdog sought compensation from 2003–2022, the Commissioner found that Consumer Watchdog made a substantial contribution under Insurance Code section 1861.10(b) and the implementing regulations. Most recently in 2023, the Commissioner found that Consumer Watchdog made a substantial contribution to his decisions in two homeowners insurance rate matters and to his adoption of regulations requiring the public disclosure of wildfire risk models and mitigation discounts to homeowners who take steps to protect their homes from wildfires.

III. ISSUES AND EVIDENCE TO BE PRESENTED AND POSITIONS OF PETITIONER

7. In the rate proceeding initiated by Consumer Watchdog's Petition and evidentiary hearing, Consumer Watchdog will present and elicit evidence to show that the rates proposed in the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a), which provides that "[n]o rate shall be approved or remain in effect which is excessive, inadequate, [or] unfairly discriminatory." Additionally, Consumer Watchdog will present and elicit evidence that Applicant's proposed rates violate 10 CCR § 2644.1, which provides that "[n]o rate shall be approved or remain in effect that is above the maximum permitted earned premium as defined in section 2644.2."

8. Based on Consumer Watchdog's preliminary analysis in consultation with its actuarial experts and the information contained in the Application and publicly available, Consumer Watchdog has identified the following issues with the Application on which it intends to present and elicit further evidence as set forth in ¶¶ 9–12 below. Each of these issues is

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Speaking Citizens' Found. v. Low (2000) 85 Cal.App.4th 1179; *Donabedian v. Mercury Ins. Co.* (2004) 116 Cal.App.4th 968; *State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029; *The Found. for Taxpayer and Consumer Rights v. Garamendi* (2005) 132 Cal.App.4th 1354; *Ass'n of Cal. Ins. Cos. v. Poizner* (2009) 180 Cal.App.4th 1029; *Mercury Cas. Co. v. Jones* (2017) 8 Cal.App.5th 561; *Mercury Ins. Co. v. Lara* (2019) 35 Cal.App.5th 82; and *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 197.

directly relevant to determining whether State Farm's proposed 30% rate increase is excessive under Insurance Code section 1861.05(a) and the prior approval rate regulations, 10 CCR § 2644.1 et seq., including whether State Farm is entitled to a variance from the maximum permitted earned premium to protect its solvency. Consumer Watchdog intends to request further information on these issues through discovery from the Applicant and reserves the right to develop and refine its positions as more information is made available.

9. Loss and Premium Trends (10 CCR § 2644.7): Consumer Watchdog's current position, to the extent now known based on the information in the Application at this time and publicly available, is that State Farm's selected 8-point Reported/Paid frequency and severity trends give too much weight to recent experience. These selections result in an unreasonable and excessive annual loss trend of +17.2% and an excessive net trend which overstates the projected losses, causing an inflated rate indication. Consumer Watchdog has analyzed the actual and fitted net trends on both a numerical and graphical basis for each of the possible trend bases (Closed/Paid, Reported/Paid, Closed/Total Paid, and Reported/Total Paid). This preliminary analysis shows that lower trend factors, which reflect recent data while also incorporating additional historical experience, are more reasonable and "most actuarially sound." (10 CCR § 2642.8.) As further support for the use of lower trend factors, the Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Residential Construction data through May 2024 from the Federal Reserve Economic Data website (fred.stlouisfed.org) shows the cost of residential construction materials reaching a high point in June 2022. The PPI has been relatively flat since that point. Additionally, a report by Verisk from Q2 of 2024 shows that "[t]otal reconstruction costs in the United States, including materials and retail labor, increased by 4.6% from April 2023 to April 2024, slightly more than their 4.1% rise from January 2023 to January 2024. The growth rate in reconstruction costs is starting to line up more closely with pre-COVID rates: average increases during the pandemic were 11% per year, as opposed to the historical average of 3% to 4%." Of particular relevance to the case at hand, with respect to residential reconstruction costs: "California's rank changed most significantly, falling from the 14th-highest cost increase in January 2024 to the 44th-highest in April 2024." The use of lower trend factors,

based on Consumer Watchdog's preliminary analysis, contributes to an overall rate indication that is substantially lower than the 30% increase proposed by State Farm including Variance 6, and also lower than State Farm's indicated -9.2% decrease based on its standard maximum permitted earned premium rate calculation without Variance 6. Based on Consumer Watchdog's findings, State Farm did not support the assertion that its selected trend factors are the most actuarially sound.

10. Catastrophe Adjustment (10 CCR § 2644.5): The Cat Provision to Non-Cat Loss + DCCE of 0.451 on page 5 of Exhibit 9 represents a 23% increase over the same Provision from State Farm General's last CA HO filing (0.366). This appears to be driven by a 17% increase in current Amount of Insurance Years (AIY), coupled with a 4% decrease in Non-Cat Loss + DCCE Developed and Trended (both figures also from page 5 of Exhibit 9). State Farm has not supported the current filing's AIY value of $846M, a value which seems counterintuitive considering that ultimate Loss + DCCE is projected to decrease. The resulting Catastrophe Adjustment Factor contributes directly to State Farm's overall rate indication and causes it to be overstated. Consumer Watchdog's preliminary analysis shows that a lower Catastrophe Adjustment Factor, based on tempering the impact of the 23% increase to current AIY, is most actuarially sound. This reduced Adjustment Factor contributes to an overall rate indication that is substantially lower than the 30.0% increase proposed by State Farm including Variance 6, and also lower than State Farm's indicated -9.2% decrease based on a typical rate calculation without Variance 6. Furthermore, the Application does not document, support, or explain any purported adjustments (Exhibit 9, page 2, Notes (3) and (6)) made to the calculation of the catastrophe factor to reflect any changes between the insurer's historical and prospective exposure to catastrophe due to a change in the mix of business. Based on these findings, State Farm did not support the actuarial soundness of its selected catastrophe adjustment factor.

11. Improper / Unsupported Excluded Expenses (10 CCR § 2644.10): State Farm has not shown that the three-year sum of the institutional advertising expenses listed on page 4.1 of the Prior Approval Rate Template, $2,436,227,444 (1.2% of premium), is appropriate. This is particularly questionable since the institutional advertising amounts given for each of the three

years on page 4.1 are exactly 75% of total advertising, and clearly not the total of actual institutional advertising expenditures. Per 10 CCR § 2644.10(f): "'Institutional advertising' means advertising not aimed at obtaining business for a specific insurer and not providing consumers with information pertinent to the decision whether to buy the insurer's product." Consumer Watchdog's current position, to the extent now known, is that State Farm has failed to provide sufficient information in the filing to support its claim that 75% of advertising expenses over the last three years have been institutional. Further, State Farm has not provided examples of advertisements it claims fall under the category of non-institutional advertising expenses in accordance with the CDI's Prior Approval Rate Filing Instructions. Based on the information currently available in the Application, and subject to review of additional information that may be obtained from State Farm during the proceeding through formal or informal discovery on these and other excluded expenses items, Consumer Watchdog's current position, to the extent now known, is that State Farm has not proven that its three-year average excluded expense ratio of 1.2% shown on page 4.2 of the Prior Approval Rate Template is appropriate. Consumer Watchdog reserves the right to seek discovery and raise additional issues regarding the accuracy of the amounts listed in page 4.2 of the Prior Approval Rate Template for other categories of excluded expenses that should be reflected in the rate calculation but may not be adequately reflected in the filing, including political contribution and lobbying expenses, excessive executive compensation, bad faith judgments and associated DCCE, costs of unsuccessful defense of discrimination claims, and fines and penalties.

12. Variance 6 (10 CCR § 2644.27(f)(6)): State Farm filed a variance request under this provision, which requires it to show "[t]hat the insurer's financial condition is such that its maximum permitted earned premium should be increased in order to protect the insurer's solvency." It is Consumer Watchdog's current position, to the extent now known, that State Farm has failed to meet its burden to show that (i) the grounds for the variance request are supported; and (ii) the amount of the variance requested is appropriate. The evidence for these conclusions, to the extent now known from the information in the Application and publicly available, is summarized below:

a. The dollar amount of the variance request exceeds $1.3 billion (= 39.2% X $3.37 billion[6]) per year starting in 2025. State Farm projects the variance will stay in effect for at least four years, from 2025 to 2028 (Application, Exhibit 13, Sheet 5). That represents a total of more than $5.2 billion dollars in excess charges. There exists no reasonable basis for State Farm to extract excess premiums charges of more than $5 billion from policyholders.

b. The variance request is based on an underwriting profit provision of 24.7%.[7] That is more than five times as large as the underwriting profit without the variance of 4.7%.[8] State Farm has not provided any reasonable basis for requesting a profit more than five times as large as the maximum profit permitted under the regulations without a variance.

c. It is anticipated based on past experience that a significant portion of the excess premium charges and inflated underwriting profit will be transferred to the parent company, SFMAIC, in the form of profits resulting from inflated reinsurance charges.

d. During the ten accident years from 2014 to 2023, State Farm paid reinsurance premiums related to homeowners insurance of about $2.19 billion, but only received (or is expected to receive) reimbursements of about $0.41 billion.[9] That is, the Applicant received less than 20% of its reinsurance payments in the form of reimbursements (0.41 / 2.19 = 18.7%).

e. The vast majority of reinsurance premium payments by State Farm for homeowners insurance are made to its Parent and Other Affiliated Companies. During 2023, the total reinsurance ceded premiums written were about $710 million.[10] More than 90% of the reinsurance premium payments were made to its parent company SFMAIC.

[6] Prior Approval Rate Template (No Variance), Page 2.
[7] Prior Approval Rate Template (Variance 6), Page 7.
[8] Prior Approval Rate Template (No Variance), Page 7.
[9] State Farm General 2023 Annual Statement, Schedule P, Part 1A, Columns (2) and (27).
[10] State Farm General 2023 Annual Statement, Part 1B, Line (4), Columns (4) and (5).

f. The reinsurance purchased by State Farm has been extremely unfavorable for the Applicant. From 2014 to 2023, the average amount of the reinsurance premium that has been returned to the Applicant in the form of reimbursements has been less than 20%. In every one of the ten accident years from 2014 to 2023, the loss & LAE ratio on the ceded business has been significantly lower than the loss & LAE ratio on the direct business.[11] This was the situation even when the year had significant catastrophes (e.g., 2017). When the reinsurance loss & LAE ratio is lower than the direct loss & LAE ratio in every year, including years with a catastrophe, that is a strong indication that the reinsurance agreement is much more favorable to the reinsurer (SFMAIC) than to the Applicant.

g. It appears that the reinsurance agreement between the Applicant and SFMAIC is not a true transfer of risk, but instead is a mechanism for transferring profits out of the Applicant and into its Parent Company.

h. The reinsurance agreement between the Applicant and SFMAIC has resulted in a significant drain on the surplus of the Applicant, while at the same time enriching its parent company.

i. Homeowners insurance has not been a significant drain on the surplus, and in fact has been profitable for the Applicant. During 2020, 2021, 2022, and 2023, the Applicant had direct underwriting profits from homeowners insurance of $549 million, $319 million, $304 million, and $237 million, respectively.[12] That is, the Applicant had a four-year underwriting profit of $1.4 billion from homeowners insurance.

j. The variance request has an impact on the maximum permitted earned premium change, as calculated by State Farm, of +43.1%.[13] Despite that huge unjustified increase, the Applicant actually intends to ***decrease*** the number of policies written,

[11] State Farm General 2023 Annual Statement, Schedule P, Part 1A, Columns (29) and (30).
[12] State Farm General, Insurance Expense Exhibits for 2020, 2021 and 2022, Part III, Line (4), Column (33).
[13] Prior Approval Rate Application, Page 11.

mostly through nonrenewals, by more than 35% from 2023 to 2028.[14] That is, instead of using the enormous extra premiums it is requesting through the variance to support writing business in California, the Applicant actually intends to continue its moratorium on new business, significantly decrease the number of policies written, and simply retain the excess premiums.[15]

k. The Department's Prior Approval Rate Filing Instructions require that "[w]hen a variance filing is submitted, the filing must provide substantial, detailed support and justification for each variance request in accordance with CCR § 2644.27(b)." The Applicant has not done that. The Application includes a "Financial Forecast Template – Baseline" (Exhibit 13, Page 3) and a "Financial Forecast Template - Variance 6" (Exhibit 13, Page 5). These are based upon various "Five-Year Projection Assumptions" (Exhibit 13, Pages 2.1 and 2.2) and undocumented calculations. As discussed in ¶¶ 9–11 *ante*, the values used by the Applicant with regard to loss trends, catastrophes, and other factors are actuarially unsound. Using those as the bases for the Financial Forecasts is therefore also actuarially unsound. Furthermore, other assumptions made and used in the forecast, which are not part of the rate template calculations, such as "reinsurance premium" and "ceded catastrophe losses," have absolutely no support or justification in the Application. In addition, the Financial Forecasts are based on various calculations and formulas which were not provided in the PDF file "NT HO Filing Exhibits." Also, the Excel file "NT Filing Exhibits" does not include any variance calculations. For all these reasons, the Application does not comply with the regulation or the CDI's Prior Approval Rate Filing Instructions and should be rejected.

l. 10 CCR § 2644.27(f)(6)(A) requires the Applicant to provide "[a] showing of the insurer's condition, based on generally accepted standards such as the National Association of Insurance Commissioners' Insurance Regulatory Information System."

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[14] Application, Exhibit 13, Page 2.1, Policies in Force (1,963,460 / 3,111,820 = 63.1%).
[15] *Ibid*.

The Applicant appears to have interpreted the words "such as" to mean "exclusively," as that is the only standard included in the Application as purported support. Such a position is contrary to the instructions contained in the "Insurance Regulatory Information Systems (IRIS) Manual – 2023 Edition."[16] Those instructions state, in part, in the Limitation Section:

> As previously stated, the results are not, in themselves, determinative of the financial condition of an insurer. The results are subject to individual insurer circumstances. The following caveats apply:
> 1. No state can rely on the tools' results as the state's only form of surveillance.
> 2. Important decisions, such as licensing, should not be based on the tools' results without further analysis or examination of the insurer.
> 3. Valid interpretation of the tools' results depends, to a considerable extent, on the judgment of financial analysts and examiners. An insurer's ratios may be outside the usual range because of unusual accounting methods, changes in corporate structure, restatements of prior periods, correction of errors in prior periods or other circumstances.

Thus, the Applicant's sole reliance on the IRIS ratios is misplaced and contrary to the applicable guidance from the NAIC.

m. Another commonly used measure of an insurance company's financial condition is its Risk Based Capital ("RBC"). The Applicant's "Total adjusted capital" is more than twice as large as its "Authorized control level risk-based capital."[17] That relationship is within the acceptable range for the "Total adjusted capital." The analysis of an insurance company's risk-based capital is required by statute.[18]

n. With regard to the IRIS tests, the Applicant lists four items outside the standard ranges.[19] Two of those items, "Gross Change in Surplus" and "Change in Adjusted Surplus," are actually the same, since the Applicant's Surplus and Adjusted Surplus are exactly the same.[20]

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[16] https://content.naic.org/sites/default/files/publication-uir-zb-iris-ratios-manual.pdf.
[17] State Farm General 2023 Annual Statement, Page 17, Lines (28) and (29).
[18] Ins. Code § 739 et seq.
[19] Application, Exhibit 13, Page 1.
[20] State Farm General 2023 Annual Statement, Page 17, Lines (26) and (28).

o. With regard to the values outside the usual range, none of those unusual values are the result of homeowner insurance. With regard to the "Two-Year Overall Operating Ratio" and the "Change[s] in Surplus," as previously discussed, homeowners insurance had a direct underwriting profit of more than $200 million in both 2022 and 2023. Hence, homeowners insurance would have a "Two-Year Overall Operating Ratio" under 100 and would contribute to an increase, not a decrease, in surplus. With regard to the "One-Year Reserve Development to Surplus," the actual value of 21 is just barely above the upper range of 20. Furthermore, homeowners insurance contributed very little to the "One-Year Reserve Development." Out of Applicant's total "One-Year Reserve Development" in 2023 of $470 million,[21] only $59 million,[22] or only about 13%, was due to homeowners insurance.

p. The adverse results in 2023 can be attributed to commercial and liability insurance.[23] The California direct incurred loss ratios reported by the Applicant for commercial multiple peril (non-liability portion), commercial multiple peril (liability portion), and other liability – occurrence were 90%, 237%, and 204%, respectively. In total, the incurred losses for these three lines of insurance exceeded the premiums by $419 million. In marked contrast, for homeowners insurance, the loss ratio was 58%, and premiums exceeded losses by $1.12 billion. This proves once again that any adverse experience for the Applicant is not the result of homeowners insurance.

q. Furthermore, the actuary retained by the Applicant who prepared the Statement of Actuarial Opinion confirmed that the adverse experience in 2023 was not the result of homeowners insurance, stating: "During 2023, the Company has strengthened net reserves for prior accident years, largely in its Umbrella and Commercial Multi-Peril

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[21] State Farm General 2023 Annual Statement, Page 18, Line (74).
[22] State Farm General 2023 Annual Statement, Schedule P, Part 2A, Column (11).
[23] State Farm General 2023 Annual Statement, Exhibit of Premiums and Losses, California.

coverages. Both coverages were impacted by sharp increases in claim severity and an extended time frame for claim resolution."[24]

r. Despite the indisputable evidence that homeowners insurance has not caused any financial distress to the Applicant, the Applicant is attempting to capitalize itself on the backs of homeowners by seeking to charge excessive insurance rates.

s. 10 CCR § 2644.27(f)(6)(B) requires the Applicant to provide "[a] plan to restore the financial condition." The "plan," as put forward by the Applicant, would force policyholders to capitalize the Applicant with over $5.2 billion in excessive charges from 2025 to 2028, but would not allow the policyholders to have any ownership rights in exchange. State Farm Lloyds, Inc. ("SFL"), another subsidiary company of SFMAIC, previously tried to force policyholders to provide a huge amount of capital without providing the policyholders with any ownership interest. That scheme by the SFMAIC and its subsidiary was rejected by both the Texas Commissioner of Insurance[25] and the Texas Court of Appeals.[26]

t. The Texas Commissioner of Insurance Order stated in part:[27]

> What SFL seeks by insisting on a separate provision for the surplus note is a rate which will produce something far more than a reasonable return on its capital; it seeks nothing less than a rate which, in effect, would require its policyholders to provide new capital to replenish capital previously lost.
> …
> It should be noted that while a regulated entity is constitutionally entitled to a return sufficient to attract capital and ensure its continued financial viability, it has no constitutional claim to any particular rate of return above a rate which achieves these ends.
> …

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[24] State Farm General, Statement of Actuarial Opinion as of December 31, 2023, Page 4 (NAIC IRIS tests).

[25] Tex. Ins. Comr.'s Order No. 09-0927, TDI Docket No. 2562-A, Order Modifying Rate Reduction Previously Determined by the Texas Department of Insurance and Directing the Payment of Refunds (Nov. 16, 2009), https://www.tdi.texas.gov/orders/documents/co-09-0927.pdf.

[26] *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.

[27] Fn. 25, *supra*, pp. 62–64.

The Commissioner finds that the inclusion of a separate surplus note provision, in addition to rate provisions that already contemplate SFL's expected future costs, including its cost of capital "is likely to produce a long term profit that is unreasonably high in relation to the insurance coverage provided."

u. The Texas Court of Appeals stated in part:[28]

> Instead, the insurer's contention is that the rate must *also* enable it to build *additional* surplus at a rate that would increase its total surplus (net of amounts reserved for surplus-note payments) to a 1:1 premium-to-surplus ratio within nine years.
> …
> The Commissioner was unpersuaded that State Farm Lloyds was entitled to recover any costs related to the surplus note beyond the aforementioned return on its capital secured through underwriting profit.
> …
> He similarly viewed the surplus-note provision as an unjustified attempt by State Farm Lloyds not only to recoup its legitimate costs of providing insurance to its then-current policyholders, but also to effectively shift its past losses to them as well.
> …
> We are unpersuaded that the Commissioner, in refusing to afford State Farm Lloyds recovery of the full 9% of premium it sought through the surplus-note provision, has effected such an unreasonable balancing among the interests of State Farm Lloyds, its investors, ratepayers, and the public as to violate the constitutional norms. [Footnote omitted.] Consequently, we cannot conclude this decision renders the rate confiscatory. Accordingly, we overrule State Farm Lloyd's second point of error.

v. 10 CCR § 2644.27(f)(6)(D) requires the Applicant to provide "[a] plan to reduce rates once the insurer's condition is restored, in order to ***compensate*** consumers for excessive charges." (Emphasis added.) The Applicant's "plan" is vague and omits information required by the regulation and necessary to assess the requested variance. Furthermore, the "plan" fails to compensate consumers for excessive charges.

w. The "plan" is replete with conditions and caveats, which the Applicant has given itself exclusive authority to interpret. It states, in part: "State Farm General considers its financial condition to be restored and not reversed when the company can, for the long-term, generate and maintain capital sufficient to support itself. This is

[28] Fn. 26, *supra*, pp. 107–112, italics in original.

determined based on metrics and considerations evaluated together that, at a minimum, include the following: favorable outlook on ability to have adequate rates, risk-based capital sufficient to avoid required company or regulator action under insurer solvency regulations, achievement of a surplus-to-net written premium ratio of 1.0 or better and giving consideration to then current reinsurance utilization, State Farm General's ability to recover from stresses, favorable ratings by rating agencies, and acquiescence by the IL DOI (as State Farm General's solvency regulator) to any filing to reduce rates." That explanation is so vague, arbitrary, and capricious that it is impossible to objectively implement, monitor, or regulate. The Applicant is essentially stating that it will reduce rates if, when, and by the amount it decides is appropriate in its own opinion. Furthermore, those conditions and caveats illegally cede the authority of the California Insurance Commissioner over rates to be charged in California to unnamed rating agencies and to the Illinois Department of Insurance.

x. The Applicant further states: "After State Farm General's financial condition has been restored, it will submit an application with a defined future effective date to reduce its rates in at least one line of business if [various conditions follow]." An unspecified rate reduction, which may keep the rate above the maximum permitted earned premium, does *not* "compensate consumers for excessive charges." To "compensate consumers for excessive charges," the Applicant *must* return the entirety of the excessive charges, with interest, to those who paid the excessive rates. Anything less will not fully "compensate consumers for excessive charges."

13. This Petition is based upon Consumer Watchdog's preliminary analysis of the Application. Thus, Consumer Watchdog reserves the right to modify, withdraw, and/or add issues for consideration as more information becomes available through discovery or otherwise.

IV. AUTHORITY FOR PETITION AND GRANTING REQUEST FOR A HEARING

14. The authority for this petition for hearing is Insurance Code section 1861.10, subdivision (a), which grants "any person" the right to initiate or intervene in a proceeding permitted or established by Proposition 103 and the right to enforce Proposition 103.

Specifically, as stated above, Consumer Watchdog initiates this proceeding to enforce Insurance Code section 1861.05 and the Commissioner's rate regulations, 10 CCR § 2644.1 et seq.

15. Additionally, a hearing is authorized pursuant to Insurance Code section 1861.05, subdivision (c), which allows "a consumer or his or her representative" to request a hearing on a rate application and 10 CCR § 2653.1, which provides that "any person, whether as an individual, representative of an organization, or on behalf of the general public, may request a hearing by submitting a petition for hearing." Given that State Farm's requested rate change exceeds 7%, Insurance Code section 1861.05(c) requires that the Commissioner "must hold a hearing upon a timely request."

16. This petition is timely pursuant to Insurance Code section 1861.05, subdivision (c), and 10 CCR § 2646.4(a)(1) because is filed within forty-five (45) days of the July 5, 2024 public notice date.

V. INTEREST OF PETITIONER/INTERVENOR

17. Consumer Watchdog's interest in the above-captioned proceeding is to ensure that State Farm's homeowners insurance policyholders are charged rates and premiums that comply with the provisions of Insurance Code section 1861.05(a)'s requirement that "no rate shall be approved or remain in effect which is excessive, inadequate, [or] unfairly discriminatory or otherwise in violation of this chapter," and the requirements contained in the regulations promulgated thereunder. For many homeowners, their home is their most valuable asset and they are required to purchase homeowners insurance by their mortgage lenders. Consumers who are overcharged by insurers for this insurance coverage and/or arbitrarily non-renewed, even when they have undertaken significant wildfire mitigation efforts to protect their homes and lower their risk of loss, are part of Consumer Watchdog's core constituency. The specific issues and positions to be taken by Consumer Watchdog in this proceeding, to the extent known at this time, are set forth in paragraphs 9–12 *ante*.

18. As noted in paragraphs 3–6 *ante*, Consumer Watchdog's staff and consultants have substantial experience and expertise in insurance rate matters, which Consumer Watchdog believes will aid the CDI in its review of the Application and aid the Commissioner in making

his ultimate decision as to whether to approve or disapprove the requested rate. As noted in paragraph 6 above, the Commissioner has found that Consumer Watchdog has made a substantial contribution to his decisions in every rate proceeding that has resulted in a final decision and in which Consumer Watchdog sought compensation from 2003–2022, and three additional proceedings in 2023. If leave to intervene is granted, Consumer Watchdog will participate fully in all aspects of this proceeding.

19. Consumer Watchdog also has an interest in ensuring that Applicant, the CDI, and the Insurance Commissioner comply with the laws enacted by the voters under Proposition 103, and the rules and regulations that implement those laws, including that all information submitted to the CDI in connection with the Application is made publicly available.

VI. AUTHORITY FOR PETITION TO INTERVENE

20. The authority for Consumer Watchdog's Petition to Intervene is Insurance Code section 1861.10, subdivision (a), which grants "any person" the right to "initiate or intervene in any proceeding permitted or established pursuant to this chapter [Chapter 9 of Part 2 of Division 1 of the Insurance Code] . . . and enforce any provision of this article." This proceeding is a rate proceeding to enforce Insurance Code section 1861.05 pursuant to Insurance Code section 1861.10(a), and hence is a proceeding both "permitted" and "established" by Chapter 9. Per the voters' instruction, the mandatory right to intervene under section 1861.10(a), like all the provisions of Proposition 103, must be "liberally construed and applied in order to fully promote its underlying purposes." (Prop. 103, § 8.) Thus, section 1861.10 must be interpreted and applied broadly in a manner to fully encourage consumer participation. (*Ibid.*; see also *Ass'n of California Ins. Cos. v. Poizner, supra*, 180 Cal.App.4th at 1052 [stating "the goal of fostering consumer participation in the administrative rate-setting process" as "one of the purposes of Proposition 103"].) The broad intervention standard enacted by section 1861.10 ensures that consumers will be able to participate in proceedings independently of the CDI staff who may take different positions or emphasize different issues in the proceeding, and with all rights accorded to any other party, including the right to raise additional issues and/or violations as they become known during the course of the proceeding through informal or formal discovery.

21. This Petition to Intervene is also authorized by 10 CCR § 2661.1 et seq. In compliance with 10 CCR § 2661.3, the specific issues to be raised and positions to be taken by Consumer Watchdog, to the extent known at this time, are set forth in paragraphs 9–12 *ante*. Each of these issues directly relate to specific standards and requirements under the ratemaking formula and permitted variances at 10 CCR § 2644.1 et seq. and thus are directly relevant to ultimately determining whether Applicant's requested rate is excessive or otherwise unjustified. Although consumer presence in departmental proceedings typically results in significant reductions to policyholders' rates, the amount of savings for each individual consumer is outweighed by the time and expense of hiring individual counsel or an advocacy group to protect his or her rights. Thus, an independent organization like Consumer Watchdog introduces a voice that otherwise would be absent from this proceeding.

VII. PARTICIPATION OF CONSUMER WATCHDOG

22. Consumer Watchdog verifies, in accordance with 10 CCR § 2661.3, that it will be able to attend and participate in this proceeding without unreasonably delaying this proceeding or any other proceedings before the Insurance Commissioner.

VIII. INTENT TO SEEK COMPENSATION

23. Consumer Watchdog intends to seek compensation in this proceeding. The Commissioner has awarded Consumer Watchdog compensation for its reasonable advocacy and witness fees and expenses in numerous prior departmental proceedings. Consumer Watchdog filed its most recent Request for Finding of Eligibility ("Request") on June 3, 2024, which establishes that it continues to meet the threshold statutory requirement for compensation, that it "represents the interests of consumers."[29] Consumer Watchdog was previously found eligible to seek compensation on July 26, 2022, effective as of July 12, 2022; August 25, 2020, effective as of July 12, 2020; July 12, 2018; July 14, 2016; July 24, 2014; July 24, 2012; July 2, 2010; August 25, 2008; July 14, 2006; July 2, 2004; June 20, 2002; October 1, 1997; September 26,

[29] Consumer Watchdog, Request (June 3, 2024), https://www.insurance.ca.gov/01-consumers/150-other-prog/01-intervenor/upload/2024-06-03-Request-for-Finding-of-Eligibility.pdf.

1995; September 27, 1994; and September 13, 1993. Nevertheless, on June 6, 2024, the Commissioner posted a Notice inviting comment regarding Consumer Watchdog's Request on the "Insurers" section of the Department website.[30] Comments received by the Department between June 6 and July 3, 2024 were posted on the Department's website.[31] On July 11, 2024, Consumer Watchdog filed its Response to Industry Comments on Its Request.[32] The Commissioner has stated he will rule on Consumer Watchdog's Request by August 2, 2024, and any order granting its request will be effective as of July 12, 2024.[33]

24. Pursuant to 10 CCR § 2661.3(c), Consumer Watchdog's estimated budget in this proceeding is attached hereto as Exhibit A. Consumer Watchdog has based its estimated budget on several factors including: (1) the technical and legal expertise needed to address these issues; (2) its current best estimate of the time needed to participate effectively in these proceedings, taking into account the time already expended by Consumer Watchdog's legal and actuarial staff and an estimate of time needed to complete remaining tasks through completion of a noticed evidentiary hearing; and (3) past experience in similar rate proceedings before the CDI. The estimated budget is reasonable and the staffing level is appropriate, given the expertise that Consumer Watchdog and its consultants bring to these proceedings when the issues involved are issues at the very core of its organizational mission and strike at the very heart of Proposition 103 itself. The attorney, paralegal, and staff and consulting actuaries' hourly rates contained in

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[30] Ins. Comr. Ricardo Lara, Notice re Request by Consumer Watchdog (June 6, 2024), https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/Notice-Re_Request-for-Finding-of-Eligibility-to-Seek-Compensation-Submitted-by-Consumer-Watchdog-2.pdf.

[31] Cal. Dept. of Ins., Requests for and Findings of Eligibility Since 2013 (July 11, 2024), https://www.insurance.ca.gov/01-consumers/150-other-prog/01-intervenor/upload/Requests-for-and-Findings-of-Eligibility-7-11-24.pdf.

[32] Consumer Watchdog, Consumer Watchdog's Response to Insurance Industry Comments on Its Request (July 11, 2024), https://www.insurance.ca.gov/01-consumers/150-other-prog/01-intervenor/upload/2024-07-11-Consumer-Watchdog-s-Response-to-Industry-Comments-Re-Request-for-Finding-of-Eligibility.pdf.

[33] Order Concerning Consumer Watchdog's Request (June 19, 2024), https://www.insurance.ca.gov/01-consumers/150-other-prog/01-intervenor/upload/ORDER-CONCERNING-CW-REQUEST-FOR-FINDING-OF-ELIGIBILITY-TO-SEEK-COMPENSATION-IE-2024-0002.pdf.

the attached budget do not exceed market rates as defined by 10 CCR § 2661.1(c).[34] The budget presented in the attached Exhibit A is a preliminary estimate, and Consumer Watchdog reserves the right to amend its proposed budget as its expenses become more certain, or in its request for final compensation. Further, Consumer Watchdog affirms that it will file an amended budget as soon as possible when it learns that its total estimated budget amount increases by $10,000 or more, in accordance with 10 CCR § 2661.3(d).

WHEREFORE, Consumer Watchdog respectfully requests that the Insurance Commissioner GRANT its petition for hearing and petition to intervene in the proceeding, having all rights and responsibilities accorded any other party to the proceeding.

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[34] 10 CCR § 2661.1(c) defines "market rates" as "the prevailing rate for comparable services in the private sector in the Los Angeles and San Francisco Bay Areas *at the time of the Commissioner's decision awarding compensation* for attorney advocates, non-attorney advocates, or experts with similar experience, skill and ability." (Emphasis added.) Attached as Exhibit B and Exhibit C are the two most recent Decisions Awarding Compensation by Commissioner Lara to Consumer Watchdog in 2023 in rate proceedings, which found that the *same* 2024 rates used in the estimated budget set forth in Exhibit A for its attorneys and paralegal, Mr. Rosenfield, Ms. Pressley, Mr. Mellino, Mr. Powell, and Ms. Gentile, were reasonable and did not exceed market rates in the private market in Los Angeles and the San Francisco Bay Area. Those decisions also found Mr. Schwartz's 2023 hourly rate was reasonable and did not exceed market rates. (Exh. B [Decision Awarding Compensation, July 12, 2023, *In the Matter of the Rate Applications of Farmers Insurance Exchange, Fire Insurance Exchange, and Mid-Century Insurance Company*, File No. PA-2022-00007], pp. 9–11, 15; Exh. C [Decision Awarding Compensation, Nov. 8, 2023, *In the Matter of the Rate Application of CSAA Insurance Exchange*, File No. PA-2023-00004], pp. 4–7, 10.) Consumer Watchdog will submit a declaration from Mr. Schwartz supporting his 2024 hourly rate when it submits any request for compensation in this matter. Mr. Armstrong is Consumer Watchdog's staff actuary with over 12 years of professional actuarial experience who joined staff in May 2023. His $425 hourly rate in the estimated budget in Exhibit A is comparable to the $415 market rate found reasonable by the Commissioner in the Decisions attached as Exhibits B and C for one of Mr. Schwartz's former associates who does not have the additional Fellow Casualty Actuarial Society designation that Mr. Armstrong does. Since this is a preliminary estimated budget, and section 2661.1(c) defines "market rate" as the prevailing market rates at the time of the Commissioner's compensation award, Consumer Watchdog intends to submit further support for its attorneys' and actuaries' market rates at the time it submits any request for compensation.

DATED: July 26, 2024

Respectfully submitted,
Harvey Rosenfield
Pamela Pressley
Benjamin Powell
Ryan Mellino
CONSUMER WATCHDOG

By: Pamela Pressley
Pamela Pressley
Attorneys for CONSUMER WATCHDOG

VERIFICATION OF PAMELA PRESSLEY IN SUPPORT OF CONSUMER WATCHDOG'S PETITION FOR HEARING, AMENDED PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION

I, Pamela Pressley, verify:

1. I am Senior Staff Attorney for Consumer Watchdog. If called as a witness, I could and would testify competently to the facts stated in this verification.

2. I personally prepared, in consultation with Consumer Watchdog's actuarial experts, the pleading titled "Consumer Watchdog's Petition for Hearing, Amended Petition to Intervene, and Notice of Intent to Seek Compensation" filed in this matter. All of the factual matters alleged therein are true of my own personal knowledge, or I believe them to be true after conducting some inquiry and investigation.

3. Pursuant to California Code of Regulations, title 10, section 2661.3, Consumer Watchdog attaches as Exhibit A its estimated budget in this proceeding. I affirm that the hourly rates in the estimated budget do not exceed market rates.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed July 26, 2024 at Los Angeles, California.

Pamela Pressley

Pamela Pressley

EXHIBIT A

EXHIBIT A
PRELIMINARY BUDGET

ITEMS **ESTIMATED COST**

1. Consumer Watchdog Attorneys, Paralegal, and Staff Actuary

Pamela Pressley (Senior Staff Attorney) @ $595 per hour, 100 hours $59,500

- Draft and edit petition for hearing and petition to intervene; supervise Consumer Watchdog counsel; oversee preparation of discovery requests, motions, briefing; confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; assist in all phases of proceeding, evidentiary hearing, and preparation of post-hearing briefing.

Benjamin Powell (Staff Attorney) @ $350 per hour, 100 hours $35,000

- Confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; participate in briefing legal issues; conduct discovery, preparation of motions, and preparation for evidentiary hearing; participate in examination of witnesses and all phases of evidentiary hearing and post-hearing legal briefing; prepare request for compensation.

Ryan Mellino (Staff Attorney) @ $250 per hour, 200 hours..... $50,000

- Confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; participate in briefing legal issues; conduct discovery, preparation of motions, and preparation for evidentiary hearing; participate in examination of witnesses and all phases of evidentiary hearing and post-hearing legal briefing; prepare request for compensation.

Kaitlyn Gentile (Paralegal) @ $200 per hour, 50 hours $10,000

- Draft and edit petition for hearing and petition to intervene; assist with discovery and preparation of motions and briefs; prepare request for compensation.

Harvey Rosenfield (Of Counsel) @ $695 per hour, 50 hours $34,750

- Supervise Consumer Watchdog counsel and participate in strategy discussions.

Ben Armstrong, Staff Actuary @ $425 per hour, 100 hours..... $42,500

- Staff actuary to review rate application, all discovery documents; prepare actuarial analysis; participate in meet and confers with the parties as needed; prepare written testimony; testify and assist attorneys in preparation for cross-examination of insurer's expert witnesses.

2. Consumer Watchdog Expenses

Office expenses (photocopies, facsimile, telephone calls, postage, etc.) $2,000

Travel (ground transportation; airfare; hotel) $5,000

Consumer Watchdog Subtotal $238,750

3. Expert Witness: AIS Risk Consultants, Inc.

Allan I. Schwartz, President of AIS Risk Consultants @ $955 per hour, 100 hours $95,500

- Consulting actuary to review rate application and prepare actuarial analysis on variance 6 issues; participate in meet and confers with the parties as needed; assist with preparation of written and oral testimony and cross-examination of insurers' expert witnesses as needed, with a focus on variance 6.

Office expenses (photocopies, facsimile, telephone calls, postage, etc.) $2,000

Travel (ground transportation; airfare; hotel) $5,000

AIS Risk Consultants, Inc. Subtotal $102,500

TOTAL ESTIMATED BUDGET: $341,250

EXHIBIT B

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Requests for Compensation of **CONSUMER WATCHDOG,** Intervenor.	FILE NO. RFC-2023-006 *In the Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company* *PA-2022-00007*

DECISION AWARDING COMPENSATION

In this Request for Compensation (RFC) Consumer Watchdog (CW or Petitioner) seeks $82,814.50 in compensation for its intervention in a Rate Application (RA) filed by Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company (Farmers or Applicant). The RA sought a 24.9 percent increase in its homeowners multiple peril insurance line of insurance, but was ultimately resolved by a stipulation, granting Farmers a 17.7% increase. Farmers did not oppose CW's Request for Compensation arising therefrom. For the reasons explained below, the Request for Compensation is GRANTED.

FINDINGS OF FACT

Farmers' Rate Application

On June 15, 2022, Farmers filed a Rate Application with the Department of Insurance (Department) seeking a 24.9 percent increase in its homeowners' multiple peril insurance line.[1]

[1] RFC, p. 3.

The Department assigned the RA to Darjen Kuo for investigation.[2] On July 8, 2022, Farmers' RA was made public.[3] Several events occurred on August 22, 2022. The Department requested that Applicant waive the deemer period,[4] Applicant responded by waiving both the 60-day and the 180-day deemer periods,[5] and CW filed a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation (collectively, "Petition").[6]

In its Petition, CW raised a number of concerns, which may be briefly described as Farmers': (a) failure to demonstrate that its proposal to non-renew 10,000 policies will not create excessive and/or unfairly discriminatory rates;[7] (b) use of only one model for Fire Following Earthquake (FFEQ);[8] (c) use of quarterly rather than annual paid loss development;[9] (d) failure to demonstrate that the use of incurred rather than paid loss development is the most actuarially sound method;[10] (e) failure to demonstrate that the selected trend factors and trend data period used were the most actuarially sound, and how the non-renewal of policies would likely impact the trend;[11] (f) failure to demonstrate that all institutional advertising expenses were accounted for;[12] (g) failure to justify for the loss trend factors proposed in the Variance 7B request;[13] (h) failure to justify the loss trend factors proposed in the variance 8B request;[14] and (i)

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[2] Rate Applications may be found online at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:13936543914997. An administrative agency may take official notice of its own records, (See Evid. Code, § 452, subd. (d).) Official Notice is hereby taken of the Rate Application number 22-1617, as well as the related Rate Applications numbered 22-1617-A, and 22-1617-B. Citations in this decision to a Rate Application ("RA") utilize the State Tracking number. Although Rate Applications do not contain continuous internal pagination, page numbers are referenced according to their order of appearance in the .pdf.
[3] RFC, p. 3.
[4] RA #22-1617, p. 17.
[5] RA #22-1617, p. 38.
[6] Exh. 3, attached to Powell Decl., RFC, p. 4.
[7] Petition, ¶ 8.a.
[8] Petition, ¶ 8.b.
[9] Petition, ¶ 8.c.
[10] Petition, ¶ 8.d.
[11] Petition, ¶ 8.e.
[12] Petition, ¶ 8.f.
[13] Petition, ¶ 8.g.
[14] Petition, ¶ 8.h.

failure to comply with filing instructions and submission of exhibits in searchable Excel and PDF format.[15]

On September 6, 2022, the Commissioner granted CW's Petition to Intervene.[16] The Commissioner found that CW complied with the procedural requirements in the Insurance Regulations, and that the issues it sought to address were relevant to the ratemaking process.[17] The decision withheld a ruling on the Petition for Hearing.[18]

On October 4, 2022, the Department issued an Objection Letter asking Farmers to respond to eight concerns. In brief, the concerns raised by the Department seek the following information: (1) how the decision to non-renew 10,000 policies due to wildfire risk will affect the proposed rate and premium; (2) a justification for the use of only one model to calculate FFEQ; (3) a justification for the use of quarterly time rather than annual in calculating catastrophe adjustment; (4) an explanation for why using incurred losses to develop ultimate losses is the most actuarially sound selection; (5) a justification for the use of 12-point for premium trends and 12-point with closed Frequency and Total Paid Severity; (6) a standard exhibit 7 for Smart Plan Home data only; (7) given annual losses and exposures, a correction to the assigned 0% credibility for Smart Plan Home's experiences in calculating the loss trends and loss development factors; and (8) the resubmission of multiple exhibits in Excel and PDF formats according to specifications.[19] Six of the eight Objections raised by the Department had already been raised or partially raised by CW in its August 22 Petition.

On October 11, 2022, Farmers responded to the Department's inquiries by resubmitting

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[15] Petition, ¶ 8.i.
[16] RFC, p. 6.
[17] Exh. 4, attached to Powell Decl.
[18] *Ibid.*
[19] RA #22-1617, p. 16.

exhibits in Excel and PDF formats.[20] In its response, Farmers rescinded the non-renewal plan and declared that it was not moving forward with any "wildfires non-renewals."[21] In explanation for its use of only one model to calculate FFEQ, Farmers argued that use of only one model was the commonly accepted practice among its competitors. It referenced other rate applications by various competitors where only one model was used and argued that the RMS model complies with "actuarial statutory standards."[22] Farmers' explanation for calculating quarterly, rather than annual, catastrophe ratios, was because the main contributor to catastrophe losses in California—wildfires—occur more frequently in the 4th quarter of the fiscal year. According to Farmers, "this causes the total to [*sic*] non-CAT factor to be inflated in years experiencing extreme Q4 event[s] and extraordinary CAT losses," as was the case in years 2003, 2007, 2018, and 2020.[23] To explain its use of incurred losses, Farmers argued that, paid losses are driven by smaller damage claims, while incurred losses more accurately reflect rising inflation and other repair costs and ALE expenses.[24] As explanation for its use of 12-point, rather than 20-point, loss experience, Farmers explained that the shorter period gave greater weight to the pandemic and recent inflation, which it believed would be more suited to prospective rate making.[25] In response to the Department's request for a standard Exhibit 7 for Smart Plan Home data only, Farmers provided it in an electronic attachment.[26] Farmers did not provide corrected loss trends and loss development factors in response to the Department's concerns about its use of 0% credibility for Smart Plan Home's experiences. It did, however, provide a reasoned explanation for its failure to do so. Essentially, Farmers stated its willingness to make the requested changes,

[20] RA #22-1617, p. 33; see also Exh. C, attached to Powell Decl.
[21] Exh. C, attached to Powell Decl.
[22] *Ibid.*
[23] *Ibid.*
[24] *Ibid.*
[25] *Ibid.*
[26] *Ibid.*

as soon as sufficient data became available.[27] Finally, Farmers provided Excel files for each exhibit requested by the Department.[28]

On November 21, 2022, CW made a request for information, seeking the following additional information from Farmers: (1) A new table showing competitors' filings where more than one model was used for FFEQ; (2) support for Applicant's claim that inflation has caused longer cycle time on repairs, higher lumber costs, higher material costs, and increasing ALE expenses, and support for the claim that paid losses are driven by smaller damage claims; (3) a complete description and explanation of the impact from the pandemic on California homeowners insurance costs; (4) a basis for the claim that the response to Item 5 was the most actuarially sound choice for frequency and severity analysis; (5) an annual distribution of modeled losses used to obtain the expected average annual losses for the RMS FFEQ model results; (6) which portion of the AAL is attributable to the use of Loss Amplification factors in the RMS FFEQ model results; (7) any analyses performed showing the underwriting and operating results of the Applicants for Homeowners Insurance in California covering 2019 to the present; (8) a description of any changes in operations related to California homeowners insurance that has occurred from 2019 to the present, as well as any such changes anticipated for the future; and (9) a list of the actions taken or expected to be taken by Farmers regarding homeowners insurance in California.[29]

On November 18, 2022, the Department issued an Objection Letter in which it asserted that Farmers, through subsidiaries, was applying the Supergroup Exemption and Multi-policy Discount at the same time.[30] To correct for this error, the Department ordered Farmers to revise

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[27] *Ibid.*
[28] *Ibid.*
[29] Powell Decl., ¶ 42; Exh. D, attached to RFC.
[30] RA # 22-1617, p. 15.

its manuals to indicate which companies the multi-policy discounts could be applied to. On November 23, 2022 Farmers responded to the Department's Objections by disputing the Department's apparent contention that the Super Group Exemption applies to all Farmers programs, including Homeowners programs.

On November 26, 2022. the Department issued an Objection Letter, demanding that Farmers provide premiums, losses, and loss ratios information for each peril in Excel format to justify the proposed base rate change by peril, for each policy form.

On November 28, 2022, Farmers responded to the November 26 Objection Letter, stating, "Current base rates used to develop proposed base rates already reflect the latest loss experience by peril; therefore, no further adjustments at the peril level were needed and applied in this filing. As a result, base rates were revised uniformly for each peril to achieve overall rate proposal for each form." In short, Farmers made no changes to its Application, and provided no additional documents.

On December 6, 2022, the Department issued an Objection Letter following up on Farmers' October 11 response. In particular, the Department sought further explanation for: (1) why incurred ultimate loss is the most actuarially sound selection, given that there had been a drastic increase of Average Case Reserve on Open Claims for each of the perils in the three most recent accident years; (2) "why the closed frequencies for 'All Other' peril are so high ranging from 17.9% to 76.98% for Smart Plan Renter, and from 3.9% to 32.92% for Next Generation form. What perils are included in 'All Other' Peril?"; (3) proof that all institutional advertising expenses had been reflected in the excluded expense provision.[31]

On December 7, 2022, Farmers provided a response to CW's November 21 inquiry. In brief, Farmers responded: (1) with a list of other companies using a single model to develop

[31] RA #22-1617, p.12.

FFEQ losses, and a list of their SERFF filing numbers; (2) documentation supporting trends toward higher prices for lumber and other repair materials, as well as shortages in those materials resulting in smaller damage claims dominating paid losses, making accurate future predictions more difficult; (3) supply chain issues, increased cost of goods, and a strong demand for building materials in the California market have increased materials costs, as well as putting pressure on labor costs; (4) the basis for this claim is that this approach provides the closest match in terms of timing of when a claim is counted as fully paid and the total dollar amount associated with that claim; (5) Farmers identified the exhibit that shows annual aggregate losses by policy form for various return periods underlying the expected average annual losses; (6) Farmers provided a graph with breakdown of the percentage of total AAL attributable to the demand surge for each policy form; (7) Farmers provided a table showing the results for its most recent five year history; (8) a statement affirming that there have been no significant changes in operations since 2019, and no future changes are planned; and (9) a statement affirming that all major actions have been filed with the Department, with a supporting list of filings/tracking numbers.

On January 19, 2023, the parties participated in a teleconference.[32] In late January and early February 2023, CW and Farmers engaged in a series of communications both seeking and providing additional information and explanation regarding the Rate Application.[33]

On January 31, 2023, CW made two Requests for Information. It sought a list of payments to affiliates for the period 2019-2021, with supporting documentation, and requested a discussion of the loss reserving methods used to derive the values for homeowners insurance reserves contained in the Annual and Quarterly financial statements submitted to the

[32] Powell Decl., ¶ 44.
[33] Powell Decl., ¶ 45; Exh. F, attached to Powell Decl.

Department.[34] On February 1, 2023, Farmers partially responded to the January 31 request for information, but also disputed, to some degree, CW's asserted need for the information.[35] CW provided a justification for the requested information on February 3, 2023, followed by its actuarial analysis of the Rate Application on February 6.[36] On February 8, the parties participated in another teleconference, which resulted in Farmers providing additional information regarding its trend selections, loss development method, and management fees.[37] On February 9, 2023, CW sought more data directly arising from the February 8 response by Farmers.[38] Farmers provided the data the same day.[39]

On March 10, 2023, the parties reached a Settlement Stipulation.[40] In it, the parties agreed that a 17.7 percent increase was "supportable" and should be implemented with an effective date of June 17, 2023.[41] In return, CW agreed to withdraw its Petition for Hearing upon the Commissioner's approval of the Settlement Agreement.[42]

On March 14, 2023, the Commissioner gave his approval of the Settlement Stipulation and, accordingly, CW withdrew its Petition for Hearing, effective March 24, 2023.[43]

This Request for Compensation was filed on April 11, 2023. In total, CW seeks $42,425.50 in fees for its employees' time, and $40,389 in expert witness fees.[44]

CW's Request for Compensation

CW is a non-profit, public interest organization that conducts its education and advocacy

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[34] Powell Decl., ¶ 45.
[35] Powell Decl., ¶46; Exh. G, attached to RFC.
[36] Powell Decl., ¶ 47, Exh. H, attached to RFC.
[37] RFC, p. 8.
[38] RFC, pp. 8-9.
[39] RFC, p. 9; Exh. K, attached to RFC.
[40] Exh. 5, attached to Powell Decl.
[41] *Ibid.*
[42] *Ibid.*
[43] Exh. 6, attached to Powell Decl.
[44] Exh. A, attached to RFC.

efforts as a public interest service.[45] As a result of its intervention in Farmers' RA, CW's attorneys and paralegal incurred 80.6 hours of labor in the proceeding.[46] Attached to Benjamin Powell's Declaration as Exhibit 1.a. are detailed billing records for CW's attorneys Pamela Pressley, Harvey Rosenfield, and Benjamin Powell, as well as for CW Paralegal, Kaitlyn Gentile.[47]

In total, Pressley performed 51.6 hours of work on this matter, for which she billed $595 per hour.[48] Pressley has over 26 years' experience as a consumer advocate.[49] In that role, she has litigated a number of matters of first impression involving the implementation and enforcement of Proposition 103.[50] She has also participated in a number of rulemaking proceedings involving implementation of Proposition 103's rating factor requirements.[51] Pressley's hourly rate is within the range of rates charged by similarly-qualified attorneys in the Los Angeles area.[52]

CW's attorney Benjamin Powell performed 15.4 hours of work on this matter, at an hourly rate of $350.[53] Powell began working at CW before he was admitted to the California State Bar in 2016. His employment at CW has included work on civil litigation maters as well as on matters relating to Proposition 103.[54] Powell's hourly rate of $350 is within the range of rates charged by similarly-qualified attorneys in Los Angeles and the San Francisco Bay Area.[55]

CW's attorney Harvey Rosenfield is an attorney with over 40 years of experience in

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[45] Powell Decl., ¶ 4.
[46] Powell Decl., ¶ 6.
[47] Exh. 1.a., attached to Powell Decl.
[48] *Ibid.*
[49] Powell Decl., ¶ 13.
[50] *Ibid.*
[51] *Ibid.*
[52] Exh. 2, attached to Powell Decl.
[53] Exh. 1.a., attached to Powell Decl.
[54] Powell Decl., ¶ 16.
[55] Powell Decl., ¶ 19; Exh. 2, attached to Powell Decl.

insurance regulatory and litigation matters.[56] He is the founder of CW and author to Proposition 103. As such, he has participated in numerous lawsuits involving the interpretation an enforcement of Proposition 103.[57] He has also participated in numerous rulemaking proceedings implementing Proposition 103.[58] Rosenfield spent 7.3 hours working on this matter, for which he billed his hourly rate of $695.[59] Rosenfield's hourly rate is within the range of hourly rates charged by similarly-qualified attorneys in Los Angeles and the San Francisco Bay Area.[60]

Finally, CW's paralegal, Kaitlyn Gentile, has over 14 years of professional experience.[61] Gentile worked 6.3 hours on this matter, for which she billed $200 per hour.[62] Gentile's hourly rate is within the range of hourly rates charged by paralegals in Los Angeles and the San Francisco Bay Area.[63]

In addition to seeking fees for work performed by its own staff, CW seeks fees for 56.6 hours performed by its expert witnesses, AIS Risk Consultants, in the amount of $40,389.[64] Allan I. Schwarz is an actuary with over 40 year of consulting actuarial experience.[65] He performed 34.3 hours of work on this matter at his rate of $915 per hour. Data regarding consulting actuarial rates are typically not made public.[66] However, Schwarz's prior approved rates are known. For example, in 2021 and 2022, Schwarz's hourly rate was $835 and $870, respectively.[67] In a 2023 request for compensation, Schwarz's hourly rate of $870 was deemed

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[56] Powell Decl., ¶ 9.
[57] *Ibid.*
[58] Powell Decl., ¶ 10.
[59] Powell Decl., p. 19.
[60] Exh. 2, attached to Powell Decl.
[61] Powell Decl., ¶ 20.
[62] Powell Decl., p. 19.
[63] Exh. 2, attached to Powell Decl.
[64] Exh. 8, attached to Schwarz Decl.
[65] Schwarz Decl., ¶ 1.
[66] Schwarz Decl., ¶ 2.
[67] Schwarz Decl., ¶¶ 2-3.

reasonable for work performed in 2022.[68] His current rate of $915 represents a 5.2% increase over his 2022 billing rate. This increase is lower than the rate of inflation in the U.S. for the same period.[69]

Katherine Tollar is an Actuarial Assistant with over 30 years of professional experience.[70] Tollar worked for 17.3 hours on this matter, for which she billed $415 per hour.[71]

Marianne Dwyer is an Actuarial Assistant with over 30 years of professional experience.[72] She spent 5 hours on this matter, for which she billed $365 per hour.[73]

DISCUSSION

I. Prior Approval Framework and Public Participation

The 1988 approval of Proposition 103 by California's voters added Article 10, "Reduction and Control of Insurance Rates" to Division 1, Part 2, Chapter 9 of the Insurance Code. Proposition 103 establishes a system of "prior approval" for changes to insurance rates in automobile, home, and other property-casualty policies.[74] The application for rate change and any hearings arising therefrom are subject to public notice and scrutiny.[75] Thus, as of November 8, 1989, "insurance rates . . . must be approved by the Commissioner prior to their use."[76]

Insurance Code section 1861.05(a) prohibits the Commissioner from approving any rate that is "excessive, inadequate, unfairly discriminatory, or otherwise in violation of this chapter," or from allowing such rates to remain in effect. The primary consideration in the

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[68] Schwarz Decl., ¶ 8.
[69] Schwarz Decl., fn. 5.
[70] Exh. 6, attached to Schwarz Decl.
[71] Exh. 8, attached to Schwarz Decl.
[72] Exh. 7, attached to Schwarz Decl.
[73] Exh. 8, attached to Schwarz Decl.
[74] Cal. Code Regs., tit. 10, § 1861.05, subd. (b).
[75] Cal. Code Regs., tit. 10, § 1861.05, subd. (c), and §§ 1861.06 – 1861.07.
[76] Cal. Code Regs., tit. 10, § 1861.01, subd. (c).

Commissioner's determination must be "whether the rate mathematically reflects the insurance company's investment income."[77]

In order to encourage consumer participation, Section 1861.10 of the Insurance Code authorizes any person to initiate a proceeding to enforce any provision of Proposition 103.[78] To that end, the Commissioner has promulgated regulations setting forth the substantive and procedural requirements for those seeking compensation under the code.[79] Given the statute's purpose to encourage public participation, the regulations should be liberally construed in favor of compensation.[80] The statute and regulations set forth both procedural and substantive requirements for an award of compensation.

Intervenors who represent the interests of consumers and make a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner are to be compensated for reasonable advocacy and witness fees.[81]

A. CW Met the Procedural Prerequisites to Compensation for Public Participation

Before an intervenor may file a request for compensation, they must first obtain a finding from the Commissioner's Public Advisor that they are eligible to seek compensation—i.e., that they represent the interests of the consumer.[82] An intervenor is found to represent the interests of the consumer if it represents the interests of individual insurance consumer(s), or the intervenor is a group organized for the purpose of consumer protection as demonstrated by, but is not limited to, a history of representing consumers in administrative, legislative or judicial

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[77] Ins. Code, § 1861.05, subd. (a).
[78] Ins. Code, § 1861.10, and *State Farm Insurance Co. v. Lara* (2021) 71 Cal.App.5th 197
[79] Cal. Code Regs., tit. 10, §§ 2661.3 – 2661.4.
[80] *State Farm Insurance Co. v. Lara, supra,* 71 Cal.App.5th 197.
[81] Ins. Code, § 1861.10, and Cal. Code Regs., tit. 10, § 2662.5.
[82] Cal. Code Regs., tit. 10, § 2662.3.

proceedings.[83]

Once granted, a Finding of Eligibility to Seek Compensation is valid in any proceeding in which the intervenor's participation commences within two years of the finding of eligibility, provided the intervenor still meets all the requirements in the initial request.[84]

In addition to establishing that it represents the interests of the consumer the intervenor must also submit a request for an award of compensation within 30 days after the Commissioner's decision or action in the proceeding for which intervention was sought, or within 30 days after conclusion of the entire proceeding.[85] A "proceeding" is any action conducted pursuant to Proposition 103, including a proceeding other than a rate proceeding.[86]

Failing to comply with the procedural as well as substantive requirements may be fatal to a Request for Compensation. For example, where the Commissioner failed to grant permission to intervene in a particular matter, a later request for compensation by the putative intervenor was denied.[87]

1. CW Represents the Interests of Consumers

On July 26, 2022, the Commissioner issued CW its most recent Finding of Eligibility, effective for two years from July 12, 2022.[88] The Commissioner's finding of eligibility to seek compensation under Insurance Regulation 2662.2 is conclusive on this matter.

2. CW Made a Timely Request for Compensation

CW filed the present RFC on April 11, 2023, less than 30 days from the Commissioner's March 14 approval of the Settlement Stipulation. Accordingly, CW has made a timely Request

[83] Cal. Code Regs., tit. 10, § 2661.1, subd. (j).
[84] Cal. Code Regs., tit. 10, § 2662.2
[85] Cal. Code Regs., tit. 10, § 2662.3, subd. (a).
[86] Cal. Code Regs., tit. 10, § 2661.2, subd. (f).
[87] RFC-2021-002.
[88] RFC, p. 2, fn. 3.

for Compensation, per Insurance Regulation section 2662.3, subdivision (a).

B. CW Met the Substantive Requirements for Compensation

Once the intervenor has established that it is eligible to seek compensation, and has made a timely request for compensation, it must then establish that it has made a "substantial contribution" to the proceedings.

An intervenor's contribution is substantial when, viewed as a whole, their contribution results in more relevant, credible, and non-frivolous information being available than would otherwise have been available to the Commissioner to make a decision.[89] In the context of an application for a rate change, a substantial contribution may be found whether a petition for hearing is granted or denied.[90] Moreover, the intervenor need not be a prevailing party in order to be deemed to have made a substantial contribution.[91]

1. CW Made a Substantial Contribution to the Commissioner's Decision

In its RFC, CW describes its asserted "substantial contribution" as: initiating the proceeding and raising issues through its Petition; identifying issues regarding Farmers' payments of management fees and the proper accounting therefor; eliciting Farmers' responses to its requests for information; teleconferences; and participation discussions leading to the Settlement Stipulation.

Of particular importance to the determination whether CW's contribution was relevant, were the requests for information that prompted Farmers' response thereto. In particular, Farmers' December 7 response to CW's November 21 request for information resulted in more relevant, credible, and non-frivolous information being available to the commissioner.

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[89] Cal. Code Regs., tit. 10, § 2661.1, subd. (k).
[90] *Ibid.*
[91] *State Farm Insurance Co. v. Lara, supra,* 71 Cal.App.5th 197.

Specifically, this data came in the form of lists of other companies utilizing similar models for FFEQ losses, documentation of economic factors affecting damages claims, as well as graphic breakdowns and tables justifying the requested increase. Accordingly, CW has made a substantial contribution to these proceedings.

C. An Intervenor is Entitled to Reasonable Fees and Expenses

Reasonable advocacy and witness fees are determined according to the prevailing rate for comparable services in the private sector in the Los Angeles and San Francisco Bay Areas at the time of the Commissioner's decision awarding compensation.[92] This standard is applied to attorney advocates, non-attorney advocates, and experts with similar experience, skill and ability. Reasonable, actual out of pocket costs may also be compensated.[93] Billing rates shall not exceed the market rate.[94]

The requirement that fees be reasonable preserves the Commissioner's discretion to reduce fees for unnecessary, excessive, or duplicative work.[95] For example, when an intervenor seeks contributions for efforts that were not authorized in the ruling on the Petition to Intervene, and when those efforts duplicate the contribution of another party, the request for compensation may be reduced accordingly.[96] An intervenor may not reopen matters that were decided prior to their petition being granted.[97] The intervenor is required to file a "detailed description of services and expenditures," "legible time and/or billing records," and citations to the record of the proceedings.[98]

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[92] Cal. Code Regs., tit. 10, § 2661.1, subd. (c).
[93] Cal. Code Regs., tit. 10, § 2661.1, subds. (b) and (d).
[94] *Ibid.*
[95] *State Farm Insurance Co. v. Lara, supra*, 71 Cal.App.5th 197.
[96] Cal. Code Regs., tit. 10, § 2662.5, subd. (b).
[97] Cal. Code Regs., tit. 10, § 2661.3, subd. (h).
[98] Cal. Code Regs., tit. 10, § 2662.3, subd. (b).

1. Petitioner's Requested Fees are Reasonable.

CW has provided detailed billing records for the staff and expert witnesses who worked on this matter. Moreover, it has established through the Declarations of Richard M. Pearl and Allan I. Schwarz that the hourly rates charged by its staff and expert witnesses were reasonable and/or comparable to services in the private sector in the Los Angeles and San Francisco Bay Area at the time they were incurred. Accordingly, CW's fees are reasonable.

CONCLUSIONS

CW is entitled to advocacy and witness fees in the amount of $82,814.50 for its substantial contribution to the *Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company*, PA-2022-00007. The award shall be paid by Respondent.

ORDER

1. Consumer Watchdog is hereby awarded $82,814.50 in advocacy fees in connection with the *Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company*, PA-2022-00007.

2. Respondent shall pay the award no later than thirty (30) days after the date of this Decision and shall notify the Department's Office of the Public Advisor[99] upon making payment.

Date: July 12, 2023

RICARDO LARA
Insurance Commissioner

By: _____
Alicia A. Clement
Administrative Law Judge

[99] Jamie Katz, 1901 Harrison Street, 4th Floor, Oakland, California 94612 or jamie.katz@insurance.ca.gov.

PROOF OF SERVICE

Case Name/Number: In the Matter of the Request for Compensation of
CONSUMER WATCHDOG
File No. **RFC-2023-006**

I, Camille E. Johnson, declare that:

I am employed by the California Department of Insurance, Administrative Hearing Bureau, in the City of Oakland and County of Alameda. I am over the age of eighteen (18) years and not a party to this action. My business address is 1901 Harrison Street, 3rd Floor, Oakland, CA 94612.

I am readily familiar with the business practices of the California Department of Insurance for collecting and processing correspondence for mailing, electronic filing and electronic mail. On July 12, 2023, I served the **DECISION AWARDING COMPENSATION** regarding in the **Matter of the Request for Compensation of CONSUMER WATCHDOG.**

___X___ **(By U.S. Mail)** on those identified parties in said action, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013.

___X___ **(By Intra-Agency Mail)** on those identified parties in said action, by placing this correspondence in a place designated for collection for delivery by Department of Insurance intra-agency mail.

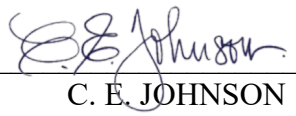
_____ **(By Facsimile transmission)** on those identified parties in said action, by transmitting said document(s) from our office by facsimile machine to facsimile machine number(s) shown below. Following the transmission, I received a "Transmission Report" from our fax machine indicating that the transmission had been transmitted without error.

___X___ **(By Email)** on those identified parties in said action, in accordance with Code of Civil Procedure §1013, by emailing true copies thereof at the address set forth below.

SEE ATTACHED PARTY SERVICE LIST

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed in Oakland, California, on July 12, 2023.

July 12, 2023
DATE



C. E. JOHNSON

PARTY SERVICE LIST

Name/Address	Method of Service
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EXHIBIT C

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Requests for Compensation of **CONSUMER WATCHDOG,** Intervenor.	FILE NO. RFC-2023-011 **DECISION AWARDING COMPENSATION** *In the Matter of the Rate Application of CSAA Insurance Exchange* *PA-2023-00004*

INTRODUCTION

Consumer Watchdog ("CW" or Petitioner), files this Request for Compensation (RFC) in the amount of $77,693.50, for its intervention in proceedings initiated by a Rate Application (RA) filed by CSAA Insurance Exchange (CSAA or Applicant). CSAA did not oppose the RFC. Upon consideration of all the facts and evidence in this case, and for the reasons explained below, the Request for Compensation is GRANTED.

FINDINGS OF FACT[1]

On February 1, 2023, CSAA filed a Rate Application[2] with the Department, seeking a 25 percent increase in its Auto Liability and Physical Damage lines. Over the course of the ensuing investigation, the Department issued five objection letters.[3] CSAA responded to each of the Objection Letters in a timely fashion.[4] On April 10, 2023, CW filed a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation.[5] In its Request for Hearing, CW provided a non-exhaustive list of issues related to the Rate Application that it intended to explore, along with a list of evidence it intended to produce.[6] On April 14, 2023, CSAA filed an Answer to the Request for Hearing, refuting CW's claims that the RA was actuarially unsound.[7] On April 24, 2023, the Department granted CW's Petition to Intervene.[8] In it, the Department found that CW "has raised and seeks to address issues that are relevant to the ratemaking process."[9]

On May 2, 2023, CW submitted a Request for Information to CSAA that sought responses to 24 separate inquiries.[10]

On May 3, 2023, CSAA submitted a "Response to Consumer Watchdog's Petition to

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[1] All findings of fact in this matter are derived from the Petitioner's filings and attachments, and from the Department's official files. Neither CSAA nor the Department filed a response to the RFC.
[2] Rate applications may be found online at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:13936543914997. An administrative agency may take official notice of its own records, such as the Rate Application filed with the Department of Insurance on February 1, 2023, and assigned State Tracking Number 23-385. (See Evid. Code, § 452, subd. (d).) Official Notice is hereby taken of the Rate Application number 23-385. Citations in this decision to the Rate Application ("RA") utilize the State Tracking # 23-385. Although the document does not contain continuous internal pagination, page numbers are referenced according to their order of appearance in the .pdf.
[3] RA #23-385, p. 4.
[4] *Ibid.*
[5] Exh. 3 attached to Declaration of Daniel L. Sternberg.
[6] Request for Hearing, ¶ ¶ 7-9.
[7] Answer to Request for Hearing.
[8] Ruling Granting Consumer Watchdog's Petition to Intervene.
[9] Ruling Granting Consumer Watchdog's Petition to Intervene, ¶ 5.
[10] Exh. B, attached to RFC.

Intervene."[11] In its response, CSAA included argument and "a detailed explanation for how [it] derived the selected trends for the four largest coverages...."[12] It also provided excerpts of financial statements from 2020 and 2021 to support its variance for loss development.[13]

On May 4, 2023, CSAA provided an extensive "Response to Consumer Watchdog's Requests for Information." In its point-by-point response to CW's information request, CSAA included, among other things, additional annual statements from 2019 through 2022, additional consolidated annual statements from 2019 through 2022, corrected tables of data (upon discovery of an error), and comparison data between the trends filed in the RA compared against the actuarial reserve report for 2022.[14]

On May 16, 2023, CW submitted a "Second Set of Requests for Information" to CSAA.[15]

On May 17, 2023, CSAA provided a detailed "Response to Consumer Watchdog's Second Set of Requests for Information."[16] In CSAA's response to the second set of information requests, CSAA defined its newly-coined phrase, "*reverse* catastrophe" as "a rare phenomenon (once in a century) that led to *fewer* than expected losses."[17] CSAA also provided additional data justifying its application of annual trends to trend historical losses to 2022 levels.[18]

On May 23, 2023, the parties and the Department participated in the first of two teleconferences.[19]

On June 20, 2023, in advance of a second teleconference scheduled for June 23, CSAA

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[11] Exh. C, attached to RFC.
[12] *Ibid.*
[13] *Ibid.*
[14] Exh. D, attached to RFC.
[15] Exh. E, attached to RFC.
[16] Exh. F, attached to RFC.
[17] *Ibid*, emphasis added.
[18] *Ibid.*
[19] Sternberg Decl., ¶ 43.

provided CW with advance copies of its yet-to-be filed updated rate templates.[20] CSAA prefaced its e-mail to which these updated rate templates were attached, with the statement, "These differ from the filing in selected trends, which we'll be prepared to fully discuss on Friday."[21] A second teleconference was convened on June 23, 2023.

On July 17, 2023, the parties entered into a settlement stipulation that includes a rate change of 16.7 percent, rather than the 25 percent increase sought in the RA.[22]

The Commissioner approved the Stipulated Settlement on July 20, 2023.[23]

In keeping with the terms of the Stipulated Settlement, CW subsequently withdrew its Petition for Hearing on July 28, 2023.[24]

At various times during their intervention, the attorneys for CW engaged in the following tasks: conferred regarding overall strategy and positions; drafted, reviewed, and edited CW's filed documents; reviewed CSAA's RA and updated filings; prepared the requests for information; exchanged correspondence regarding and participated in the two conference calls; consulted with CW's actuary; negotiated the stipulated settlement; and drafted the Request for Compensation, including supporting declarations and exhibits.[25] In addition to this generalized list, CW includes detailed records of how each attorney, paralegal, and expert witness spent their time on this matter.

An extensive survey of hourly rates charged by attorneys in the Los Angeles area in 2022, correlated to their relative level of experience demonstrates that the rates CW charged in 2022 were comparable and competitive at that time.[26] In April 2023 the Department approved of

[20] Exh. G, attached to RFC.
[21] *Ibid.*
[22] RFC, pp.1, 8.
[23] RFC, p. 8.
[24] *Ibid.*
[25] Decl. of Sternberg, ¶ 8.
[26] Exh. 2, attached to Sternberg Decl.

CW's current hourly rates in its Ruling Granting Consumer Watchdog's Petition to Intervene in the Application of CSAA Insurance Exchange, application number 23-385.[27]

Pamela Pressley is an attorney with over 26 years of experience in consumer advocacy. She has spent 16 years as an attorney with CW, focusing primarily on insurance regulatory and litigation matters before the Department.[28] Detailed time records of Pressley's work demonstrate that she was heavily involved in this matter from its inception and continuing until the RFC was filed, from April through August 2023.[29] Pressley spent a total of 33.9 hours on this matter. At her hourly rate of $595.00, she billed a total of $20,170.50.[30]

Harvey Rosenfield is an attorney with over 40 years of experience in insurance regulatory and litigation matters.[31] As the author of Proposition 103, he has participated in a number of major lawsuits interpreting and enforcing the statute.[32] Detailed time records of Rosenfeld's work tend to demonstrate that he provided oversight ("review") of CSAA's RA from April through June 2023.[33] Rosenfield spent a total of 2.3 hours on this matter. At his hourly rate of $695.00, his bill for services amounts to $1,598.50.[34]

Daniel L. Sternberg is an attorney with seven years of professional experience in litigation and advocacy.[35] He has been with CW for less than a year, but has spent the majority of that time litigating matters before the Department.[36] Detailed records of Sternberg's work reveal that his involvement in this matter was concentrated on reviewing CW's correspondence with CSAA as well as CW's internal work product, including e-mails, requests for information,

[27] Exh. 5, attached to Sternberg Decl.
[28] Sternberg Decl., ¶13.
[29] Exh. 1a, attached to Sternberg Decl.
[30] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[31] Sternberg Decl., ¶ 9.
[32] *Ibid.*
[33] Exh. 1a, attached to Sternberg Decl.
[34] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[35] Sternberg Decl., ¶ 16.
[36] *Ibid.*

and settlement offers.[37] Sternberg spent a total of 36.2 hours on this matter. At his hourly rate of $350.00 his bill for services amounts to $12,670.00.[38]

Ryan Mellino was admitted to the California State Bar in 2022.[39] His professional experience includes work with the Legal Aid Foundation of Los Angeles, the ACLU, and the Los Angeles Homeless Services Authority, as well as CW.[40] Detailed records of Mellino's work show that he was only involved in this matter during May 2023 with regard to requests for information.[41] Mellino spent a total of 2.1 hours on this matter. At his hourly rate of $250.00, his bill for services totals $525.00.[42]

Kaitlyn Gentile is a paralegal at CW with over fourteen years of professional experience in litigation support. Gentile worked a total of 7.1 hours on this matter. Detailed time records of Gentile's work demonstrate that she was primarily engaged in preparing and finalizing the RFC during the month of August 2023.[43] At her hourly rate of $200.00, her bill for services totals 1,420.00.[44]

Allan I. Schwartz is the President of AIS Risk Consultants, Inc., and is an actuary with over 40 years consulting actuarial experience.[45] He provided consulting actuarial services to CW on this matter, as he has in numerous Proposition 103 matters.[46] Detailed time records of Schwartz's work demonstrate that he spent larger blocks of time reviewing CSAA's initial filings, as well as its responses to CW's information requests in April and May 2023.[47] Schwartz

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[37] Exh. 1a, attached to Sternberg Decl.
[38] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[39] Sternberg Decl., ¶ 20.
[40] *Ibid.*
[41] Exh. 1a, attached to Sternberg Decl.
[42] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[43] Exh. 1a, attached to Sternberg Decl.
[44] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[45] Schwartz Decl., ¶ 1.
[46] Schwartz Dec., ¶ 2.
[47] Exh. 8, attached to Schwartz Decl.

worked 41.7 hours on this matter.[48] At his hourly rate of $915.00,[49] his bill for services totals $38,155.50.[50]

Katherine Tollar is an Actuarial Assistant at AIS Risk Consultants, Inc., with over 20 years of professional actuarial experience.[51] Detailed records of Tollar's work demonstrate that the majority of her time was spent on "trend and indication," work, which was primarily performed during May and June 2023.[52] Tollar worked a total of 7.6 hours on this matter at her hourly rate of $415.00, for which she billed $3,154.00.[53]

In total, CW has established that its hourly rates, and the hours billed for services rendered in this matter are reasonable.

DISCUSSION

I. Prior Approval Framework and Public Participation

In California, insurance rates for automobile, home, and other property-casualty policies must be approved by the Commissioner prior to their use."[54] Insurance Code section 1861.05, subdivision (a), prohibits the Commissioner from approving any rate that is "excessive, inadequate, unfairly discriminatory, or otherwise in violation of this chapter," or from allowing such rates to remain in effect. The primary consideration in the Commissioner's determination must be "whether the rate mathematically reflects the insurance company's investment income."[55]

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[48] Exh. 8, attached to Schwartz Decl.
[49] Schwartz Decl., ¶ 6.
[50] Exh. 8, attached to Schwartz Decl.
[51] Exh. 6, attached to Schwartz Decl.
[52] Exh. 8, attached to Schwartz Decl.
[53] Exh. 8, attached to Schwartz Decl.
[54] Ins. Code, § 1861.01, subd. (c).
[55] Ins. Code, § 1861.05, subd. (a).

In order to foster "consumer participation in the rate-setting process,"[56] section 1861.10 of the Insurance Code authorizes any person to initiate a proceeding to enforce any provision of Proposition 103.[57] Intervenors who represent the interests of consumers and make a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner are to be compensated for reasonable advocacy and witness fees.[58] To that end, the Commissioner has promulgated regulations setting forth the substantive and procedural requirements for those seeking compensation under the code.[59] These regulations are binding on the AHB and have the force of statute.[60] Given the statute's purpose to encourage public participation, the regulations should be liberally construed in favor of compensation.[61]

A. The Procedural Prerequisites for Compensation are Met

Before an intervenor may file a request for compensation, they must first obtain a finding from the Commissioner's Public Advisor that they are eligible to seek compensation—i.e., that they represent the interests of the consumer.[62] Once granted, a Finding of Eligibility to Seek Compensation is valid in any proceeding in which the intervenor's participation commences within two years of the finding of eligibility, provided the intervenor still meets all the requirements in the initial request.[63] There is no dispute that CW is eligible to seek compensation in this case.

In addition to establishing that it represents the interests of the consumer the intervenor must also submit a request for an award of compensation within 30 days after the

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[56] See *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 197, 215, citing *State Farm Mutual Automobile Ins. Co. v. Garamendi, supra*, 32 Cal.4th 1029.
[57] Ins. Code, § 1861.10, and *State Farm Insurance Co. v. Lara* (2021) 71 Cal.App.5th 197
[58] Ins. Code, § 1861.10, and Cal. Code Regs., tit. 10, § 2662.5.
[59] Cal. Code Regs., tit. 10, §§ 2661.3 – 2661.4.
[60] *Agriculture Labor Relations Board v. Superior Court* (1976)16 Cal.3d 392.
[61] *State Farm Insurance Co. v. Lara, supra*, 71 Cal.App.5th 197.
[62] Cal. Code Regs., tit. 10, § 2662.3.
[63] Cal. Code Regs., tit. 10, § 2662.2

Commissioner's decision or action in the proceeding for which intervention was sought, or within 30 days after conclusion of the entire proceeding.[64] CW's RFC was filed on August 18, 2023, less than 30 days after the Commissioner approved the Stipulated Settlement on July 20, 2023. Accordingly, the RFC was timely filed.

B. The Substantive Requirements for Compensation are Met

Once the intervenor has established that it is eligible to seek compensation, and has made a timely request for compensation, as CW has done here, it must then establish that it has made a "substantial contribution" to the proceedings.[65] The only *statutory requirements* for compensation are set out subdivision (b) of Insurance Code section 1861.10.[66] But the statutory language does not encapsulate the whole of the intervenor's obligation. The regulations adopted by the Insurance Commissioner fill in the details not specified by Proposition 103.[67] The regulations state that a "substantial contribution"

> "...means that the intervenor substantially contributed, as a whole, to a decision, order, regulation, or other action of the Commissioner by presenting relevant issues, evidence, or arguments which were separate and distinct from those emphasized by the Department of Insurance staff or any other party, such that the intervenor's participation resulted in more relevant, credible, and non-frivolous information being available for the Commissioner to make the Commissioner's decision than would have been available to the Commissioner had the intervenor not participated. A substantial contribution may be demonstrated without regard to whether a petition for hearing is granted or denied."[68]

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[64] Cal. Code Regs., tit. 10, § 2662.3, subd. (a).
[65] Ins. Code, §1861.10, subd. (b); Cal. Code Regs., tit. 10, §§ 2661.2, subd. (k), and 2662.3, subd. (b)(3).
[66] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1047-1048.
[67] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1050.
[68] Cal. Code Regs., tit. 10, § 2661.2(k).

What constitutes a substantial contribution requires a fact-intensive analysis by the tribunal in which the matter originated.[69] And, while the intervenor's substantial contribution may be shown with documents,[70] it is incumbent on the intervenor to provide specific citations to its services and expenditures.[71] There is no question in this case that CW participated in the rate proceedings.

As a direct result of CW's participation in this case, CSAA produced additional analysis and data concerning the Trend Selection for Bodily Injury Property Damage, Comprehensive and Collision;[72] CSAA also provided several years' worth of Annual Statements and Consolidated Annual Statements;[73] and in connection with CW's inquiries, CSAA discovered and corrected several data errors.[74] Accordingly, CW has established that its intervention in this case made a substantial contribution to the Commissioner's ultimate approval of the stipulated settlement by providing more relevant credible, and non-frivolous information than would have been available had the intervenor not participated. Additionally, through detailed time records, rate surveys, and prior findings by the Department, CW has established that it charged market rates, as that phrase is defined by regulation.[75]

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[69] *Economic Empowerment Foundation v. Quackenbush* (1997) 57 Cal.App.4th 677.
[70] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1040.
[71] *Economic Empowerment Foundation v. Quackenbush, supra*, 57 Cal.App.4th 677, 681; Cal.Code Regs., tit. 10, § 2662.5, subd. (a)(1).
[72] Exh. C, attached to RFC.
[73] Exh. D, attached to RFC.
[74] Exh. D, attached to RFC.
[75] Cal. Code Regs., tit. 10, § 2661.1, subd. (c).

CONCLUSION

For the foregoing reasons, CSAA is entitled to expenses and advocacy fees *in the Matter of the Rate Application of CSAA Insurance Exchange*, Prior Approval File No. PA-2023-00004, in the amount of $77,693.50.

ORDER

1. Consumer Watchdog is hereby awarded $77,693.50 in advocacy and expert witness fees in connection with CSAA's Rate Application (Prior Approval File No. *PA-2023-00004*).
2. CSAA shall pay the award no later than 30 days after the date of this Decision and shall notify the Department's Office of the Public Advisor[76] upon making payment.

Date: November 8, 2023

RICARDO LARA
Insurance Commissioner

By: _____
Alicia A. Clement
Administrative Law Judge

[76] Jon Phenix, Public Advisor, 1901 Harrison Street, 4th Floor, Oakland, CA 94612, or jon.phenix@insurance.ca.gov.

PROOF OF SERVICE

Case Name/Number: In the Matter of the Request for Compensation of
CONSUMER WATCHDOG
File No. **RFC-2023-011**

I, Florinda Cristobal, declare that:

I am employed by the California Department of Insurance, Administrative Hearing Bureau, in the City of Oakland and County of Alameda. I am over the age of eighteen (18) years and not a party to this action. My business address is 1901 Harrison Street, 3rd Floor, Oakland, CA 94612.

I am readily familiar with the business practices of the California Department of Insurance for collecting and processing correspondence for mailing, electronic filing and electronic mail. On August 18, 2023, I served **DECISION AWARDING COMPENSATION** regarding **In the Matter of the Request for Compensation of Consumer Watchdog.**

__X__ **(By U.S. Mail)** on those identified parties in said action, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013.

__X__ **(By Intra-Agency Mail)** on those identified parties in said action, by placing this correspondence in a place designated for collection for delivery by Department of Insurance intra-agency mail.

_____ **(By facsimile transmission)** on those identified parties in said action, by transmitting said document(s) from our office by facsimile machine Fax Number to facsimile machine number(s) shown below. Following the transmission, I received a "Transmission Report" from our fax machine indicating that the transmission had been transmitted without error.

__X__ **(By Email)** on those identified parties in said action, in accordance with Code of Civil Procedure §1013, by emailing true copies thereof at the address set forth below.

SEE ATTACHED PARTY SERVICE LIST

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed in Oakland, California, on August 18, 2023

November 8, 2023
(Date)

F. CRISTOBAL

PARTY SERVICE LIST

Name/Address	Method of Service
Harvey Rosenfield, SBN 123082 Pamela Pressley, SBN 180362 Daniel L. Sternberg, SBN 329799 **Ryan Mellino, SBN 342497** **CONSUMER WATCHDOG** 6330 San Vicente Boulevard, Suite 250 Los Angeles, CA 90048 Tel No.: (310) 392-0522 Fax No.: (310) 392-8874 harvey@consumerwatchdog.org pam@consumerwatchdog.org danny@consumerwatchdog.org ryan.m@consumerwatchdog.org	via Email & U. S. mail
Lisbeth Landsman-Smith Melissa Wurster Sara Ahn Rate Enforcement Bureau **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 4th Floor Oakland, CA 94612 Tel No.: (415) 538-4500 Fax No.: (510) 238-7830 Lisbeth.Landsman@insurance.ca.gov Melissa.Wurster@insurance.ca.gov Sara.Ahn@insurance.ca.gov	via Email & Intra-agency
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PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

State of California, City of Los Angeles, County of Los Angeles

I am employed in the City and County of Los Angeles, State of California. I am over the age of 18 years and not a party to the within action. My business address is 6330 South San Vicente Boulevard, Suite 250, Los Angeles, California 90048, and I am employed in the city and county where this service is occurring.

On July 26, 2024, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S PETITION FOR HEARING, PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION

upon the persons named in the attached service list, in the following manner:

1. If marked FAX SERVICE, by facsimile transmission this date to the FAX number stated to the person(s) named.

2. If marked EMAIL, by electronic mail transmission this date to the email address stated.

3. If marked U.S. MAIL or OVERNIGHT or HAND DELIVERED, by placing this date for collection for regular or overnight mailing true copies of the within document in sealed envelopes, addressed to each of the persons so listed. I am readily familiar with the regular practice of collection and processing of correspondence for mailing of U.S. Mail and for sending of Overnight mail. If mailed by U.S. Mail, these envelopes would be deposited this day in the ordinary course of business with the U.S. Postal Service. If mailed Overnight, these envelopes would be deposited this day in a box or other facility regularly maintained by the express service carrier, or delivered this day to an authorized courier or driver authorized by the express service carrier to receive documents, in the ordinary course of business, fully prepaid.

I declare under penalty of perjury that the foregoing is true and correct. Executed on July 26, 2024 at Los Angeles, California.

Kaitlyn Gentile

Service List

Nikki McKennedy Rate Enforcement Bureau **California Department of Insurance** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Tel. (415) 538-4500 Fax (510) 238-7830 Nikki.McKennedy@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
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NOTICE OF HEARING
EXHIBIT B

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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No.: 24-1330 **CONSUMER WATCHDOG'S PETITION FOR HEARING, PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION** [Ins. Code §§ 1861.05 and 1861.10; Cal. Code Regs, tit. 10, §§ 2653.1, 2661.2 and 2661.3]

State Farm General Insurance Company's July 5, 2024 application for an overall 38.0% ($119 million) increase to its California Rental Dwelling Program (File No. 24-1330 [the "Application"]) acknowledges that under its own projections using the standard regulatory ratemaking formula to determine the statutory excessive/inadequate boundaries, the company would be entitled to no more than a 10.5% rate increase.[1] Instead, State Farm seeks the much larger 38.0% increase "to protect the insurer's solvency" under a special "variance" request from the regulatory maximum permitted rate formula, which it has also invoked in its currently pending homeowners insurance and Renters and Condominium Owners policy form rate applications.[2] The additional $86 million a year for at least four years, or at least $344 million in total, it wants to collect from California rental dwelling owners would be used to "restore" the company's "financial condition"—in other words, to purportedly rescue the company from what State Farm describes as a deteriorating financial condition. However, as with its recent homeowners and Renters and Condominium Owners applications, State Farm has failed to adequately support in this Application its purported need for such an extraordinary bail-out by policyholders, especially in light of State Farm's parent company's[3] $100+ billion surplus in recent years.

Therefore, State Farm's Application raises profound legal and policy issues that demand extremely close scrutiny and require data that the Application does not contain:

First, the Application does not include all of the information needed to determine the

[1] Under State Farm's calculations in the Application, it would be entitled to no more than a 10.5% rate increase to its Rental Dwelling Program under the standard ratemaking formula without a variance. It is the position of Consumer Watchdog that an even smaller rate increase is indicated under the standard ratemaking formula.

[2] State Farm's separate rate application on its homeowners policies seeks a 30% ($1 billion) rate increase (CDI File No. 24-1271; PA-2024-00012) raising the same "solvency" issues as this application. Consumer Watchdog petitioned for a hearing on that rate application on July 26, 2024 and was granted intervention in that rate proceeding on August 14, 2024. The company's rate application on its California Renters and Condominium Owners policies seeking a 41.8% ($112 million) increase (CDI File No. 24-1273; PA-2024-00011) raises these issues as well. Consumer Watchdog petitioned for a hearing on that rate application on August 19, 2024 and is awaiting an order granting intervention.

[3] The Applicant is 100% owned by State Farm Mutual Automobile Insurance Company.

company's actual financial condition. The Application was submitted by State Farm General Insurance Company ("State Farm" or "Applicant" or "State Farm General"), an essentially California-only company that is 100% owned by the State Farm Mutual Automobile Insurance Company ("SFMAIC"), domiciled in Illinois. State Farm General is California's largest home insurance company, insuring approximately 20% of the homeowners insurance market, and SFMAIC is the nation's largest insurance company by premium dollars, with surplus of $134 billion at the end of 2023. State Farm must meet its burden to show that it is in danger of going insolvent *before* asking California policyholders to step in to rescue it. Weighing against State Farm's claims, as set forth in this Petition, there is evidence that State Farm General has transferred more than $600 million to the parent company in 2023 in the form of inflated payments for reinsurance. Based on past State Farm experience, it is likely that a significant portion of the excess premium charges and inflated underwriting profit that would result if the Application is granted will be transferred to the parent company in the form of profits resulting from inflated reinsurance charges.

Second, rather than require California policyholders to subsidize the parent company, why hasn't the parent company stepped in to assist its affiliate financially, as it did when SFMAIC's Texas affiliate writing homeowners insurance encountered financial trouble years ago?

Third, it appears that much of the company's California losses in recent years came from commercial and liability policies, not its homeowners line.[4] Between 2020 and 2023, State Farm had direct underwriting profits from its homeowners line of insurance of $1.4 billion. Why are rental dwelling owners being asked to bear State Farm's losses in commercial and liability policies?

Fourth, State Farm has not complied with the variance regulation's requirements that it present a "plan to restore [its] financial condition" and a "plan to reduce rates once the insurer's condition is restored, in order to ***compensate*** consumers for excessive charges." (Emphasis

[4] As discussed in paragraphs 12.c–h *infra*, the affiliate reinsurance purchased by State Farm has also drained surplus.

added.) State Farm's proposal contains no actual or enforceable plan to fully compensate its California policyholders—current and former—for the excessive charges.

As the company's withdrawal from the sale of all homeowners insurance (including rental dwelling policies) to new customers since May of 2023 and more recent nonrenewals illustrate, what happens to State Farm will have a major impact on the state's insurance marketplace. Indeed, State Farm has stated in the Application that it will continue to decrease its sales of rental dwelling policies notwithstanding a policyholder rescue. Similarly, raising rates by 38.0% will undoubtedly force some portion of its customers to drop their coverage or seek it elsewhere. The 38.0% requested increase, together with the most recently approved 11.43% increase to its Rental Dwelling rates effective February 1, 2024, would have a combined impact of +53.8%. What impact will that have on the marketplace? Will a policyholder-funded infusion of capital actually rescue the company, or will it require further capital infusions? Before California policyholders can be forced to invest in State Farm,[5] the company must provide all of the evidence and information that is required to justify its extraordinary request.

For these reasons and those set forth in paragraphs 8–12 below, based on its initial analysis of the Application and the evidence it has gathered to date from publicly available sources as set forth below and additional information to be obtained through discovery, Consumer Watchdog requests that the Insurance Commissioner immediately notice a public hearing pursuant to the requirements of Insurance Code sections 1861.05, subdivisions (a) and (c), and 1861.10, subdivision (a), on the issues raised in this Petition, at which time Applicant will be directed to appear and respond to the issues raised in this petition. Because the requested rate change exceeds 7%, a formal hearing before an Administrative Law Judge, with all the rights and protections under the Administrative Procedures Act, is mandatory under Insurance Code section 1861.05(c) and necessary in light of the serious and complex issues at stake. Consumer Watchdog also requests that it be granted leave to intervene in the rate proceeding on the Application initiated by this Petition.

[5] Even though the rate filing requires policyholders to essentially invest in State Farm, it does not grant policyholders any ownership rights.

Consumer Watchdog intends to seek compensation in this proceeding, and, pursuant to California Code of Regulations, title 10 ("10 CCR"), section 2661.3, subdivision (c), Consumer Watchdog's proposed budget is attached hereto as Exhibit A.

In support of its Petition, Consumer Watchdog alleges:

I. THE APPLICATION

1. On or about July 5, 2024, State Farm filed the Application (File No. 24-1330) with the California Department of Insurance ("CDI"), seeking approval of an overall 38.0% ($119 million) rate increase to its California Rental Dwelling Program based on its request for a variance under 10 CCR § 2644.27(f)(6) ("Variance 6") from the maximum permitted earned premium in order "to protect the insurer's solvency." This request follows an approved 11.43% ($32 million) overall rate increase to Applicant's Rental Dwelling Program effective February 1, 2024 (File No. 23-563), for a combined impact of +53.8%. Without the requested Variance 6, State Farm's own calculations under the maximum permitted earned premium formula based on its projections of future losses show that it should be allowed no more than an overall 10.5% rate increase for this line.

2. On or about July 12, 2024, the public was notified by the CDI of the Application.

II. PETITIONER

3. Petitioner Consumer Watchdog is a nonprofit, nonpartisan public interest corporation organized to represent the interests of consumers and taxpayers. A core focus of Consumer Watchdog's advocacy is the representation of the interests of insurance consumers and policyholders, particularly as they relate to the implementation and enforcement of Proposition 103, in matters before the Legislature, the courts, and the CDI.

4. Consumer Watchdog's founder authored Proposition 103 and led the successful campaign for its enactment by California voters in 1988. Consumer Watchdog's staff and consultants include some of the nation's foremost consumer advocates and experts on insurance ratemaking matters.

5. Consumer Watchdog has served as a public watchdog to enforce Proposition 103's protections with regard to property-casualty insurance rates and practices by: monitoring

insurer rollback settlements and the status of the rollback regulations; reviewing and challenging rate and rule filings made by insurers seeking to implement excessive and/or unfairly discriminatory rates and/or practices; participating in rulemaking and adjudicatory hearings before the CDI to implement and enforce Proposition 103's consumer protections; and educating the public concerning industry underwriting and rating practices, their rights under Proposition 103, and other provisions of state law. Consumer Watchdog has also initiated, intervened, and appeared as amicus curiae in virtually every action in state court involving the interpretation and application of Proposition 103 and the Insurance Code.[6]

6. Consumer Watchdog has initiated and intervened in numerous proceedings before the CDI related to the implementation and enforcement of Proposition 103's reforms, including over 150 such proceedings in the last twenty years. In every proceeding that has resulted in a final decision and in which Consumer Watchdog sought compensation from 2003–2022, the Commissioner found that Consumer Watchdog made a substantial contribution under Insurance Code section 1861.10(b) and the implementing regulations. Most recently in 2023, the Commissioner found that Consumer Watchdog made a substantial contribution to his decisions in two homeowners insurance rate matters and to his adoption of regulations requiring the public disclosure of wildfire risk models and mitigation discounts to homeowners who take steps to protect their homes from wildfires.

III. ISSUES AND EVIDENCE TO BE PRESENTED AND POSITIONS OF PETITIONER

7. In the rate proceeding initiated by Consumer Watchdog's Petition and evidentiary hearing, Consumer Watchdog will present and elicit evidence to show that the rates proposed in

[6] For example, *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805; *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216; *Amwest Surety Ins. Co. v. Wilson* (1995) 11 Cal.4th 1243; *Proposition 103 Enforcement Project v. Quackenbush* (1998) 64 Cal.App.4th 1473; *Spanish Speaking Citizens' Found. v. Low* (2000) 85 Cal.App.4th 1179; *Donabedian v. Mercury Ins. Co.* (2004) 116 Cal.App.4th 968; *State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029; *The Found. for Taxpayer and Consumer Rights v. Garamendi* (2005) 132 Cal.App.4th 1354; *Ass'n of Cal. Ins. Cos. v. Poizner* (2009) 180 Cal.App.4th 1029; *Mercury Cas. Co. v. Jones* (2017) 8 Cal.App.5th 561; *Mercury Ins. Co. v. Lara* (2019) 35 Cal.App.5th 82; and *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 197.

the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a), which provides that "[n]o rate shall be approved or remain in effect which is excessive, inadequate, [or] unfairly discriminatory." Additionally, Consumer Watchdog will present and elicit evidence that Applicant's proposed rates violate 10 CCR § 2644.1, which provides that "[n]o rate shall be approved or remain in effect that is above the maximum permitted earned premium as defined in section 2644.2."

8. Based on Consumer Watchdog's preliminary analysis in consultation with its actuarial experts and the information contained in the Application and publicly available, Consumer Watchdog sets forth in paragraphs 9–12 below the facts constituting grounds for its request for a hearing and the issues with the Application on which it intends to present and elicit evidence. Each of these issues is directly relevant to determining whether State Farm's proposed 38.0% rate increase is excessive under Insurance Code section 1861.05(a) and the prior approval rate regulations, 10 CCR § 2644.1 et seq., including whether State Farm is entitled to a variance from the maximum permitted earned premium to protect its solvency. Consumer Watchdog's current position, to the extent now known based on the information in the Application and publicly available at this time, is that State Farm is not entitled to any variance from the maximum permitted earned premium to protect its solvency, and that even State Farm's nonvariance indication of 10.5% is excessive under the maximum permitted earned premium formula. Consumer Watchdog intends to request further information on these issues through discovery from the Applicant and reserves the right to raise additional issues and develop and refine its positions as more information is made available during the course of the proceeding.

9. Loss and Premium Trends (10 CCR § 2644.7): Consumer Watchdog's current position, to the extent now known based on the information in the Application at this time and publicly available, is that State Farm's 20-point Reported/Paid frequency and severity trend selections result in an unreasonable and excessive net trend of +6.7% that overstates the projected losses, causing an inflated rate indication. Consumer Watchdog has reviewed the actual and fitted net trends on both a numerical and graphical basis for each of the possible trend bases (Closed/Paid, Reported/Paid, Closed/Total Paid, and Reported/Total Paid). Our preliminary

analysis shows that alternate trend selections, which result in a lower net trend, are more reasonable and "most actuarially sound." (10 CCR § 2642.8.) As further support for a lower net trend, the Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Residential Construction data through May 2024 from the Federal Reserve Economic Data website (fred.stlouisfed.org) shows the cost of residential construction materials reaching a high point in June 2022. The PPI has been relatively flat since that point. Additionally, a report by Verisk from Q2 of 2024 shows that "[t]otal reconstruction costs in the United States, including materials and retail labor, increased by 4.6% from April 2023 to April 2024, slightly more than their 4.1% rise from January 2023 to January 2024. The growth rate in reconstruction costs is starting to line up more closely with pre-COVID rates: average increases during the pandemic were 11% per year, as opposed to the historical average of 3% to 4%." Of particular relevance to the case at hand, with respect to residential reconstruction costs: "California's rank changed most significantly, falling from the 14th-highest cost increase in January 2024 to the 44th-highest in April 2024." The use of a lower net trend, according to Consumer Watchdog's preliminary analysis, contributes to an overall rate indication that is lower than State Farm's indicated 10.5% increase based on its standard maximum permitted earned premium rate calculation without Variance 6. Based on Consumer Watchdog's preliminary findings, its position, to the extent now known based on currently available information, is that State Farm has not supported the assertion that its selected trend factors are the most actuarially sound.

10. Catastrophe Adjustment (10 CCR § 2644.5): The latest year Cat Provision to Non-Cat Loss + DCCE value of 0.257 on page 6 of Exhibit 9 represents a 20% increase over the same Provision from State Farm General's last CA Rental Dwelling filing (0.214). This appears to be driven by an 11% increase in current Amount of Insurance Years (AIY) and a 14% increase in Projected Annual AIY Trend, coupled with a 6% decrease in Non-Cat Loss + DCCE Developed and Trended (these figures also from page 5 of Exhibit 9). State Farm has not supported the current filing's AIY value of $136M, a value which seems counterintuitive considering that ultimate Loss + DCCE is projected to decrease. The resulting Catastrophe Adjustment Factor contributes directly to State Farm's overall rate indication and causes it to be

overstated. Consumer Watchdog's preliminary analysis shows that a lower Catastrophe Adjustment Factor, based on tempering the impact of the 20% increase to current AIY and the 14% increase to Projected Annual AIY Trend, is more actuarially sound. This reduced Adjustment Factor contributes to an overall rate indication that is substantially lower than the 38.0% increase proposed by State Farm. Based on these findings, Consumer Watchdog's current position, to the extent now known based on currently available information, is that State Farm has not fully support the actuarial soundness of its selected catastrophe adjustment factor.

11. Improper / Unsupported Excluded Expenses (10 CCR § 2644.10): State Farm has not shown that the sum of the institutional advertising expenses listed on page 4.1 of the Prior Approval Rate Template, $2,436,227,444, is appropriate. This is particularly questionable since the institutional advertising amounts given for each of the three years on page 4.1 are exactly 75% of total advertising, and clearly not the total of actual institutional advertising expenditures. Per 10 CCR § 2644.10(f): "'Institutional advertising' means advertising not aimed at obtaining business for a specific insurer and not providing consumers with information pertinent to the decision whether to buy the insurer's product." Consumer Watchdog's current position, to the extent now known, is that State Farm has failed to provide sufficient information in the filing to support its claim that 75% of advertising expenses over the last three years have been institutional. Further, State Farm has not provided examples of advertisements it claims fall under the category of non-institutional advertising expenses in accordance with the CDI's Prior Approval Rate Filing Instructions. Based on the information currently available in the Application, and subject to review of additional information that may be obtained from State Farm during the proceeding through formal or informal discovery on these and other excluded expenses items, Consumer Watchdog's current position, to the extent now known, is that State Farm has not proven that its three-year average excluded expense ratio of 1.2% shown on page 4.2 of the Prior Approval Rate Template is appropriate. Consumer Watchdog reserves the right to seek discovery and raise additional issues regarding the accuracy of the amounts listed in page 4.2 of the Prior Approval Rate Template for other categories of excluded expenses that should be reflected in the rate calculation but may not be adequately reflected in the filing, including

political contribution and lobbying expenses, excessive executive compensation, bad faith judgments and associated DCCE, costs of unsuccessful defense of discrimination claims, and fines and penalties.

12. Variance 6 (10 CCR § 2644.27(f)(6)): State Farm filed a variance request under this provision, which requires it to show "[t]hat the insurer's financial condition is such that its maximum permitted earned premium should be increased in order to protect the insurer's solvency." It is Consumer Watchdog's current position, to the extent now known, that State Farm has failed to meet its burden to show both that (i) the grounds for the variance request are supported; and (ii) the amount of the variance requested is appropriate. The evidence for these conclusions, to the extent now known from the information in the Application and publicly available, is summarized below:

a. The dollar amount of the variance request exceeds $86 million (= 27.5% X $313 million[7]) per year starting in 2025. State Farm projects the variance will stay in effect for at least four years, from 2025 through 2028 (Application, Exhibit 13, Sheet 5). That represents a total of more than $344 million in excess charges. There exists no reasonable basis for State Farm to extract excess premium charges of more than $344 million from policyholders.

b. The variance request is based on an underwriting profit provision of 24.7%.[8] That is more than five times as large as the underwriting profit without the variance of 4.7%.[9] State Farm has not provided any reasonable basis for requesting a profit more than five times as large as the maximum profit permitted under the regulations without a variance.

c. It is anticipated based on past experience that a significant portion of the excess premium charges and inflated underwriting profit will be transferred to the parent company, SFMAIC, in the form of profits resulting from inflated reinsurance charges.

[7] Prior Approval Rate Template (No Variance), Page 2.
[8] Prior Approval Rate Template (Variance 6), Page 7.
[9] Prior Approval Rate Template (No Variance), Page 7.

d. During the ten accident years from 2014 to 2023, State Farm paid reinsurance premiums related to homeowners insurance of about $2.19 billion, but only received (or is expected to receive) reimbursements of about $0.41 billion.[10] That is, the Applicant received less than 20% of its reinsurance payments in the form of reimbursements (0.41 / 2.19 = 18.7%).

e. The vast majority of reinsurance premium payments by State Farm for homeowners insurance are made to its Parent and Other Affiliated Companies. During 2023, the total reinsurance ceded premiums written were about $710 million.[11] More than 90% of the reinsurance premium payments were made to its parent company SFMAIC.

f. The reinsurance purchased by State Farm has been extremely unfavorable for the Applicant. From 2014 to 2023, the average amount of the reinsurance premium that has been returned to the Applicant in the form of reimbursements has been less than 20%. In every one of the ten accident years from 2014 to 2023, the loss & LAE ratio on the ceded business has been significantly lower than the loss & LAE ratio on the direct business.[12] This was the situation even when the year had significant catastrophes (e.g., 2017). When the reinsurance loss & LAE ratio is lower than the direct loss & LAE ratio in every year, including years with a catastrophe, that is a strong indication that the reinsurance agreement is much more favorable to the reinsurer (SFMAIC) than to the Applicant.

g. It appears that the reinsurance agreement between the Applicant and SFMAIC is not a true transfer of risk, but instead is a mechanism for transferring profits out of the Applicant and into its Parent Company.

h. The reinsurance agreement between the Applicant and SFMAIC has resulted in a significant drain on the surplus of the Applicant, while at the same time enriching its parent company.

[10] State Farm General 2023 Annual Statement, Schedule P, Part 1A, Columns (2) and (27).
[11] State Farm General 2023 Annual Statement, Part 1B, Line (4), Columns (4) and (5).
[12] State Farm General 2023 Annual Statement, Schedule P, Part 1A, Columns (29) and (30).

i. Homeowners insurance has not been a significant drain on the surplus, and in fact has been profitable for the Applicant. During 2020, 2021, 2022, and 2023, the Applicant had direct underwriting profits from homeowners insurance of $549 million, $319 million, $304 million, and $237 million, respectively.[13] That is, the Applicant had a four-year underwriting profit of $1.4 billion from homeowners insurance.

j. Rental Dwelling specifically had a three-year average Incurred Loss + DCCE ratio of 51.3% for the years 2020, 2021, and 2022.[14] Using the efficiency standard (prior to excluded expenses) of 34.4% as a proxy for State Farm's actual expense ratio yields an approximated combined ratio of 85.7%, or an underwriting profit of 14.3%. Taking that times the three-year average Earned Premium of $201,993,018 yields an average annual underwriting profit of $28,885,002 for Rental Dwelling.

k. The variance request has an impact on the maximum permitted rate change, as calculated by State Farm, of +52.5%.[15] Despite that huge unjustified increase, the Applicant actually intends to ***decrease*** the number of policies written, mostly through nonrenewals, by more than 35% from 2023 to 2028.[16] That is, instead of using the enormous extra premiums it is requesting through the variance to support writing business in California, the Applicant actually intends to continue its moratorium on new business, significantly decrease the number of policies written, and simply retain the excess premiums.[17]

l. The Department's Prior Approval Rate Filing Instructions require that "[w]hen a variance filing is submitted, the filing must provide substantial, detailed support and justification for each variance request in accordance with CCR § 2644.27(b)." The Applicant has not done that. The Application includes a "Financial Forecast Template

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[13] State Farm General, Insurance Expense Exhibits for 2020, 2021 and 2022, Part III, Line (4), Column (33).
[14] Prior Approval Rate Application, Page 6.
[15] Prior Approval Rate Application, Page 11.
[16] Application, Exhibit 13, Page 2.1, Policies in Force (1,963,460 / 3,111,820 = 63.1%).
[17] *Ibid.*

– Baseline" (Exhibit 13, Page 3) and a "Financial Forecast Template – Variance 6" (Exhibit 13, Page 5). These are based upon various "Five-Year Projection Assumptions" (Exhibit 13, Pages 2.1 and 2.2) and undocumented calculations. As discussed in ¶¶ 9–11 *ante*, the values used by the Applicant with regard to loss trends, catastrophes, and other factors are actuarially unsound. Using those as the bases for the Financial Forecasts is therefore also actuarially unsound. Furthermore, other assumptions made and used in the forecast, which are not part of the rate template calculations, such as "reinsurance premium" and "ceded catastrophe losses," have absolutely no support or justification in the Application. In addition, the Financial Forecasts are based on various calculations and formulas which were not provided in the PDF file "RDP Filing Exhibits." Also, the Excel file "RDP Filing Exhibits" does not include any variance calculations. For all these reasons, the Application does not comply with the regulation or the CDI's Prior Approval Rate Filing Instructions and should be rejected.

m. 10 CCR § 2644.27(f)(6)(A) requires the Applicant to provide "[a] showing of the insurer's condition, based on generally accepted standards such as the National Association of Insurance Commissioners' Insurance Regulatory Information System." The Applicant appears to have interpreted the words "such as" to mean "exclusively," as that is the only standard included in the Application as purported support. Such a position is contrary to the instructions contained in the "Insurance Regulatory Information Systems (IRIS) Manual – 2023 Edition."[18] Those instructions state, in part, in the Limitation Section:

> As previously stated, the results are not, in themselves, determinative of the financial Condition of an insurer. The results are subject to individual insurer circumstances. The following caveats apply:
> 1. No state can rely on the tools' results as the state's only form of surveillance.

[18] https://content.naic.org/sites/default/files/publication-uir-zb-iris-ratios-manual.pdf.

> 2. Important decisions, such as licensing, should not be based on the tools' results without further analysis or examination of the insurer.
> 3. Valid interpretation of the tools' results depends, to a considerable extent, on the judgment of financial analysts and examiners. An insurer's ratios may be outside the usual range because of unusual accounting methods, changes in corporate structure, restatements of prior periods, correction of errors in prior periods or other circumstances.

Thus, the Applicant's reliance solely on the IRIS ratios is misplaced and contrary to the applicable guidance from the NAIC.

n. Another commonly used measure of an insurance company's financial condition is its Risk Based Capital ("RBC"). The Applicant's "Total adjusted capital" is more than twice as large as its "Authorized control level risk-based capital."[19] That relationship is within the acceptable range for the "Total adjusted capital." The analysis of an insurance company's risk-based capital is required by statute.[20]

o. With regard to the IRIS tests, the Applicant lists four items outside the standard ranges.[21] Two of those items, "Gross Change in Surplus" and "Change in Adjusted Surplus," are actually the same, since the Applicant's Surplus and Adjusted Surplus are exactly the same.[22]

p. With regard to the values outside the usual range, none of those unusual values are the result of homeowners insurance. With regard to the "Two-Year Overall Operating Ratio" and the "Change[s] in Surplus," as previously discussed, homeowners insurance had a direct underwriting profit of more than $200 million in both 2022 and 2023. Hence, homeowners insurance would have a "Two-Year Overall Operating Ratio" under 100 and would contribute to an increase, not a decrease, in surplus. With regard to the "One-Year Reserve Development to Surplus," the actual value of 21 is just barely above the upper range of 20. Furthermore, homeowners insurance contributed very little to the "One-Year Reserve Development." Out of Applicant's

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[19] State Farm General 2023 Annual Statement, Page 17, Lines (28) and (29).
[20] Ins. Code § 739 et seq.
[21] Application, Exhibit 13, Page 1.
[22] State Farm General 2023 Annual Statement, Page 17, Lines (26) and (28).

total "One-Year Reserve Development" in 2023 of $470 million,[23] only $59 million,[24] or only about 13%, was due to homeowners insurance.

q. The adverse results in 2023 can be attributed to commercial and liability insurance.[25] The California direct incurred loss ratios reported by the Applicant for commercial multiple peril (non-liability portion), commercial multiple peril (liability portion), and other liability – occurrence were 90%, 237%, and 204%, respectively. In total, the incurred losses for these three lines of insurance exceeded the premiums by $419 million. In marked contrast, for homeowners insurance, the loss ratio was 58%, and premiums exceeded losses by $1.12 billion. This proves once again that any adverse experience for the Applicant is not the result of homeowners insurance.

r. Furthermore, the actuary retained by the Applicant who prepared the Statement of Actuarial Opinion confirmed that the adverse experience in 2023 was not the result of homeowners insurance, stating: "During 2023, the Company has strengthened net reserves for prior accident years, largely in its Umbrella and Commercial Multi-Peril coverages. Both coverages were impacted by sharp increases in claim severity and an extended time frame for claim resolution."[26]

s. Despite the indisputable evidence that homeowners insurance has not caused any financial distress to the Applicant, the Applicant is attempting to capitalize itself on the backs of homeowners by seeking to charge excessive insurance rates.

t. 10 CCR § 2644.27(f)(6)(B) requires the Applicant to provide "[a] plan to restore the financial condition." The "plan," as put forward by the Applicant, would force policyholders to capitalize the Applicant with over $350 million in excessive charges from 2025 to 2028, but would not allow the policyholders to have any ownership rights in exchange. State Farm Lloyds, Inc. ("SFL"), another subsidiary company of

[23] State Farm General 2023 Annual Statement, Page 18, Line (74).
[24] State Farm General 2023 Annual Statement, Schedule P, Part 2A, Column (11).
[25] State Farm General 2023 Annual Statement, Exhibit of Premiums and Losses, California.
[26] State Farm General, Statement of Actuarial Opinion as of December 31, 2023, Page 4 (NAIC IRIS tests).

SFMAIC, previously tried to force policyholders to provide a huge amount of capital without providing the policyholders with any ownership interest. That scheme by SFMAIC and its subsidiary was rejected by both the Texas Commissioner of Insurance[27] and the Texas Court of Appeals.[28]

u. The Texas Commissioner of Insurance Order stated in part:[29]

> What SFL seeks by insisting on a separate provision for the surplus note is a rate which will produce something far more than a reasonable return on its capital; it seeks nothing less than a rate which, in effect, would require its policyholders to provide new capital to replenish capital previously lost.
> …
> It should be noted that while a regulated entity is constitutionally entitled to a return sufficient to attract capital and ensure its continued financial viability, it has no constitutional claim to any particular rate of return above a rate which achieves these ends.
> …
> The Commissioner finds that the inclusion of a separate surplus note provision, in addition to rate provisions that already contemplate SFL's expected future costs, including its cost of capital "is likely to produce a long term profit that is unreasonably high in relation to the insurance coverage provided."

v. The Texas Court of Appeals stated in part:[30]

> Instead, the insurer's contention is that the rate must *also* enable it to build *additional* surplus at a rate that would increase its total surplus (net of amounts reserved for surplus-note payments) to a 1:1 premium-to-surplus ratio within nine years.
> …
> The Commissioner was unpersuaded that State Farm Lloyds was entitled to recover any costs related to the surplus note beyond the aforementioned return on its capital secured through underwriting profit.
> …

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[27] Tex. Ins. Comr.'s Order No. 09-0927, TDI Docket No. 2562-A, Order Modifying Rate Reduction Previously Determined by the Texas Department of Insurance and Directing the Payment of Refunds (Nov. 16, 2009), https://www.tdi.texas.gov/orders/documents/co-09-0927.pdf.

[28] *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.

[29] Fn. 27, *supra*, pp. 62–64.

[30] Fn. 28, *supra*, pp. 107–112, italics in original.

> He similarly viewed the surplus-note provision as an unjustified attempt by State Farm Lloyds not only to recoup its legitimate costs of providing insurance to its then-current policyholders, but also to effectively shift its past losses to them as well.
>
> …
>
> We are unpersuaded that the Commissioner, in refusing to afford State Farm Lloyds recovery of the full 9% of premium it sought through the surplus-note provision, has effected such an unreasonable balancing among the interests of State Farm Lloyds, its investors, ratepayers, and the public as to violate the constitutional norms. [Footnote omitted.] Consequently, we cannot conclude this decision renders the rate confiscatory. Accordingly, we overrule State Farm Lloyd's second point of error.

w. 10 CCR § 2644.27(f)(6)(D) requires the Applicant to provide "[a] plan to reduce rates once the insurer's condition is restored, in order to ***compensate*** consumers for excessive charges." (Emphasis added.) The Applicant's "plan" is vague and omits information required by the regulation and necessary to assess the requested variance. Furthermore, the "plan" fails to compensate consumers for excessive charges.

x. The "plan" is replete with conditions and caveats, which the Applicant has given itself exclusive authority to interpret. It states, in part: "State Farm General considers its financial condition to be restored and not reversed when the company can, for the long-term, generate and maintain capital sufficient to support itself. This is determined based on metrics and considerations evaluated together that, at a minimum, include the following: favorable outlook on ability to have adequate rates, risk-based capital sufficient to avoid required company or regulator action under insurer solvency regulations, achievement of a surplus-to-net written premium ratio of 1.0 or better and giving consideration to then current reinsurance utilization, State Farm General's ability to recover from stresses, favorable ratings by rating agencies, and acquiescence by the IL DOI (as State Farm General's solvency regulator) to any filing to reduce rates." That explanation is so vague, arbitrary, and capricious that it is impossible to objectively implement, monitor, or regulate. The Applicant is essentially stating that it will reduce rates if, when, and by the amount it decides is appropriate in its own opinion. Furthermore, those conditions and caveats illegally

cede the authority of the California Insurance Commissioner over rates to be charged in California to unnamed rating agencies and to the Illinois Department of Insurance.

y. The Applicant further states: "After State Farm General's financial condition has been restored, it will submit an application with a defined future effective date to reduce its rates in at least one line of business if [various conditions follow]." An unspecified rate reduction, which may keep the rate above the maximum permitted earned premium, does *not* "compensate consumers for excessive charges." To "compensate consumers for excessive charges," the Applicant *must* return the entirety of the excessive charges, with interest, to those who paid the excessive rates. Anything less will not fully "compensate consumers for excessive charges."

13. This Petition is based upon Consumer Watchdog's preliminary analysis of the Application. Thus, Consumer Watchdog reserves the right to modify, withdraw, and/or add issues for consideration as more information becomes available through discovery or otherwise.

IV. AUTHORITY FOR PETITION AND GRANTING REQUEST FOR A HEARING

14. The authority for this petition for hearing is Insurance Code section 1861.10, subdivision (a), which grants "any person" the right to initiate or intervene in a proceeding permitted or established by Proposition 103 and the right to enforce Proposition 103. Specifically, as stated above, Consumer Watchdog initiates this proceeding to enforce Insurance Code section 1861.05 and the Commissioner's rate regulations, 10 CCR § 2644.1 et seq.

15. Additionally, a hearing is authorized pursuant to Insurance Code section 1861.05, subdivision (c), which allows "a consumer or his or her representative" to request a hearing on a rate application and 10 CCR § 2653.1, which provides that "any person, whether as an individual, representative of an organization, or on behalf of the general public, may request a hearing by submitting a petition for hearing." Given that State Farm's requested rate change exceeds 7%, Insurance Code section 1861.05(c) requires that the Commissioner "must hold a hearing upon a timely request."

16. This petition is timely pursuant to Insurance Code section 1861.05, subdivision (c), and 10 CCR § 2646.4(a)(1) because it is filed within forty-five (45) days of the July 12, 2024

public notice date.

V. INTEREST OF PETITIONER/INTERVENOR

17. Consumer Watchdog's interest in the above-captioned proceeding is to ensure that State Farm's California Rental Dwelling insurance policyholders are charged rates and premiums that comply with the provisions of Insurance Code section 1861.05(a)'s requirement that "no rate shall be approved or remain in effect which is excessive, inadequate, [or] unfairly discriminatory or otherwise in violation of this chapter," and the requirements contained in the regulations promulgated thereunder. For many rental dwelling owners, insurance is necessary to protect their property and they may be required to purchase insurance by their mortgage lenders. Consumers who are overcharged by insurers for this insurance coverage and/or arbitrarily non-renewed, even when they have undertaken significant wildfire mitigation efforts to protect their property and lower their risk of loss, are part of Consumer Watchdog's core constituency. The specific issues and positions to be taken by Consumer Watchdog in this proceeding, to the extent known at this time, are set forth in paragraphs 9–12 *ante*.

18. As noted in paragraphs 3–6 *ante*, Consumer Watchdog's staff and consultants have substantial experience and expertise in insurance rate matters, which Consumer Watchdog believes will aid the CDI in its review of the Application and aid the Commissioner in making his ultimate decision as to whether to approve or disapprove the requested rate. As noted in paragraph 6 above, the Commissioner has found that Consumer Watchdog has made a substantial contribution to his decisions in every rate proceeding that has resulted in a final decision and in which Consumer Watchdog sought compensation from 2003–2022, and three additional proceedings in 2023. If leave to intervene is granted, Consumer Watchdog will participate fully in all aspects of this proceeding.

19. Consumer Watchdog also has an interest in ensuring that Applicant, the CDI, and the Insurance Commissioner comply with the laws enacted by the voters under Proposition 103, and the rules and regulations that implement those laws, including that all information submitted to the CDI in connection with the Application is made publicly available.

VI. AUTHORITY FOR PETITION TO INTERVENE

20. The authority for Consumer Watchdog's Petition to Intervene is Insurance Code section 1861.10, subdivision (a), which grants "any person" the right to "initiate or intervene in any proceeding permitted or established pursuant to this chapter [Chapter 9 of Part 2 of Division 1 of the Insurance Code] . . . and enforce any provision of this article." This proceeding is a rate proceeding to enforce Insurance Code section 1861.05 pursuant to Insurance Code section 1861.10(a), and hence is a proceeding both "permitted" and "established" by Chapter 9. Per the voters' instruction, the mandatory right to intervene under section 1861.10(a), like all the provisions of Proposition 103, must be "liberally construed and applied in order to fully promote its underlying purposes." (Prop. 103, § 8.) Thus, section 1861.10 must be interpreted and applied broadly in a manner to fully encourage consumer participation. (*Ibid.*; see also *Ass'n of California Ins. Cos. v. Poizner*, *supra*, 180 Cal.App.4th at 1052 [stating "the goal of fostering consumer participation in the administrative rate-setting process" as "one of the purposes of Proposition 103"].) The broad intervention standard enacted by section 1861.10 ensures that consumers will be able to participate in proceedings independently of the CDI staff who may take different positions or emphasize different issues in the proceeding, and with all rights accorded to any other party, including the right to raise additional issues and/or violations as they become known during the course of the proceeding through informal or formal discovery.

21. This Petition to Intervene is also authorized by 10 CCR § 2661.1 et seq. In compliance with 10 CCR § 2661.3, the specific issues to be raised and positions to be taken by Consumer Watchdog, to the extent known at this time, are set forth in paragraphs 9–12 *ante*. Each of these issues directly relate to specific standards and requirements under the ratemaking formula and permitted variances at 10 CCR § 2644.1 et seq. and thus are directly relevant to ultimately determining whether Applicant's requested rates are excessive or otherwise unjustified. Although consumer presence in departmental proceedings typically results in significant reductions to policyholders' rates, the amount of savings for each individual consumer is outweighed by the time and expense of hiring individual counsel or an advocacy group to protect his or her rights. Thus, an independent organization like Consumer Watchdog

introduces a voice that otherwise would be absent from this proceeding.

VII. PARTICIPATION OF CONSUMER WATCHDOG

22. Consumer Watchdog verifies, in accordance with 10 CCR § 2661.3, that it will be able to attend and participate in this proceeding without unreasonably delaying this proceeding or any other proceedings before the Insurance Commissioner.

VIII. INTENT TO SEEK COMPENSATION

23. The Commissioner has awarded Consumer Watchdog compensation for its reasonable advocacy and witness fees and expenses in past departmental proceedings. The Commissioner issued Consumer Watchdog's latest Finding of Eligibility on August 2, 2024, effective in proceedings initiated within two years of July 12, 2024. Consumer Watchdog was previously found eligible to seek compensation on July 26, 2022, effective as of July 12, 2022; August 25, 2020, effective as of July 12, 2020; July 12, 2018; July 14, 2016; July 24, 2014; July 24, 2012; July 2, 2010; August 25, 2008; July 14, 2006; July 2, 2004; June 20, 2002; October 1, 1997; September 26, 1995; September 27, 1994; and September 13, 1993.

24. Pursuant to 10 CCR § 2661.3(c), Consumer Watchdog's estimated budget in this proceeding is attached hereto as Exhibit A. Consumer Watchdog has based its estimated budget on several factors including: (1) the technical and legal expertise needed to address these issues; (2) its current best estimate of the time needed to participate effectively in these proceedings, taking into account the time already expended by Consumer Watchdog's legal and actuarial staff and an estimate of time needed to complete remaining tasks through completion of a noticed evidentiary hearing; and (3) past experience in similar rate proceedings before the CDI. The estimated budget is reasonable and the staffing level is appropriate, given the expertise that Consumer Watchdog and its consultants bring to these proceedings when the issues involved are issues at the very core of its organizational mission and strike at the very heart of Proposition 103 itself. The attorney, paralegal, and staff and consulting actuaries' hourly rates contained in the attached budget do not exceed market rates as defined by 10 CCR § 2661.1(c).[31] The budget

[31] 10 CCR § 2661.1(c) defines "market rates" as "the prevailing rate for comparable services in the private sector in the Los Angeles and San Francisco Bay Areas *at the time of the*

presented in the attached Exhibit A is a preliminary estimate, and Consumer Watchdog reserves the right to amend its proposed budget as its expenses become more certain, or in its request for final compensation. Further, Consumer Watchdog affirms that it will file an amended budget as soon as possible when it learns that its total estimated budget amount increases by $10,000 or more, in accordance with 10 CCR § 2661.3(d).

WHEREFORE, Consumer Watchdog respectfully requests that (1) the Insurance Commissioner (1) GRANT its Petition for Hearing and Petition to Intervene in the proceeding, having all rights and responsibilities accorded any other party to the proceeding, and (2) REJECT State Farm's requested overall 38.0% rate increase, and instead approve a substantially lower overall rate increase based on the record in the proceeding.

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Commissioner's decision awarding compensation for attorney advocates, non-attorney advocates, or experts with similar experience, skill and ability." (Emphasis added.) Attached as Exhibit B and Exhibit C are the two most recent Decisions Awarding Compensation by Commissioner Lara to Consumer Watchdog in 2023 in rate proceedings, which found that the *same* 2024 rates used in the estimated budget set forth in Exhibit A for its attorneys and paralegal, Mr. Rosenfield, Ms. Pressley, Mr. Mellino, Mr. Powell, and Ms. Gentile, were reasonable and did not exceed market rates in the private market in Los Angeles and the San Francisco Bay Area. Those decisions also found Consumer Watchdog's consulting actuary Allan I. Schwartz's 2023 hourly rate was reasonable and did not exceed market rates. (Exh. B [Decision Awarding Compensation, July 12, 2023, *In the Matter of the Rate Applications of Farmers Insurance Exchange, Fire Insurance Exchange, and Mid-Century Insurance Company*, File No. PA-2022-00007], pp. 9–11, 15; Exh. C [Decision Awarding Compensation, Nov. 8, 2023, *In the Matter of the Rate Application of CSAA Insurance Exchange*, File No. PA-2023-00004], pp. 4–7, 10.) Consumer Watchdog will submit a declaration from Mr. Schwartz supporting his 2024 hourly rate when it submits any request for compensation in this matter. Mr. Armstrong is Consumer Watchdog's staff actuary with over 12 years of professional actuarial experience who joined staff in May 2023. His $425 hourly rate in the estimated budget in Exhibit A is comparable to the $415 market rate found reasonable by the Commissioner in the Decisions attached as Exhibits B and C for one of Mr. Schwartz's former associates who does not have the additional Fellow Casualty Actuarial Society designation that Mr. Armstrong does. Since this is a preliminary estimated budget, and section 2661.1(c) defines "market rate" as the prevailing market rates at the time of the Commissioner's compensation award, Consumer Watchdog intends to submit further support for its attorneys' and actuaries' market rates at the time it submits any request for compensation.

DATED: August 26, 2024

Respectfully submitted,
Harvey Rosenfield
Pamela Pressley
Benjamin Powell
CONSUMER WATCHDOG

By:

Pamela Pressley
Attorneys for CONSUMER WATCHDOG

VERIFICATION OF PAMELA PRESSLEY IN SUPPORT OF CONSUMER WATCHDOG'S PETITION FOR HEARING, AMENDED PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION

I, Pamela Pressley, verify:

1. I am Senior Staff Attorney for Consumer Watchdog. If called as a witness, I could and would testify competently to the facts stated in this verification.

2. I personally prepared, in consultation with Consumer Watchdog's actuarial experts, the pleading titled "Consumer Watchdog's Petition for Hearing, Amended Petition to Intervene, and Notice of Intent to Seek Compensation" filed in this matter. All of the factual matters alleged therein are true of my own personal knowledge, or I believe them to be true after conducting some inquiry and investigation.

3. Pursuant to California Code of Regulations, title 10, section 2661.3, Consumer Watchdog attaches as Exhibit A its estimated budget in this proceeding. I affirm that the hourly rates in the estimated budget do not exceed market rates.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed August 26, 2024 at Los Angeles, California.

Pamela Pressley

Pamela Pressley

EXHIBIT A

EXHIBIT A
PRELIMINARY BUDGET

ITEMS **ESTIMATED COST**

1. Consumer Watchdog Attorneys, Paralegal, and Staff Actuary

Pamela Pressley (Senior Staff Attorney) @ $595 per hour, 100 hours $59,500

- Draft and edit petition for hearing and petition to intervene; supervise Consumer Watchdog counsel; oversee preparation of discovery requests, motions, briefing; confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; assist in all phases of proceeding, evidentiary hearing, and preparation of post-hearing briefing.

Benjamin Powell (Staff Attorney) @ $350 per hour, 200 hours $70,000

- Confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; participate in briefing legal issues; conduct discovery, preparation of motions, and preparation for evidentiary hearing; participate in examination of witnesses and all phases of evidentiary hearing and post-hearing legal briefing; prepare request for compensation.

Kaitlyn Gentile (Paralegal) @ $200 per hour, 50 hours $10,000

- Draft and edit petition for hearing and petition to intervene; assist with discovery and preparation of motions and briefs; prepare request for compensation.

Harvey Rosenfield (Of Counsel) @ $695 per hour, 50 hours $34,750

- Supervise Consumer Watchdog counsel and participate in strategy discussions.

Ben Armstrong, Staff Actuary @ $425 per hour, 100 hours $42,500

- Staff actuary to review rate application, all discovery documents; prepare actuarial analysis; participate in meet and confers with the parties as needed; prepare written testimony; testify and assist attorneys in preparation for cross-examination of insurer's expert witnesses.

2. Consumer Watchdog Expenses

Office expenses (photocopies, facsimile, telephone calls, postage, etc.) $2,000

Travel (ground transportation; airfare; hotel) $5,000

Consumer Watchdog Subtotal $223,750

3. Expert Witness: AIS Risk Consultants, Inc.

Allan I. Schwartz, President of AIS Risk Consultants @ $955 per hour, 100 hours $95,500

- Consulting actuary to review rate application and prepare actuarial analysis on variance 6 issues; participate in meet and confers with the parties as needed; assist with preparation of written and oral testimony and cross-examination of insurers' expert witnesses as needed, with a focus on variance 6.

Office expenses (photocopies, facsimile, telephone calls, postage, etc.) $2,000

Travel (ground transportation; airfare; hotel) $5,000

AIS Risk Consultants, Inc. Subtotal $102,500

TOTAL ESTIMATED BUDGET: $326,250

EXHIBIT B

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Requests for Compensation of **CONSUMER WATCHDOG,** Intervenor.	FILE NO. RFC-2023-006 *In the Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company* *PA-2022-00007*

DECISION AWARDING COMPENSATION

In this Request for Compensation (RFC) Consumer Watchdog (CW or Petitioner) seeks $82,814.50 in compensation for its intervention in a Rate Application (RA) filed by Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company (Farmers or Applicant). The RA sought a 24.9 percent increase in its homeowners multiple peril insurance line of insurance, but was ultimately resolved by a stipulation, granting Farmers a 17.7% increase. Farmers did not oppose CW's Request for Compensation arising therefrom. For the reasons explained below, the Request for Compensation is GRANTED.

FINDINGS OF FACT

Farmers' Rate Application

On June 15, 2022, Farmers filed a Rate Application with the Department of Insurance (Department) seeking a 24.9 percent increase in its homeowners' multiple peril insurance line.[1]

[1] RFC, p. 3.

The Department assigned the RA to Darjen Kuo for investigation.[2] On July 8, 2022, Farmers' RA was made public.[3] Several events occurred on August 22, 2022. The Department requested that Applicant waive the deemer period,[4] Applicant responded by waiving both the 60-day and the 180-day deemer periods,[5] and CW filed a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation (collectively, "Petition").[6]

In its Petition, CW raised a number of concerns, which may be briefly described as Farmers': (a) failure to demonstrate that its proposal to non-renew 10,000 policies will not create excessive and/or unfairly discriminatory rates;[7] (b) use of only one model for Fire Following Earthquake (FFEQ);[8] (c) use of quarterly rather than annual paid loss development;[9] (d) failure to demonstrate that the use of incurred rather than paid loss development is the most actuarially sound method;[10] (e) failure to demonstrate that the selected trend factors and trend data period used were the most actuarially sound, and how the non-renewal of policies would likely impact the trend;[11] (f) failure to demonstrate that all institutional advertising expenses were accounted for;[12] (g) failure to justify for the loss trend factors proposed in the Variance 7B request;[13] (h) failure to justify the loss trend factors proposed in the variance 8B request;[14] and (i)

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[2] Rate Applications may be found online at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:13936543914997. An administrative agency may take official notice of its own records, (See Evid. Code, § 452, subd. (d).) Official Notice is hereby taken of the Rate Application number 22-1617, as well as the related Rate Applications numbered 22-1617-A, and 22-1617-B. Citations in this decision to a Rate Application ("RA") utilize the State Tracking number. Although Rate Applications do not contain continuous internal pagination, page numbers are referenced according to their order of appearance in the .pdf.
[3] RFC, p. 3.
[4] RA #22-1617, p. 17.
[5] RA #22-1617, p. 38.
[6] Exh. 3, attached to Powell Decl., RFC, p. 4.
[7] Petition, ¶ 8.a.
[8] Petition, ¶ 8.b.
[9] Petition, ¶ 8.c.
[10] Petition, ¶ 8.d.
[11] Petition, ¶ 8.e.
[12] Petition, ¶ 8.f.
[13] Petition, ¶ 8.g.
[14] Petition, ¶ 8.h.

failure to comply with filing instructions and submission of exhibits in searchable Excel and PDF format.[15]

On September 6, 2022, the Commissioner granted CW's Petition to Intervene.[16] The Commissioner found that CW complied with the procedural requirements in the Insurance Regulations, and that the issues it sought to address were relevant to the ratemaking process.[17] The decision withheld a ruling on the Petition for Hearing.[18]

On October 4, 2022, the Department issued an Objection Letter asking Farmers to respond to eight concerns. In brief, the concerns raised by the Department seek the following information: (1) how the decision to non-renew 10,000 policies due to wildfire risk will affect the proposed rate and premium; (2) a justification for the use of only one model to calculate FFEQ; (3) a justification for the use of quarterly time rather than annual in calculating catastrophe adjustment; (4) an explanation for why using incurred losses to develop ultimate losses is the most actuarially sound selection; (5) a justification for the use of 12-point for premium trends and 12-point with closed Frequency and Total Paid Severity; (6) a standard exhibit 7 for Smart Plan Home data only; (7) given annual losses and exposures, a correction to the assigned 0% credibility for Smart Plan Home's experiences in calculating the loss trends and loss development factors; and (8) the resubmission of multiple exhibits in Excel and PDF formats according to specifications.[19] Six of the eight Objections raised by the Department had already been raised or partially raised by CW in its August 22 Petition.

On October 11, 2022, Farmers responded to the Department's inquiries by resubmitting

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[15] Petition, ¶ 8.i.
[16] RFC, p. 6.
[17] Exh. 4, attached to Powell Decl.
[18] *Ibid.*
[19] RA #22-1617, p. 16.

exhibits in Excel and PDF formats.[20] In its response, Farmers rescinded the non-renewal plan and declared that it was not moving forward with any "wildfires non-renewals."[21] In explanation for its use of only one model to calculate FFEQ, Farmers argued that use of only one model was the commonly accepted practice among its competitors. It referenced other rate applications by various competitors where only one model was used and argued that the RMS model complies with "actuarial statutory standards."[22] Farmers' explanation for calculating quarterly, rather than annual, catastrophe ratios, was because the main contributor to catastrophe losses in California—wildfires—occur more frequently in the 4th quarter of the fiscal year. According to Farmers, "this causes the total to [*sic*] non-CAT factor to be inflated in years experiencing extreme Q4 event[s] and extraordinary CAT losses," as was the case in years 2003, 2007, 2018, and 2020.[23] To explain its use of incurred losses, Farmers argued that, paid losses are driven by smaller damage claims, while incurred losses more accurately reflect rising inflation and other repair costs and ALE expenses.[24] As explanation for its use of 12-point, rather than 20-point, loss experience, Farmers explained that the shorter period gave greater weight to the pandemic and recent inflation, which it believed would be more suited to prospective rate making.[25] In response to the Department's request for a standard Exhibit 7 for Smart Plan Home data only, Farmers provided it in an electronic attachment.[26] Farmers did not provide corrected loss trends and loss development factors in response to the Department's concerns about its use of 0% credibility for Smart Plan Home's experiences. It did, however, provide a reasoned explanation for its failure to do so. Essentially, Farmers stated its willingness to make the requested changes,

[20] RA #22-1617, p. 33; see also Exh. C, attached to Powell Decl.
[21] Exh. C, attached to Powell Decl.
[22] *Ibid.*
[23] *Ibid.*
[24] *Ibid.*
[25] *Ibid.*
[26] *Ibid.*

as soon as sufficient data became available.[27] Finally, Farmers provided Excel files for each exhibit requested by the Department.[28]

On November 21, 2022, CW made a request for information, seeking the following additional information from Farmers: (1) A new table showing competitors' filings where more than one model was used for FFEQ; (2) support for Applicant's claim that inflation has caused longer cycle time on repairs, higher lumber costs, higher material costs, and increasing ALE expenses, and support for the claim that paid losses are driven by smaller damage claims; (3) a complete description and explanation of the impact from the pandemic on California homeowners insurance costs; (4) a basis for the claim that the response to Item 5 was the most actuarially sound choice for frequency and severity analysis; (5) an annual distribution of modeled losses used to obtain the expected average annual losses for the RMS FFEQ model results; (6) which portion of the AAL is attributable to the use of Loss Amplification factors in the RMS FFEQ model results; (7) any analyses performed showing the underwriting and operating results of the Applicants for Homeowners Insurance in California covering 2019 to the present; (8) a description of any changes in operations related to California homeowners insurance that has occurred from 2019 to the present, as well as any such changes anticipated for the future; and (9) a list of the actions taken or expected to be taken by Farmers regarding homeowners insurance in California.[29]

On November 18, 2022, the Department issued an Objection Letter in which it asserted that Farmers, through subsidiaries, was applying the Supergroup Exemption and Multi-policy Discount at the same time.[30] To correct for this error, the Department ordered Farmers to revise

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[27] *Ibid.*
[28] *Ibid.*
[29] Powell Decl., ¶ 42; Exh. D, attached to RFC.
[30] RA # 22-1617, p. 15.

its manuals to indicate which companies the multi-policy discounts could be applied to. On November 23, 2022 Farmers responded to the Department's Objections by disputing the Department's apparent contention that the Super Group Exemption applies to all Farmers programs, including Homeowners programs.

On November 26, 2022. the Department issued an Objection Letter, demanding that Farmers provide premiums, losses, and loss ratios information for each peril in Excel format to justify the proposed base rate change by peril, for each policy form.

On November 28, 2022, Farmers responded to the November 26 Objection Letter, stating, "Current base rates used to develop proposed base rates already reflect the latest loss experience by peril; therefore, no further adjustments at the peril level were needed and applied in this filing. As a result, base rates were revised uniformly for each peril to achieve overall rate proposal for each form." In short, Farmers made no changes to its Application, and provided no additional documents.

On December 6, 2022, the Department issued an Objection Letter following up on Farmers' October 11 response. In particular, the Department sought further explanation for: (1) why incurred ultimate loss is the most actuarially sound selection, given that there had been a drastic increase of Average Case Reserve on Open Claims for each of the perils in the three most recent accident years; (2) "why the closed frequencies for 'All Other' peril are so high ranging from 17.9% to 76.98% for Smart Plan Renter, and from 3.9% to 32.92% for Next Generation form. What perils are included in 'All Other' Peril?"; (3) proof that all institutional advertising expenses had been reflected in the excluded expense provision.[31]

On December 7, 2022, Farmers provided a response to CW's November 21 inquiry. In brief, Farmers responded: (1) with a list of other companies using a single model to develop

[31] RA #22-1617, p.12.

FFEQ losses, and a list of their SERFF filing numbers; (2) documentation supporting trends toward higher prices for lumber and other repair materials, as well as shortages in those materials resulting in smaller damage claims dominating paid losses, making accurate future predictions more difficult; (3) supply chain issues, increased cost of goods, and a strong demand for building materials in the California market have increased materials costs, as well as putting pressure on labor costs; (4) the basis for this claim is that this approach provides the closest match in terms of timing of when a claim is counted as fully paid and the total dollar amount associated with that claim; (5) Farmers identified the exhibit that shows annual aggregate losses by policy form for various return periods underlying the expected average annual losses; (6) Farmers provided a graph with breakdown of the percentage of total AAL attributable to the demand surge for each policy form; (7) Farmers provided a table showing the results for its most recent five year history; (8) a statement affirming that there have been no significant changes in operations since 2019, and no future changes are planned; and (9) a statement affirming that all major actions have been filed with the Department, with a supporting list of filings/tracking numbers.

On January 19, 2023, the parties participated in a teleconference.[32] In late January and early February 2023, CW and Farmers engaged in a series of communications both seeking and providing additional information and explanation regarding the Rate Application.[33]

On January 31, 2023, CW made two Requests for Information. It sought a list of payments to affiliates for the period 2019-2021, with supporting documentation, and requested a discussion of the loss reserving methods used to derive the values for homeowners insurance reserves contained in the Annual and Quarterly financial statements submitted to the

[32] Powell Decl., ¶ 44.
[33] Powell Decl., ¶ 45; Exh. F, attached to Powell Decl.

Department.[34] On February 1, 2023, Farmers partially responded to the January 31 request for information, but also disputed, to some degree, CW's asserted need for the information.[35] CW provided a justification for the requested information on February 3, 2023, followed by its actuarial analysis of the Rate Application on February 6.[36] On February 8, the parties participated in another teleconference, which resulted in Farmers providing additional information regarding its trend selections, loss development method, and management fees.[37] On February 9, 2023, CW sought more data directly arising from the February 8 response by Farmers.[38] Farmers provided the data the same day.[39]

On March 10, 2023, the parties reached a Settlement Stipulation.[40] In it, the parties agreed that a 17.7 percent increase was "supportable" and should be implemented with an effective date of June 17, 2023.[41] In return, CW agreed to withdraw its Petition for Hearing upon the Commissioner's approval of the Settlement Agreement.[42]

On March 14, 2023, the Commissioner gave his approval of the Settlement Stipulation and, accordingly, CW withdrew its Petition for Hearing, effective March 24, 2023.[43]

This Request for Compensation was filed on April 11, 2023. In total, CW seeks $42,425.50 in fees for its employees' time, and $40,389 in expert witness fees.[44]

CW's Request for Compensation

CW is a non-profit, public interest organization that conducts its education and advocacy

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[34] Powell Decl., ¶ 45.
[35] Powell Decl., ¶46; Exh. G, attached to RFC.
[36] Powell Decl., ¶ 47, Exh. H, attached to RFC.
[37] RFC, p. 8.
[38] RFC, pp. 8-9.
[39] RFC, p. 9; Exh. K, attached to RFC.
[40] Exh. 5, attached to Powell Decl.
[41] *Ibid.*
[42] *Ibid.*
[43] Exh. 6, attached to Powell Decl.
[44] Exh. A, attached to RFC.

efforts as a public interest service.[45] As a result of its intervention in Farmers' RA, CW's attorneys and paralegal incurred 80.6 hours of labor in the proceeding.[46] Attached to Benjamin Powell's Declaration as Exhibit 1.a. are detailed billing records for CW's attorneys Pamela Pressley, Harvey Rosenfield, and Benjamin Powell, as well as for CW Paralegal, Kaitlyn Gentile.[47]

In total, Pressley performed 51.6 hours of work on this matter, for which she billed $595 per hour.[48] Pressley has over 26 years' experience as a consumer advocate.[49] In that role, she has litigated a number of matters of first impression involving the implementation and enforcement of Proposition 103.[50] She has also participated in a number of rulemaking proceedings involving implementation of Proposition 103's rating factor requirements.[51] Pressley's hourly rate is within the range of rates charged by similarly-qualified attorneys in the Los Angeles area.[52]

CW's attorney Benjamin Powell performed 15.4 hours of work on this matter, at an hourly rate of $350.[53] Powell began working at CW before he was admitted to the California State Bar in 2016. His employment at CW has included work on civil litigation maters as well as on matters relating to Proposition 103.[54] Powell's hourly rate of $350 is within the range of rates charged by similarly-qualified attorneys in Los Angeles and the San Francisco Bay Area.[55]

CW's attorney Harvey Rosenfield is an attorney with over 40 years of experience in

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[45] Powell Decl., ¶ 4.
[46] Powell Decl., ¶ 6.
[47] Exh. 1.a., attached to Powell Decl.
[48] *Ibid.*
[49] Powell Decl., ¶ 13.
[50] *Ibid.*
[51] *Ibid.*
[52] Exh. 2, attached to Powell Decl.
[53] Exh. 1.a., attached to Powell Decl.
[54] Powell Decl., ¶ 16.
[55] Powell Decl., ¶ 19; Exh. 2, attached to Powell Decl.

insurance regulatory and litigation matters.[56] He is the founder of CW and author to Proposition 103. As such, he has participated in numerous lawsuits involving the interpretation an enforcement of Proposition 103.[57] He has also participated in numerous rulemaking proceedings implementing Proposition 103.[58] Rosenfield spent 7.3 hours working on this matter, for which he billed his hourly rate of $695.[59] Rosenfield's hourly rate is within the range of hourly rates charged by similarly-qualified attorneys in Los Angeles and the San Francisco Bay Area.[60]

Finally, CW's paralegal, Kaitlyn Gentile, has over 14 years of professional experience.[61] Gentile worked 6.3 hours on this matter, for which she billed $200 per hour.[62] Gentile's hourly rate is within the range of hourly rates charged by paralegals in Los Angeles and the San Francisco Bay Area.[63]

In addition to seeking fees for work performed by its own staff, CW seeks fees for 56.6 hours performed by its expert witnesses, AIS Risk Consultants, in the amount of $40,389.[64] Allan I. Schwarz is an actuary with over 40 year of consulting actuarial experience.[65] He performed 34.3 hours of work on this matter at his rate of $915 per hour. Data regarding consulting actuarial rates are typically not made public.[66] However, Schwarz's prior approved rates are known. For example, in 2021 and 2022, Schwarz's hourly rate was $835 and $870, respectively.[67] In a 2023 request for compensation, Schwarz's hourly rate of $870 was deemed

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[56] Powell Decl., ¶ 9.
[57] *Ibid.*
[58] Powell Decl., ¶ 10.
[59] Powell Decl., p. 19.
[60] Exh. 2, attached to Powell Decl.
[61] Powell Decl., ¶ 20.
[62] Powell Decl., p. 19.
[63] Exh. 2, attached to Powell Decl.
[64] Exh. 8, attached to Schwarz Decl.
[65] Schwarz Decl., ¶ 1.
[66] Schwarz Decl., ¶ 2.
[67] Schwarz Decl., ¶¶ 2-3.

reasonable for work performed in 2022.[68] His current rate of $915 represents a 5.2% increase over his 2022 billing rate. This increase is lower than the rate of inflation in the U.S. for the same period.[69]

Katherine Tollar is an Actuarial Assistant with over 30 years of professional experience.[70] Tollar worked for 17.3 hours on this matter, for which she billed $415 per hour.[71]

Marianne Dwyer is an Actuarial Assistant with over 30 years of professional experience.[72] She spent 5 hours on this matter, for which she billed $365 per hour.[73]

DISCUSSION

I. Prior Approval Framework and Public Participation

The 1988 approval of Proposition 103 by California's voters added Article 10, "Reduction and Control of Insurance Rates" to Division 1, Part 2, Chapter 9 of the Insurance Code. Proposition 103 establishes a system of "prior approval" for changes to insurance rates in automobile, home, and other property-casualty policies.[74] The application for rate change and any hearings arising therefrom are subject to public notice and scrutiny.[75] Thus, as of November 8, 1989, "insurance rates . . . must be approved by the Commissioner prior to their use."[76]

Insurance Code section 1861.05(a) prohibits the Commissioner from approving any rate that is "excessive, inadequate, unfairly discriminatory, or otherwise in violation of this chapter," or from allowing such rates to remain in effect. The primary consideration in the

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[68] Schwarz Decl., ¶ 8.
[69] Schwarz Decl., fn. 5.
[70] Exh. 6, attached to Schwarz Decl.
[71] Exh. 8, attached to Schwarz Decl.
[72] Exh. 7, attached to Schwarz Decl.
[73] Exh. 8, attached to Schwarz Decl.
[74] Cal. Code Regs., tit. 10, § 1861.05, subd. (b).
[75] Cal. Code Regs., tit. 10, § 1861.05, subd. (c), and §§ 1861.06 – 1861.07.
[76] Cal. Code Regs., tit. 10, § 1861.01, subd. (c).

Commissioner's determination must be "whether the rate mathematically reflects the insurance company's investment income."[77]

In order to encourage consumer participation, Section 1861.10 of the Insurance Code authorizes any person to initiate a proceeding to enforce any provision of Proposition 103.[78] To that end, the Commissioner has promulgated regulations setting forth the substantive and procedural requirements for those seeking compensation under the code.[79] Given the statute's purpose to encourage public participation, the regulations should be liberally construed in favor of compensation.[80] The statute and regulations set forth both procedural and substantive requirements for an award of compensation.

Intervenors who represent the interests of consumers and make a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner are to be compensated for reasonable advocacy and witness fees.[81]

A. CW Met the Procedural Prerequisites to Compensation for Public Participation

Before an intervenor may file a request for compensation, they must first obtain a finding from the Commissioner's Public Advisor that they are eligible to seek compensation—i.e., that they represent the interests of the consumer.[82] An intervenor is found to represent the interests of the consumer if it represents the interests of individual insurance consumer(s), or the intervenor is a group organized for the purpose of consumer protection as demonstrated by, but is not limited to, a history of representing consumers in administrative, legislative or judicial

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[77] Ins. Code, § 1861.05, subd. (a).
[78] Ins. Code, § 1861.10, and *State Farm Insurance Co. v. Lara* (2021) 71 Cal.App.5th 197
[79] Cal. Code Regs., tit. 10, §§ 2661.3 – 2661.4.
[80] *State Farm Insurance Co. v. Lara, supra,* 71 Cal.App.5th 197.
[81] Ins. Code, § 1861.10, and Cal. Code Regs., tit. 10, § 2662.5.
[82] Cal. Code Regs., tit. 10, § 2662.3.

proceedings.[83]

Once granted, a Finding of Eligibility to Seek Compensation is valid in any proceeding in which the intervenor's participation commences within two years of the finding of eligibility, provided the intervenor still meets all the requirements in the initial request.[84]

In addition to establishing that it represents the interests of the consumer the intervenor must also submit a request for an award of compensation within 30 days after the Commissioner's decision or action in the proceeding for which intervention was sought, or within 30 days after conclusion of the entire proceeding.[85] A "proceeding" is any action conducted pursuant to Proposition 103, including a proceeding other than a rate proceeding.[86]

Failing to comply with the procedural as well as substantive requirements may be fatal to a Request for Compensation. For example, where the Commissioner failed to grant permission to intervene in a particular matter, a later request for compensation by the putative intervenor was denied.[87]

1. CW Represents the Interests of Consumers

On July 26, 2022, the Commissioner issued CW its most recent Finding of Eligibility, effective for two years from July 12, 2022.[88] The Commissioner's finding of eligibility to seek compensation under Insurance Regulation 2662.2 is conclusive on this matter.

2. CW Made a Timely Request for Compensation

CW filed the present RFC on April 11, 2023, less than 30 days from the Commissioner's March 14 approval of the Settlement Stipulation. Accordingly, CW has made a timely Request

[83] Cal. Code Regs., tit. 10, § 2661.1, subd. (j).
[84] Cal. Code Regs., tit. 10, § 2662.2
[85] Cal. Code Regs., tit. 10, § 2662.3, subd. (a).
[86] Cal. Code Regs., tit. 10, § 2661.2, subd. (f).
[87] RFC-2021-002.
[88] RFC, p. 2, fn. 3.

for Compensation, per Insurance Regulation section 2662.3, subdivision (a).

B. CW Met the Substantive Requirements for Compensation

Once the intervenor has established that it is eligible to seek compensation, and has made a timely request for compensation, it must then establish that it has made a "substantial contribution" to the proceedings.

An intervenor's contribution is substantial when, viewed as a whole, their contribution results in more relevant, credible, and non-frivolous information being available than would otherwise have been available to the Commissioner to make a decision.[89] In the context of an application for a rate change, a substantial contribution may be found whether a petition for hearing is granted or denied.[90] Moreover, the intervenor need not be a prevailing party in order to be deemed to have made a substantial contribution.[91]

1. CW Made a Substantial Contribution to the Commissioner's Decision

In its RFC, CW describes its asserted "substantial contribution" as: initiating the proceeding and raising issues through its Petition; identifying issues regarding Farmers' payments of management fees and the proper accounting therefor; eliciting Farmers' responses to its requests for information; teleconferences; and participation discussions leading to the Settlement Stipulation.

Of particular importance to the determination whether CW's contribution was relevant, were the requests for information that prompted Farmers' response thereto. In particular, Farmers' December 7 response to CW's November 21 request for information resulted in more relevant, credible, and non-frivolous information being available to the commissioner.

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[89] Cal. Code Regs., tit. 10, § 2661.1, subd. (k).
[90] *Ibid.*
[91] *State Farm Insurance Co. v. Lara, supra,* 71 Cal.App.5th 197.

Specifically, this data came in the form of lists of other companies utilizing similar models for FFEQ losses, documentation of economic factors affecting damages claims, as well as graphic breakdowns and tables justifying the requested increase. Accordingly, CW has made a substantial contribution to these proceedings.

C. An Intervenor is Entitled to Reasonable Fees and Expenses

Reasonable advocacy and witness fees are determined according to the prevailing rate for comparable services in the private sector in the Los Angeles and San Francisco Bay Areas at the time of the Commissioner's decision awarding compensation.[92] This standard is applied to attorney advocates, non-attorney advocates, and experts with similar experience, skill and ability. Reasonable, actual out of pocket costs may also be compensated.[93] Billing rates shall not exceed the market rate.[94]

The requirement that fees be reasonable preserves the Commissioner's discretion to reduce fees for unnecessary, excessive, or duplicative work.[95] For example, when an intervenor seeks contributions for efforts that were not authorized in the ruling on the Petition to Intervene, and when those efforts duplicate the contribution of another party, the request for compensation may be reduced accordingly.[96] An intervenor may not reopen matters that were decided prior to their petition being granted.[97] The intervenor is required to file a "detailed description of services and expenditures," "legible time and/or billing records," and citations to the record of the proceedings.[98]

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[92] Cal. Code Regs., tit. 10, § 2661.1, subd. (c).
[93] Cal. Code Regs., tit. 10, § 2661.1, subds. (b) and (d).
[94] *Ibid.*
[95] *State Farm Insurance Co. v. Lara, supra*, 71 Cal.App.5th 197.
[96] Cal. Code Regs., tit. 10, § 2662.5, subd. (b).
[97] Cal. Code Regs., tit. 10, § 2661.3, subd. (h).
[98] Cal. Code Regs., tit. 10, § 2662.3, subd. (b).

1. Petitioner's Requested Fees are Reasonable.

CW has provided detailed billing records for the staff and expert witnesses who worked on this matter. Moreover, it has established through the Declarations of Richard M. Pearl and Allan I. Schwarz that the hourly rates charged by its staff and expert witnesses were reasonable and/or comparable to services in the private sector in the Los Angeles and San Francisco Bay Area at the time they were incurred. Accordingly, CW's fees are reasonable.

CONCLUSIONS

CW is entitled to advocacy and witness fees in the amount of $82,814.50 for its substantial contribution to the *Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company*, PA-2022-00007. The award shall be paid by Respondent.

ORDER

1. Consumer Watchdog is hereby awarded $82,814.50 in advocacy fees in connection with the *Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company*, PA-2022-00007.

2. Respondent shall pay the award no later than thirty (30) days after the date of this Decision and shall notify the Department's Office of the Public Advisor[99] upon making payment.

Date: July 12, 2023

RICARDO LARA
Insurance Commissioner

By: _____
Alicia A. Clement
Administrative Law Judge

[99] Jamie Katz, 1901 Harrison Street, 4th Floor, Oakland, California 94612 or jamie.katz@insurance.ca.gov.

PROOF OF SERVICE

Case Name/Number: In the Matter of the Request for Compensation of
CONSUMER WATCHDOG
File No. **RFC-2023-006**

I, Camille E. Johnson, declare that:

I am employed by the California Department of Insurance, Administrative Hearing Bureau, in the City of Oakland and County of Alameda. I am over the age of eighteen (18) years and not a party to this action. My business address is 1901 Harrison Street, 3rd Floor, Oakland, CA 94612.

I am readily familiar with the business practices of the California Department of Insurance for collecting and processing correspondence for mailing, electronic filing and electronic mail. On July 12, 2023, I served the **DECISION AWARDING COMPENSATION** regarding in the **Matter of the Request for Compensation of CONSUMER WATCHDOG.**

___X___ **(By U.S. Mail)** on those identified parties in said action, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013.

___X___ **(By Intra-Agency Mail)** on those identified parties in said action, by placing this correspondence in a place designated for collection for delivery by Department of Insurance intra-agency mail.

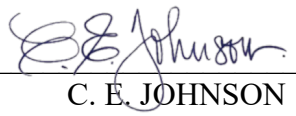
_____ **(By Facsimile transmission)** on those identified parties in said action, by transmitting said document(s) from our office by facsimile machine to facsimile machine number(s) shown below. Following the transmission, I received a "Transmission Report" from our fax machine indicating that the transmission had been transmitted without error.

___X___ **(By Email)** on those identified parties in said action, in accordance with Code of Civil Procedure §1013, by emailing true copies thereof at the address set forth below.

SEE ATTACHED PARTY SERVICE LIST

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed in Oakland, California, on July 12, 2023.

July 12, 2023
DATE



C. E. JOHNSON

PARTY SERVICE LIST

Name/Address	Method of Service
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EXHIBIT C

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Requests for Compensation of **CONSUMER WATCHDOG,** Intervenor.	FILE NO. RFC-2023-011 **DECISION AWARDING COMPENSATION** *In the Matter of the Rate Application of CSAA Insurance Exchange* *PA-2023-00004*

INTRODUCTION

Consumer Watchdog ("CW" or Petitioner), files this Request for Compensation (RFC) in the amount of $77,693.50, for its intervention in proceedings initiated by a Rate Application (RA) filed by CSAA Insurance Exchange (CSAA or Applicant). CSAA did not oppose the RFC. Upon consideration of all the facts and evidence in this case, and for the reasons explained below, the Request for Compensation is GRANTED.

FINDINGS OF FACT[1]

On February 1, 2023, CSAA filed a Rate Application[2] with the Department, seeking a 25 percent increase in its Auto Liability and Physical Damage lines. Over the course of the ensuing investigation, the Department issued five objection letters.[3] CSAA responded to each of the Objection Letters in a timely fashion.[4] On April 10, 2023, CW filed a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation.[5] In its Request for Hearing, CW provided a non-exhaustive list of issues related to the Rate Application that it intended to explore, along with a list of evidence it intended to produce.[6] On April 14, 2023, CSAA filed an Answer to the Request for Hearing, refuting CW's claims that the RA was actuarially unsound.[7] On April 24, 2023, the Department granted CW's Petition to Intervene.[8] In it, the Department found that CW "has raised and seeks to address issues that are relevant to the ratemaking process."[9]

On May 2, 2023, CW submitted a Request for Information to CSAA that sought responses to 24 separate inquiries.[10]

On May 3, 2023, CSAA submitted a "Response to Consumer Watchdog's Petition to

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[1] All findings of fact in this matter are derived from the Petitioner's filings and attachments, and from the Department's official files. Neither CSAA nor the Department filed a response to the RFC.
[2] Rate applications may be found online at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:13936543914997. An administrative agency may take official notice of its own records, such as the Rate Application filed with the Department of Insurance on February 1, 2023, and assigned State Tracking Number 23-385. (See Evid. Code, § 452, subd. (d).) Official Notice is hereby taken of the Rate Application number 23-385. Citations in this decision to the Rate Application ("RA") utilize the State Tracking # 23-385. Although the document does not contain continuous internal pagination, page numbers are referenced according to their order of appearance in the .pdf.
[3] RA #23-385, p. 4.
[4] *Ibid.*
[5] Exh. 3 attached to Declaration of Daniel L. Sternberg.
[6] Request for Hearing, ¶ ¶ 7-9.
[7] Answer to Request for Hearing.
[8] Ruling Granting Consumer Watchdog's Petition to Intervene.
[9] Ruling Granting Consumer Watchdog's Petition to Intervene, ¶ 5.
[10] Exh. B, attached to RFC.

Intervene."[11] In its response, CSAA included argument and "a detailed explanation for how [it] derived the selected trends for the four largest coverages...."[12] It also provided excerpts of financial statements from 2020 and 2021 to support its variance for loss development.[13]

On May 4, 2023, CSAA provided an extensive "Response to Consumer Watchdog's Requests for Information." In its point-by-point response to CW's information request, CSAA included, among other things, additional annual statements from 2019 through 2022, additional consolidated annual statements from 2019 through 2022, corrected tables of data (upon discovery of an error), and comparison data between the trends filed in the RA compared against the actuarial reserve report for 2022.[14]

On May 16, 2023, CW submitted a "Second Set of Requests for Information" to CSAA.[15]

On May 17, 2023, CSAA provided a detailed "Response to Consumer Watchdog's Second Set of Requests for Information."[16] In CSAA's response to the second set of information requests, CSAA defined its newly-coined phrase, "*reverse* catastrophe" as "a rare phenomenon (once in a century) that led to *fewer* than expected losses."[17] CSAA also provided additional data justifying its application of annual trends to trend historical losses to 2022 levels.[18]

On May 23, 2023, the parties and the Department participated in the first of two teleconferences.[19]

On June 20, 2023, in advance of a second teleconference scheduled for June 23, CSAA

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[11] Exh. C, attached to RFC.
[12] *Ibid.*
[13] *Ibid.*
[14] Exh. D, attached to RFC.
[15] Exh. E, attached to RFC.
[16] Exh. F, attached to RFC.
[17] *Ibid*, emphasis added.
[18] *Ibid.*
[19] Sternberg Decl., ¶ 43.

provided CW with advance copies of its yet-to-be filed updated rate templates.[20] CSAA prefaced its e-mail to which these updated rate templates were attached, with the statement, "These differ from the filing in selected trends, which we'll be prepared to fully discuss on Friday."[21] A second teleconference was convened on June 23, 2023.

On July 17, 2023, the parties entered into a settlement stipulation that includes a rate change of 16.7 percent, rather than the 25 percent increase sought in the RA.[22]

The Commissioner approved the Stipulated Settlement on July 20, 2023.[23]

In keeping with the terms of the Stipulated Settlement, CW subsequently withdrew its Petition for Hearing on July 28, 2023.[24]

At various times during their intervention, the attorneys for CW engaged in the following tasks: conferred regarding overall strategy and positions; drafted, reviewed, and edited CW's filed documents; reviewed CSAA's RA and updated filings; prepared the requests for information; exchanged correspondence regarding and participated in the two conference calls; consulted with CW's actuary; negotiated the stipulated settlement; and drafted the Request for Compensation, including supporting declarations and exhibits.[25] In addition to this generalized list, CW includes detailed records of how each attorney, paralegal, and expert witness spent their time on this matter.

An extensive survey of hourly rates charged by attorneys in the Los Angeles area in 2022, correlated to their relative level of experience demonstrates that the rates CW charged in 2022 were comparable and competitive at that time.[26] In April 2023 the Department approved of

[20] Exh. G, attached to RFC.
[21] *Ibid.*
[22] RFC, pp.1, 8.
[23] RFC, p. 8.
[24] *Ibid.*
[25] Decl. of Sternberg, ¶ 8.
[26] Exh. 2, attached to Sternberg Decl.

CW's current hourly rates in its Ruling Granting Consumer Watchdog's Petition to Intervene in the Application of CSAA Insurance Exchange, application number 23-385.[27]

Pamela Pressley is an attorney with over 26 years of experience in consumer advocacy. She has spent 16 years as an attorney with CW, focusing primarily on insurance regulatory and litigation matters before the Department.[28] Detailed time records of Pressley's work demonstrate that she was heavily involved in this matter from its inception and continuing until the RFC was filed, from April through August 2023.[29] Pressley spent a total of 33.9 hours on this matter. At her hourly rate of $595.00, she billed a total of $20,170.50.[30]

Harvey Rosenfield is an attorney with over 40 years of experience in insurance regulatory and litigation matters.[31] As the author of Proposition 103, he has participated in a number of major lawsuits interpreting and enforcing the statute.[32] Detailed time records of Rosenfeld's work tend to demonstrate that he provided oversight ("review") of CSAA's RA from April through June 2023.[33] Rosenfield spent a total of 2.3 hours on this matter. At his hourly rate of $695.00, his bill for services amounts to $1,598.50.[34]

Daniel L. Sternberg is an attorney with seven years of professional experience in litigation and advocacy.[35] He has been with CW for less than a year, but has spent the majority of that time litigating matters before the Department.[36] Detailed records of Sternberg's work reveal that his involvement in this matter was concentrated on reviewing CW's correspondence with CSAA as well as CW's internal work product, including e-mails, requests for information,

[27] Exh. 5, attached to Sternberg Decl.
[28] Sternberg Decl., ¶13.
[29] Exh. 1a, attached to Sternberg Decl.
[30] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[31] Sternberg Decl., ¶ 9.
[32] *Ibid.*
[33] Exh. 1a, attached to Sternberg Decl.
[34] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[35] Sternberg Decl., ¶ 16.
[36] *Ibid.*

and settlement offers.[37] Sternberg spent a total of 36.2 hours on this matter. At his hourly rate of $350.00 his bill for services amounts to $12,670.00.[38]

Ryan Mellino was admitted to the California State Bar in 2022.[39] His professional experience includes work with the Legal Aid Foundation of Los Angeles, the ACLU, and the Los Angeles Homeless Services Authority, as well as CW.[40] Detailed records of Mellino's work show that he was only involved in this matter during May 2023 with regard to requests for information.[41] Mellino spent a total of 2.1 hours on this matter. At his hourly rate of $250.00, his bill for services totals $525.00.[42]

Kaitlyn Gentile is a paralegal at CW with over fourteen years of professional experience in litigation support. Gentile worked a total of 7.1 hours on this matter. Detailed time records of Gentile's work demonstrate that she was primarily engaged in preparing and finalizing the RFC during the month of August 2023.[43] At her hourly rate of $200.00, her bill for services totals 1,420.00.[44]

Allan I. Schwartz is the President of AIS Risk Consultants, Inc., and is an actuary with over 40 years consulting actuarial experience.[45] He provided consulting actuarial services to CW on this matter, as he has in numerous Proposition 103 matters.[46] Detailed time records of Schwartz's work demonstrate that he spent larger blocks of time reviewing CSAA's initial filings, as well as its responses to CW's information requests in April and May 2023.[47] Schwartz

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[37] Exh. 1a, attached to Sternberg Decl.
[38] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[39] Sternberg Decl., ¶ 20.
[40] *Ibid.*
[41] Exh. 1a, attached to Sternberg Decl.
[42] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[43] Exh. 1a, attached to Sternberg Decl.
[44] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[45] Schwartz Decl., ¶ 1.
[46] Schwartz Dec., ¶ 2.
[47] Exh. 8, attached to Schwartz Decl.

worked 41.7 hours on this matter.[48] At his hourly rate of $915.00,[49] his bill for services totals $38,155.50.[50]

Katherine Tollar is an Actuarial Assistant at AIS Risk Consultants, Inc., with over 20 years of professional actuarial experience.[51] Detailed records of Tollar's work demonstrate that the majority of her time was spent on "trend and indication," work, which was primarily performed during May and June 2023.[52] Tollar worked a total of 7.6 hours on this matter at her hourly rate of $415.00, for which she billed $3,154.00.[53]

In total, CW has established that its hourly rates, and the hours billed for services rendered in this matter are reasonable.

DISCUSSION

I. Prior Approval Framework and Public Participation

In California, insurance rates for automobile, home, and other property-casualty policies must be approved by the Commissioner prior to their use."[54] Insurance Code section 1861.05, subdivision (a), prohibits the Commissioner from approving any rate that is "excessive, inadequate, unfairly discriminatory, or otherwise in violation of this chapter," or from allowing such rates to remain in effect. The primary consideration in the Commissioner's determination must be "whether the rate mathematically reflects the insurance company's investment income."[55]

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[48] Exh. 8, attached to Schwartz Decl.
[49] Schwartz Decl., ¶ 6.
[50] Exh. 8, attached to Schwartz Decl.
[51] Exh. 6, attached to Schwartz Decl.
[52] Exh. 8, attached to Schwartz Decl.
[53] Exh. 8, attached to Schwartz Decl.
[54] Ins. Code, § 1861.01, subd. (c).
[55] Ins. Code, § 1861.05, subd. (a).

In order to foster "consumer participation in the rate-setting process,"[56] section 1861.10 of the Insurance Code authorizes any person to initiate a proceeding to enforce any provision of Proposition 103.[57] Intervenors who represent the interests of consumers and make a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner are to be compensated for reasonable advocacy and witness fees.[58] To that end, the Commissioner has promulgated regulations setting forth the substantive and procedural requirements for those seeking compensation under the code.[59] These regulations are binding on the AHB and have the force of statute.[60] Given the statute's purpose to encourage public participation, the regulations should be liberally construed in favor of compensation.[61]

A. The Procedural Prerequisites for Compensation are Met

Before an intervenor may file a request for compensation, they must first obtain a finding from the Commissioner's Public Advisor that they are eligible to seek compensation—i.e., that they represent the interests of the consumer.[62] Once granted, a Finding of Eligibility to Seek Compensation is valid in any proceeding in which the intervenor's participation commences within two years of the finding of eligibility, provided the intervenor still meets all the requirements in the initial request.[63] There is no dispute that CW is eligible to seek compensation in this case.

In addition to establishing that it represents the interests of the consumer the intervenor must also submit a request for an award of compensation within 30 days after the

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[56] See *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 197, 215, citing *State Farm Mutual Automobile Ins. Co. v. Garamendi, supra*, 32 Cal.4th 1029.
[57] Ins. Code, § 1861.10, and *State Farm Insurance Co. v. Lara* (2021) 71 Cal.App.5th 197
[58] Ins. Code, § 1861.10, and Cal. Code Regs., tit. 10, § 2662.5.
[59] Cal. Code Regs., tit. 10, §§ 2661.3 – 2661.4.
[60] *Agriculture Labor Relations Board v. Superior Court* (1976)16 Cal.3d 392.
[61] *State Farm Insurance Co. v. Lara, supra*, 71 Cal.App.5th 197.
[62] Cal. Code Regs., tit. 10, § 2662.3.
[63] Cal. Code Regs., tit. 10, § 2662.2

Commissioner's decision or action in the proceeding for which intervention was sought, or within 30 days after conclusion of the entire proceeding.[64] CW's RFC was filed on August 18, 2023, less than 30 days after the Commissioner approved the Stipulated Settlement on July 20, 2023. Accordingly, the RFC was timely filed.

B. The Substantive Requirements for Compensation are Met

Once the intervenor has established that it is eligible to seek compensation, and has made a timely request for compensation, as CW has done here, it must then establish that it has made a "substantial contribution" to the proceedings.[65] The only *statutory requirements* for compensation are set out subdivision (b) of Insurance Code section 1861.10.[66] But the statutory language does not encapsulate the whole of the intervenor's obligation. The regulations adopted by the Insurance Commissioner fill in the details not specified by Proposition 103.[67] The regulations state that a "substantial contribution"

> "...means that the intervenor substantially contributed, as a whole, to a decision, order, regulation, or other action of the Commissioner by presenting relevant issues, evidence, or arguments which were separate and distinct from those emphasized by the Department of Insurance staff or any other party, such that the intervenor's participation resulted in more relevant, credible, and non-frivolous information being available for the Commissioner to make the Commissioner's decision than would have been available to the Commissioner had the intervenor not participated. A substantial contribution may be demonstrated without regard to whether a petition for hearing is granted or denied."[68]

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[64] Cal. Code Regs., tit. 10, § 2662.3, subd. (a).
[65] Ins. Code, §1861.10, subd. (b); Cal. Code Regs., tit. 10, §§ 2661.2, subd. (k), and 2662.3, subd. (b)(3).
[66] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1047-1048.
[67] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1050.
[68] Cal. Code Regs., tit. 10, § 2661.2(k).

What constitutes a substantial contribution requires a fact-intensive analysis by the tribunal in which the matter originated.[69] And, while the intervenor's substantial contribution may be shown with documents,[70] it is incumbent on the intervenor to provide specific citations to its services and expenditures.[71] There is no question in this case that CW participated in the rate proceedings.

As a direct result of CW's participation in this case, CSAA produced additional analysis and data concerning the Trend Selection for Bodily Injury Property Damage, Comprehensive and Collision;[72] CSAA also provided several years' worth of Annual Statements and Consolidated Annual Statements;[73] and in connection with CW's inquiries, CSAA discovered and corrected several data errors.[74] Accordingly, CW has established that its intervention in this case made a substantial contribution to the Commissioner's ultimate approval of the stipulated settlement by providing more relevant credible, and non-frivolous information than would have been available had the intervenor not participated. Additionally, through detailed time records, rate surveys, and prior findings by the Department, CW has established that it charged market rates, as that phrase is defined by regulation.[75]

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[69] *Economic Empowerment Foundation v. Quackenbush* (1997) 57 Cal.App.4th 677.
[70] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1040.
[71] *Economic Empowerment Foundation v. Quackenbush, supra*, 57 Cal.App.4th 677, 681; Cal.Code Regs., tit. 10, § 2662.5, subd. (a)(1).
[72] Exh. C, attached to RFC.
[73] Exh. D, attached to RFC.
[74] Exh. D, attached to RFC.
[75] Cal. Code Regs., tit. 10, § 2661.1, subd. (c).

CONCLUSION

For the foregoing reasons, CSAA is entitled to expenses and advocacy fees *in the Matter of the Rate Application of CSAA Insurance Exchange*, Prior Approval File No. PA-2023-00004, in the amount of $77,693.50.

ORDER

1. Consumer Watchdog is hereby awarded $77,693.50 in advocacy and expert witness fees in connection with CSAA's Rate Application (Prior Approval File No. *PA-2023-00004*).
2. CSAA shall pay the award no later than 30 days after the date of this Decision and shall notify the Department's Office of the Public Advisor[76] upon making payment.

Date: November 8, 2023

RICARDO LARA
Insurance Commissioner

By: _____
Alicia A. Clement
Administrative Law Judge

[76] Jon Phenix, Public Advisor, 1901 Harrison Street, 4th Floor, Oakland, CA 94612, or jon.phenix@insurance.ca.gov.

PROOF OF SERVICE

Case Name/Number: In the Matter of the Request for Compensation of
CONSUMER WATCHDOG
File No. **RFC-2023-011**

I, Florinda Cristobal, declare that:

I am employed by the California Department of Insurance, Administrative Hearing Bureau, in the City of Oakland and County of Alameda. I am over the age of eighteen (18) years and not a party to this action. My business address is 1901 Harrison Street, 3rd Floor, Oakland, CA 94612.

I am readily familiar with the business practices of the California Department of Insurance for collecting and processing correspondence for mailing, electronic filing and electronic mail. On August 18, 2023, I served **DECISION AWARDING COMPENSATION** regarding **In the Matter of the Request for Compensation of Consumer Watchdog.**

__X__ **(By U.S. Mail)** on those identified parties in said action, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013.

__X__ **(By Intra-Agency Mail)** on those identified parties in said action, by placing this correspondence in a place designated for collection for delivery by Department of Insurance intra-agency mail.

_____ **(By facsimile transmission)** on those identified parties in said action, by transmitting said document(s) from our office by facsimile machine Fax Number to facsimile machine number(s) shown below. Following the transmission, I received a "Transmission Report" from our fax machine indicating that the transmission had been transmitted without error.

__X__ **(By Email)** on those identified parties in said action, in accordance with Code of Civil Procedure §1013, by emailing true copies thereof at the address set forth below.

SEE ATTACHED PARTY SERVICE LIST

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed in Oakland, California, on August 18, 2023

November 8, 2023
(Date)

F. CRISTOBAL

PARTY SERVICE LIST

Name/Address	Method of Service
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PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

State of California, City of Los Angeles, County of Los Angeles

I am employed in the City and County of Los Angeles, State of California. I am over the age of 18 years and not a party to the within action. My business address is 6330 South San Vicente Boulevard, Suite 250, Los Angeles, California 90048, and I am employed in the city and county where this service is occurring.

On August 26, 2024, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S PETITION FOR HEARING, PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION

upon the persons named in the attached service list, in the following manner:

1. If marked FAX SERVICE, by facsimile transmission this date to the FAX number stated to the person(s) named.

2. If marked EMAIL, by electronic mail transmission this date to the email address stated.

3. If marked U.S. MAIL or OVERNIGHT or HAND DELIVERED, by placing this date for collection for regular or overnight mailing true copies of the within document in sealed envelopes, addressed to each of the persons so listed. I am readily familiar with the regular practice of collection and processing of correspondence for mailing of U.S. Mail and for sending of Overnight mail. If mailed by U.S. Mail, these envelopes would be deposited this day in the ordinary course of business with the U.S. Postal Service. If mailed Overnight, these envelopes would be deposited this day in a box or other facility regularly maintained by the express service carrier, or delivered this day to an authorized courier or driver authorized by the express service carrier to receive documents, in the ordinary course of business, fully prepaid.

I declare under penalty of perjury that the foregoing is true and correct. Executed on August 26, 2024 at Los Angeles, California.

Kaitlyn Gentile

Service List

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NOTICE OF HEARING
EXHIBIT C

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Attorneys for CONSUMER WATCHDOG

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No.: 24-1273 **CONSUMER WATCHDOG'S PETITION FOR HEARING, PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION** [Ins. Code §§ 1861.05 and 1861.10; Cal. Code Regs, tit. 10, §§ 2653.1, 2661.2 and 2661.3]

State Farm General Insurance Company's June 27, 2024 application for an overall 41.8% ($112 million) increase to its California Renters and Condominium Unitowners insurance rates combined (52% increase on renters and 36% increase on condo owners, respectively) (File No. 24-1273 [the "Application"]) acknowledges that under its own projections using the standard regulatory ratemaking formula to determine the statutory excessive/inadequate boundaries, the company would be entitled to no more than a 7.3% rate increase.[1] Instead, State Farm seeks the much larger 41.8% increase "to protect the insurer's solvency" under a special "variance" request from the regulatory maximum permitted rate formula, which it has also invoked in its currently pending homeowners insurance rate application.[2] The additional $88.7 million a year for at least four years, or at least $355 million in total, it wants to collect from its California tenant and condo owner policyholders would be used to "re-capitalize" the company—in other words, to purportedly rescue the company from what State Farm describes as a deteriorating financial condition. However, as with its recent homeowners application, State Farm has failed to adequately support in this Application its purported need for such an extraordinary bail-out by policyholders, especially in light of State Farm's parent company's[3] $100+ billion surplus in recent years.

Therefore, State Farm's Application raises profound legal and policy issues that demand extremely close scrutiny and require data that the Application does not contain:

First, the Application does not include all of the information needed to determine the company's actual financial condition. The Application was submitted by State Farm General Insurance Company ("State Farm" or "Applicant" or "State Farm General"), an essentially

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[1] Under State Farm's calculations in the Application, it would be entitled to no more than a 9.0% rate increase to its Renters policies and a 6.4% rate increase on its Condo Unitowner policies under the standard ratemaking formula without a variance. It is the position of Consumer Watchdog that even smaller rate increases are indicated for each policy form under the standard ratemaking formula.

[2] State Farm's separate rate application on its homeowners policies seeks a 30% ($1 billion) rate increase (CDI File No. 24-1271; PA-2024-00012) raising the same "solvency" issues as this application. Consumer Watchdog petitioned for a hearing on that rate application on July 26, 2024 and was granted intervention in that rate proceeding on August 14, 2024.

[3] The Applicant is 100% owned by State Farm Mutual Automobile Insurance Company.

California-only company that is 100% owned by the State Farm Mutual Automobile Insurance Company ("SFMAIC"), domiciled in Illinois. State Farm General is California's largest home insurance company, insuring approximately 20% of the homeowners insurance market, and SFMAIC is the nation's largest insurance company by premium dollars, with surplus of $134 billion at the end of 2023. State Farm must meet its burden to show that it is in danger of going insolvent *before* asking California policyholders to step in to rescue it. Weighing against State Farm's claims, as set forth in this Petition, there is evidence that State Farm General has transferred more than $600 million to the parent company in 2023 in the form of inflated payments for reinsurance. Based on past State Farm experience, it is likely that a significant portion of the excess premium charges and inflated underwriting profit that would result if the Application is granted will be transferred to the parent company in the form of profits resulting from inflated reinsurance charges.

Second, rather than require California policyholders to subsidize the parent company, why hasn't the parent company stepped in to assist its affiliate financially, as it did when SFMAIC's Texas affiliate writing homeowners insurance encountered financial trouble years ago?

Third, it appears that much of the company's California losses in recent years came from commercial and liability policies, not its homeowners line.[4] Between 2020 and 2023, State Farm had direct underwriting profits from its homeowners line of insurance of $1.4 billion. Why are renters and condo owners being asked to bear State Farm's losses in commercial and liability policies?

Fourth, State Farm has not complied with the variance regulation's requirements that it present a "plan to restore [its] financial condition" and a "plan to reduce rates once the insurer's condition is restored, in order to ***compensate*** consumers for excessive charges." (Emphasis added.) State Farm's proposal contains no actual or enforceable plan to fully compensate its California policyholders—current and former—for the excessive charges.

[4] As discussed later, the affiliate reinsurance purchased by State Farm also drained surplus.

As the company's withdrawal from the sale of all homeowners insurance (including Renters and Condo Unitowners policies) to new customers since May of 2023 and more recent nonrenewals illustrate, what happens to State Farm will have a major impact on the state's insurance marketplace. Indeed, State Farm has stated in the Application that it will continue to decrease its sales of Renters and Condo Unitowner policies notwithstanding a policyholder rescue. Similarly, raising rates by 41.8% will undoubtedly force some portion of its customers to drop their coverage or seek it elsewhere. The 41.8% requested increase, together with the most recently approved 20.0% increase to its Condominium Unitowners rates effective March 15, 2024, would have a combined impact of +58.9%. What impact will that have on the marketplace? Will a policyholder-funded infusion of capital actually rescue the company, or will it require further capital infusions? Before California policyholders can be forced to invest in State Farm,[5] the company must provide all of the evidence and information that is required to justify its extraordinary request.

For these reasons, based on its initial analysis of the Application and the evidence it has gathered to date from publicly available sources as set forth below and additional information to be obtained through discovery, Consumer Watchdog requests that the Insurance Commissioner immediately notice a public hearing pursuant to the requirements of Insurance Code sections 1861.05, subdivisions (a) and (c), and 1861.10, subdivision (a), on the issues raised in this Petition, at which time Applicant will be directed to appear and respond to the issues raised in this petition. Because the requested rate change exceeds 7%, a formal hearing before an Administrative Law Judge, with all the rights and protections under the Administrative Procedures Act, is mandatory under Insurance Code section 1861.05(c) and necessary in light of the serious and complex issues at stake. Consumer Watchdog also requests that it be granted leave to intervene in the rate proceeding on the Application initiated by this Petition.

[5] Even though the rate filing requires policyholders to essentially invest in State Farm, it does not grant policyholders any ownership rights.

Consumer Watchdog intends to seek compensation in this proceeding, and, pursuant to California Code of Regulations, title 10 ("10 CCR"), section 2661.3, subdivision (c), Consumer Watchdog's proposed budget is attached hereto as Exhibit A.

In support of its Petition, Consumer Watchdog alleges:

I. THE APPLICATION

1. On or about June 27, 2024, State Farm filed the Application (File No. 24-1273) with the California Department of Insurance ("CDI"), seeking approval of an overall 41.8% ($112 million) rate increase to its California Renters and Condominium Unitowners policy forms based on its request for a variance under 10 CCR § 2644.27(f)(6) ("Variance 6") from the maximum permitted earned premium in order "to protect the insurer's solvency." This request follows an approved 20.0% ($30 million) overall rate increase to Applicant's condominium unitowners policy form effective March 15, 2024 (File No. 23-613), for a combined impact of +58.9%. Without the requested Variance 6, State Farm's own calculations under the maximum permitted earned premium formula based on its projections of future losses show that it should be allowed no more than an overall 7.3% rate increase for these two policy forms combined.

2. On or about July 5, 2024, the public was notified by the CDI of the Application.

II. PETITIONER

3. Petitioner Consumer Watchdog is a nonprofit, nonpartisan public interest corporation organized to represent the interests of consumers and taxpayers. A core focus of Consumer Watchdog's advocacy is the representation of the interests of insurance consumers and policyholders, particularly as they relate to the implementation and enforcement of Proposition 103, in matters before the Legislature, the courts, and the CDI.

4. Consumer Watchdog's founder authored Proposition 103 and led the successful campaign for its enactment by California voters in 1988. Consumer Watchdog's staff and consultants include some of the nation's foremost consumer advocates and experts on insurance ratemaking matters.

5. Consumer Watchdog has served as a public watchdog to enforce Proposition 103's protections with regard to property-casualty insurance rates and practices by: monitoring

insurer rollback settlements and the status of the rollback regulations; reviewing and challenging rate and rule filings made by insurers seeking to implement excessive and/or unfairly discriminatory rates and/or practices; participating in rulemaking and adjudicatory hearings before the CDI to implement and enforce Proposition 103's consumer protections; and educating the public concerning industry underwriting and rating practices, their rights under Proposition 103, and other provisions of state law. Consumer Watchdog has also initiated, intervened, and appeared as amicus curiae in virtually every action in state court involving the interpretation and application of Proposition 103 and the Insurance Code.[6]

6. Consumer Watchdog has initiated and intervened in numerous proceedings before the CDI related to the implementation and enforcement of Proposition 103's reforms, including over 150 such proceedings in the last twenty years. In every proceeding that has resulted in a final decision and in which Consumer Watchdog sought compensation from 2003–2022, the Commissioner found that Consumer Watchdog made a substantial contribution under Insurance Code section 1861.10(b) and the implementing regulations. Most recently in 2023, the Commissioner found that Consumer Watchdog made a substantial contribution to his decisions in two homeowners insurance rate matters and to his adoption of regulations requiring the public disclosure of wildfire risk models and mitigation discounts to homeowners who take steps to protect their homes from wildfires.

III. ISSUES AND EVIDENCE TO BE PRESENTED AND POSITIONS OF PETITIONER

7. In the rate proceeding initiated by Consumer Watchdog's Petition and evidentiary hearing, Consumer Watchdog will present and elicit evidence to show that the rates proposed in

[6] For example, *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805; *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216; *Amwest Surety Ins. Co. v. Wilson* (1995) 11 Cal.4th 1243; *Proposition 103 Enforcement Project v. Quackenbush* (1998) 64 Cal.App.4th 1473; *Spanish Speaking Citizens' Found. v. Low* (2000) 85 Cal.App.4th 1179; *Donabedian v. Mercury Ins. Co.* (2004) 116 Cal.App.4th 968; *State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029; *The Found. for Taxpayer and Consumer Rights v. Garamendi* (2005) 132 Cal.App.4th 1354; *Ass'n of Cal. Ins. Cos. v. Poizner* (2009) 180 Cal.App.4th 1029; *Mercury Cas. Co. v. Jones* (2017) 8 Cal.App.5th 561; *Mercury Ins. Co. v. Lara* (2019) 35 Cal.App.5th 82; and *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 197.

the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a), which provides that "[n]o rate shall be approved or remain in effect which is excessive, inadequate, [or] unfairly discriminatory." Additionally, Consumer Watchdog will present and elicit evidence that Applicant's proposed rates violate 10 CCR § 2644.1, which provides that "[n]o rate shall be approved or remain in effect that is above the maximum permitted earned premium as defined in section 2644.2."

8. Based on Consumer Watchdog's preliminary analysis in consultation with its actuarial experts and the information contained in the Application and publicly available, Consumer Watchdog sets forth in (9)–(12) below the facts constituting grounds for its request for a hearing and the issues with the Application on which it intends to present and elicit evidence. Each of these issues is directly relevant to determining whether State Farm's proposed 41.8% rate increase is excessive under Insurance Code section 1861.05(a) and the prior approval rate regulations, 10 CCR § 2644.1 et seq., including whether State Farm is entitled to a variance from the maximum permitted earned premium to protect its solvency. Consumer Watchdog's current position, to the extent now known based on the information in the Application and publicly available at this time, is that State Farm is not entitled to any variance from the maximum permitted earned premium to protect its solvency, and that even State Farm's nonvariance indications of 9% for Renters and 6.4% for Condo Unitowners are excessive under the maximum permitted earned premium formula. Consumer Watchdog intends to request further information on these issues through discovery from the Applicant and reserves the right to raise additional issues and develop and refine its positions as more information is made available during the course of the proceeding.

9. Loss and Premium Trends (10 CCR § 2644.7): Consumer Watchdog's current position, to the extent now known based on the information in the Application at this time and publicly available, is that State Farm's 20-point Reported/Paid frequency and severity trend selections result in unreasonable and excessive net trends (+4.4% for Renters and +4.6% for Condominium Unitowners) that overstate the projected losses, causing an inflated rate indication. Consumer Watchdog has reviewed the actual and fitted net trends on both a

numerical and graphical basis for each of the possible trend bases (Closed/Paid, Reported/Paid, Closed/Total Paid, and Reported/Total Paid). Our preliminary analysis shows that alternate trend selections, which result in lower net trends for both coverages, are more reasonable and "most actuarially sound." (10 CCR § 2642.8.) As further support for lower net trends, the Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Residential Construction data through May 2024 from the Federal Reserve Economic Data website (fred.stlouisfed.org) shows the cost of residential construction materials reaching a high point in June 2022. The PPI has been relatively flat since that point. Additionally, a report by Verisk from Q2 of 2024 shows that "[t]otal reconstruction costs in the United States, including materials and retail labor, increased by 4.6% from April 2023 to April 2024, slightly more than their 4.1% rise from January 2023 to January 2024. The growth rate in reconstruction costs is starting to line up more closely with pre-COVID rates: average increases during the pandemic were 11% per year, as opposed to the historical average of 3% to 4%." Of particular relevance to the case at hand, with respect to residential reconstruction costs: "California's rank changed most significantly, falling from the 14th-highest cost increase in January 2024 to the 44th-highest in April 2024." The use of lower net trend factors, based on Consumer Watchdog's preliminary analysis, contributes to an overall rate indication that is lower than State Farm's indicated overall 7.3% increase (and lower rate indications on each policy form than State Farm's 9.0% Renters and 6.4% Condo Unitowners indications) based on its standard maximum permitted earned premium rate calculations without Variance 6. Based on Consumer Watchdog's findings, State Farm did not support the assertion that its selected trend factors are the most actuarially sound.

10. Catastrophe Adjustment (10 CCR § 2644.5): The Cat Provision to Non-Cat Loss + DCCE values of 0.080 for Renters and 0.052 for Condominium Unitowners on page 6 of Exhibit 9 represent a 37% increase and an 80% increase, respectively, over the same Provisions from State Farm General's last CA HO filing (0.058 and 0.029). These increases are driven by leveraging of the abnormally large 2023 Cat/AIY ratios from Column 4 of Exhibit 9, pages 2 and 3, which occurs because 2023 receives the most weight under State Farm's weighting scheme. The resulting Catastrophe Adjustment Factors for these coverages contribute directly to State

Farm's overall rate indication and rate indications by policy form, and cause them to be overstated. Consumer Watchdog's preliminary analysis shows that lower Catastrophe Adjustment Factors, based on tempering the impact of the 2023 Cat/AIY ratios, are more actuarially sound. These reduced Adjustment Factors contribute to an overall rate indication that is substantially lower than the overall 41.8% increase proposed by State Farm and lower than State Farm's overall 7.3% nonvariance indication. Based on these findings, Consumer Watchdog's current position, to the extent now known, is that State Farm has not fully supported the actuarial soundness of its selected catastrophe adjustment factor.

11. Improper / Unsupported Excluded Expenses (10 CCR § 2644.10): State Farm has not shown that the sum of the institutional advertising expenses listed on page 4.1 of the Prior Approval Rate Template, $2,436,227,444, is appropriate. This is particularly questionable since the institutional advertising amounts given for each of the three years on page 4.1 are exactly 75% of total advertising, and clearly not the total of actual institutional advertising expenditures. Per 10 CCR § 2644.10(f): "'Institutional advertising' means advertising not aimed at obtaining business for a specific insurer and not providing consumers with information pertinent to the decision whether to buy the insurer's product." Consumer Watchdog's current position, to the extent now known, is that State Farm has failed to provide sufficient information in the filing to support its claim that 75% of advertising expenses over the last three years have been institutional. Further, State Farm has not provided examples of advertisements it claims fall under the category of non-institutional advertising expenses in accordance with the CDI's Prior Approval Rate Filing Instructions. Based on the information currently available in the Application, and subject to review of additional information that may be obtained from State Farm during the proceeding through formal or informal discovery on these and other excluded expenses items, Consumer Watchdog's current position, to the extent now known, is that State Farm has not proven that its three-year average excluded expense ratio of 1.2% shown on page 4.2 of the Prior Approval Rate Template is appropriate. Consumer Watchdog reserves the right to seek discovery and raise additional issues regarding the accuracy of the amounts listed in page 4.2 of the Prior Approval Rate Template for other categories of excluded expenses that should be

reflected in the rate calculation but may not be adequately reflected in the filing, including political contribution and lobbying expenses, excessive executive compensation, bad faith judgments and associated DCCE, costs of unsuccessful defense of discrimination claims, and fines and penalties

12. Variance 6 (10 CCR § 2644.27(f)(6)): State Farm filed a variance request under this provision, which requires it to show "[t]hat the insurer's financial condition is such that its maximum permitted earned premium should be increased in order to protect the insurer's solvency." It is Consumer Watchdog's current position, to the extent now known, that State Farm has failed to meet its burden to show both that (i) the grounds for the variance request are supported; and (ii) the amount of the variance requested is appropriate. The evidence for these conclusions, to the extent now known from the information in the Application and publicly available, is summarized below:

a. The dollar amount of the variance request exceeds $88 million (= 34.5% X $257 million[7]) per year starting in 2025. State Farm projects the variance will stay in effect for at least four years, from 2025 through 2028 (Application, Exhibit 13, Sheet 5). That represents a total of more than $350 million dollars in excess charges. There exists no reasonable basis for State Farm to extract excess premium charges of more than $350 million from policyholders.

b. The variance request is based on an underwriting profit provision of 24.7%.[8] That is more than five times as large as the underwriting profit without the variance of 4.7%.[9] State Farm has not provided any reasonable basis for requesting a profit more than five times as large as the maximum profit permitted under the regulations without a variance.

c. It is anticipated based on past experience that a significant portion of the excess premium charges and inflated underwriting profit will be transferred to the parent

[7] Prior Approval Rate Template (No Variance), Page 2.
[8] Prior Approval Rate Template (Variance 6), Page 7.
[9] Prior Approval Rate Template (No Variance), Page 7.

company, SFMAIC, in the form of profits resulting from inflated reinsurance charges.

d. During the ten accident years from 2014 to 2023, State Farm paid reinsurance premiums related to homeowners insurance of about $2.19 billion, but only received (or is expected to receive) reimbursements of about $0.41 billion.[10] That is, the Applicant received less than 20% of its reinsurance payments in the form of reimbursements (0.41 / 2.19 = 18.7%).

e. The vast majority of reinsurance premium payments by State Farm for homeowners insurance are made to its Parent and Other Affiliated Companies. During 2023, the total reinsurance ceded premiums written were about $710 million.[11] More than 90% of the reinsurance premium payments were made to its parent company SFMAIC.

f. The reinsurance purchased by State Farm has been extremely unfavorable for the Applicant. From 2014 to 2023, the average amount of the reinsurance premium that has been returned to the Applicant in the form of reimbursements has been less than 20%. In every one of the ten accident years from 2014 to 2023, the loss & LAE ratio on the ceded business has been significantly lower than the loss & LAE ratio on the direct business.[12] This was the situation even when the year had significant catastrophes (e.g., 2017). When the reinsurance loss & LAE ratio is lower than the direct loss & LAE ratio in every year, including years with a catastrophe, that is a strong indication that the reinsurance agreement is much more favorable to the reinsurer (SFMAIC) than to the Applicant.

g. It appears that the reinsurance agreement between the Applicant and SFMAIC is not a true transfer of risk, but instead is a mechanism for transferring profits out of the Applicant and into its Parent Company.

h. The reinsurance agreement between the Applicant and SFMAIC has resulted in a significant drain on the surplus of the Applicant, while at the same time enriching its

[10] State Farm General 2023 Annual Statement, Schedule P, Part 1A, Columns (2) and (27).
[11] State Farm General 2023 Annual Statement, Part 1B, Line (4), Columns (4) and (5).
[12] State Farm General 2023 Annual Statement, Schedule P, Part 1A, Columns (29) and (30).

parent company.

i. Homeowners insurance has not been a significant drain on the surplus, and in fact has been profitable for the Applicant. During 2020, 2021, 2022, and 2023, the Applicant had direct underwriting profits from homeowners insurance of $549 million, $319 million, $304 million, and $237 million, respectively.[13] That is, the Applicant had a four-year underwriting profit of $1.4 billion from homeowners insurance.

j. The variance request has an impact on the maximum permitted rate change, as calculated by State Farm, of +51.0%.[14] Despite that huge unjustified increase, the Applicant actually intends to ***decrease*** the number of policies written, mostly through nonrenewals, by more than 35% from 2023 to 2028.[15] That is, instead of using the enormous extra premiums it is requesting through the variance to support writing business in California, the Applicant actually intends to continue its moratorium on new business, significantly decrease the number of policies written, and simply retain the excess premiums.[16]

k. The Department's Prior Approval Rate Filing Instructions require that "[w]hen a variance filing is submitted, the filing must provide substantial, detailed support and justification for each variance request in accordance with CCR § 2644.27(b)." The Applicant has not done that. The Application includes a "Financial Forecast Template – Baseline" (Exhibit 13, Page 3) and a "Financial Forecast Template – Variance 6" (Exhibit 13, Page 5). These are based upon various "Five-Year Projection Assumptions" (Exhibit 13, Pages 2.1 and 2.2) and undocumented calculations. As discussed in ¶¶ 9–11 *ante*, the values used by the Applicant with regard to loss trends, catastrophes, and other factors are actuarially unsound. Using those as the bases for the Financial Forecasts is therefore also actuarially unsound. Furthermore, other

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[13] State Farm General, Insurance Expense Exhibits for 2020, 2021 and 2022, Part III, Line (4), Column (33).

[14] Prior Approval Rate Application, Page 11.

[15] Application, Exhibit 13, Page 2.1, Policies in Force (1,963,460 / 3,111,820 = 63.1%).

[16] *Ibid.*

assumptions made and used in the forecast, which are not part of the rate template calculations, such as "reinsurance premium" and "ceded catastrophe losses," have absolutely no support or justification in the Application. In addition, the Financial Forecasts are based on various calculations and formulas which were not provided in the PDF file "TN HO Filing Exhibits." Also, the Excel file "TN Filing Exhibits" does not include any variance calculations. For all these reasons, the Application does not comply with the regulation or the CDI's Prior Approval Rate Filing Instructions and should be rejected.

l. 10 CCR § 2644.27(f)(6)(A) requires the Applicant to provide "[a] showing of the insurer's condition, based on generally accepted standards such as the National Association of Insurance Commissioners' Insurance Regulatory Information System." The Applicant appears to have interpreted the words "such as" to mean "exclusively," as that is the only standard included in the Application as purported support. Such a position is contrary to the instructions contained in the "Insurance Regulatory Information Systems (IRIS) Manual – 2023 Edition."[17] Those instructions state, in part, in the Limitation Section:

> As previously stated, the results are not, in themselves, determinative of the financial Condition of an insurer. The results are subject to individual insurer circumstances. The following caveats apply:
> 1. No state can rely on the tools' results as the state's only form of surveillance.
> 2. Important decisions, such as licensing, should not be based on the tools' results without further analysis or examination of the insurer.
> 3. Valid interpretation of the tools' results depends, to a considerable extent, on the judgment of financial analysts and examiners. An insurer's ratios may be outside the usual range because of unusual accounting methods, changes in corporate structure, restatements of prior periods, correction of errors in prior periods or other circumstances.

[17] https://content.naic.org/sites/default/files/publication-uir-zb-iris-ratios-manual.pdf.

Thus, the Applicant's sole reliance on the IRIS ratios is misplaced and contrary to the applicable guidance from the NAIC.

m. Another commonly used measure of an insurance company's financial condition is its Risk Based Capital ("RBC"). The Applicant's "Total adjusted capital" is more than twice as large as its "Authorized control level risk-based capital."[18] That relationship is within the acceptable range for the "Total adjusted capital." The analysis of an insurance company's risk-based capital is required by statute.[19]

n. With regard to the IRIS tests, the Applicant lists four items outside the standard ranges.[20] Two of those items, "Gross Change in Surplus" and "Change in Adjusted Surplus," are actually the same, since the Applicant's Surplus and Adjusted Surplus are exactly the same.[21]

o. With regard to the values outside the usual range, none of those unusual values are the result of homeowners insurance. With regard to the "Two-Year Overall Operating Ratio" and the "Change[s] in Surplus," as previously discussed, homeowners insurance had a direct underwriting profit of more than $200 million in both 2022 and 2023. Hence, homeowners insurance would have a "Two-Year Overall Operating Ratio" under 100 and would contribute to an increase, not a decrease, in surplus. With regard to the "One-Year Reserve Development to Surplus," the actual value of 21 is just barely above the upper range of 20. Furthermore, homeowners insurance contributed very little to the "One-Year Reserve Development." Out of Applicant's total "One-Year Reserve Development" in 2023 of $470 million,[22] only $59 million,[23] or only about 13%, was due to homeowners insurance.

p. The adverse results in 2023 can be attributed to commercial and liability insurance.[24]

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[18] State Farm General 2023 Annual Statement, Page 17, Lines (28) and (29).
[19] Ins. Code § 739 et seq.
[20] Application, Exhibit 13, Page 1.
[21] State Farm General 2023 Annual Statement, Page 17, Lines (26) and (28).
[22] State Farm General 2023 Annual Statement, Page 18, Line (74).
[23] State Farm General 2023 Annual Statement, Schedule P, Part 2A, Column (11).
[24] State Farm General 2023 Annual Statement, Exhibit of Premiums and Losses, California.

The California direct incurred loss ratios reported by the Applicant for commercial multiple peril (non-liability portion), commercial multiple peril (liability portion), and other liability – occurrence were 90%, 237%, and 204%, respectively. In total, the incurred losses for these three lines of insurance exceeded the premiums by $419 million. In marked contrast, for homeowners insurance, the loss ratio was 58%, and premiums exceeded losses by $1.12 billion. This proves once again that any adverse experience for the Applicant is not the result of homeowners insurance.

q. Furthermore, the actuary retained by the Applicant who prepared the Statement of Actuarial Opinion confirmed that the adverse experience in 2023 was not the result of homeowners insurance, stating: "During 2023, the Company has strengthened net reserves for prior accident years, largely in its Umbrella and Commercial Multi-Peril coverages. Both coverages were impacted by sharp increases in claim severity and an extended time frame for claim resolution."[25]

r. Despite the indisputable evidence that homeowners insurance has not caused any financial distress to the Applicant, the Applicant is attempting to capitalize itself on the backs of homeowners by seeking to charge excessive insurance rates.

s. 10 CCR § 2644.27(f)(6)(B) requires the Applicant to provide "[a] plan to restore the financial condition." The "plan," as put forward by the Applicant, would force policyholders to capitalize the Applicant with over $350 million in excessive charges from 2025 to 2028, but would not allow the policyholders to have any ownership rights in exchange. State Farm Lloyds, Inc. ("SFL"), another subsidiary company of SFMAIC, previously tried to force policyholders to provide a huge amount of capital without providing the policyholders with any ownership interest. That scheme by the SFMAIC and its subsidiary was rejected by both the Texas Commissioner of

[25] State Farm General, Statement of Actuarial Opinion as of December 31, 2023, Page 4 (NAIC IRIS tests).

Insurance[26] and the Texas Court of Appeals.[27]

t. The Texas Commissioner of Insurance Order stated in part:[28]

What SFL seeks by insisting on a separate provision for the surplus note is a rate which will produce something far more than a reasonable return on its capital; it seeks nothing less than a rate which, in effect, would require its policyholders to provide new capital to replenish capital previously lost.

…

It should be noted that while a regulated entity is constitutionally entitled to a return sufficient to attract capital and ensure its continued financial viability, it has no constitutional claim to any particular rate of return above a rate which achieves these ends.

…

The Commissioner finds that the inclusion of a separate surplus note provision, in addition to rate provisions that already contemplate SFL's expected future costs, including its cost of capital "is likely to produce a long term profit that is unreasonably high in relation to the insurance coverage provided."

u. The Texas Court of Appeals stated in part:[29]

Instead, the insurer's contention is that the rate must *also* enable it to build *additional* surplus at a rate that would increase its total surplus (net of amounts reserved for surplus-note payments) to a 1:1 premium-to-surplus ratio within nine years.

…

The Commissioner was unpersuaded that State Farm Lloyds was entitled to recover

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[26] Tex. Ins. Comr.'s Order No. 09-0927, TDI Docket No. 2562-A, Order Modifying Rate Reduction Previously Determined by the Texas Department of Insurance and Directing the Payment of Refunds (Nov. 16, 2009), https://www.tdi.texas.gov/orders/documents/co-09-0927.pdf.

[27] *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.

[28] Fn. 25, *supra*, pp. 62–64.

[29] Fn. 26, *supra*, pp. 107–112, italics in original.

any costs related to the surplus note beyond the aforementioned return on its capital secured through underwriting profit.

…

He similarly viewed the surplus-note provision as an unjustified attempt by State Farm Lloyds not only to recoup its legitimate costs of providing insurance to its then-current policyholders, but also to effectively shift its past losses to them as well.

…

We are unpersuaded that the Commissioner, in refusing to afford State Farm Lloyds recovery of the full 9% of premium it sought through the surplus-note provision, has effected such an unreasonable balancing among the interests of State Farm Lloyds, its investors, ratepayers, and the public as to violate the constitutional norms. [Footnote omitted.] Consequently, we cannot conclude this decision renders the rate confiscatory. Accordingly, we overrule State Farm Lloyd's second point of error.

v. 10 CCR § 2644.27(f)(6)(D) requires the Applicant to provide "[a] plan to reduce rates once the insurer's condition is restored, in order to ***compensate*** consumers for excessive charges." (Emphasis added.) The Applicant's "plan" is vague and omits information required by the regulation and necessary to assess the requested variance. Furthermore, the "plan" fails to compensate consumers for excessive charges.

w. The "plan" is replete with conditions and caveats, which the Applicant has given itself exclusive authority to interpret. It states, in part: "State Farm General considers its financial condition to be restored and not reversed when the company can, for the long-term, generate and maintain capital sufficient to support itself. This is determined based on metrics and considerations evaluated together that, at a minimum, include the following: favorable outlook on ability to have adequate rates, risk-based capital sufficient to avoid required company or regulator action under insurer solvency regulations, achievement of a surplus-to-net written premium ratio of 1.0 or better and giving consideration to then current reinsurance utilization, State Farm General's ability to recover from stresses, favorable ratings by rating agencies,

and acquiescence by the IL DOI (as State Farm General's solvency regulator) to any filing to reduce rates." That explanation is so vague, arbitrary, and capricious that it is impossible to objectively implement, monitor, or regulate. The Applicant is essentially stating that it will reduce rates if, when, and by the amount it decides is appropriate in its own opinion. Furthermore, those conditions and caveats illegally cede the authority of the California Insurance Commissioner over rates to be charged in California to unnamed rating agencies and to the Illinois Department of Insurance.

x. The Applicant further states: "After State Farm General's financial condition has been restored, it will submit an application with a defined future effective date to reduce its rates in at least one line of business if [various conditions follow]." An unspecified rate reduction, which may keep the rate above the maximum permitted earned premium, does not "compensate consumers for excessive charges." To "compensate consumers for excessive charges," the Applicant must return the entirety of the excessive charges, with interest, to those who paid the excessive rates. Anything less will not fully "compensate consumers for excessive charges."

13. This Petition is based upon Consumer Watchdog's preliminary analysis of the Application. Thus, Consumer Watchdog reserves the right to modify, withdraw, and/or add issues for consideration as more information becomes available through discovery or otherwise.

IV. AUTHORITY FOR PETITION AND GRANTING REQUEST FOR A HEARING

14. The authority for this petition for hearing is Insurance Code section 1861.10, subdivision (a), which grants "any person" the right to initiate or intervene in a proceeding permitted or established by Proposition 103 and the right to enforce Proposition 103. Specifically, as stated above, Consumer Watchdog initiates this proceeding to enforce Insurance Code section 1861.05 and the Commissioner's rate regulations, 10 CCR § 2644.1 et seq.

15. Additionally, a hearing is authorized pursuant to Insurance Code section 1861.05, subdivision (c), which allows "a consumer or his or her representative" to request a hearing on a rate application and 10 CCR § 2653.1, which provides that "any person, whether as an individual, representative of an organization, or on behalf of the general public, may request a

hearing by submitting a petition for hearing." Given that State Farm's requested rate change exceeds 7%, Insurance Code section 1861.05(c) requires that the Commissioner "must hold a hearing upon a timely request."

16. This petition is timely pursuant to Insurance Code section 1861.05, subdivision (c), and 10 CCR § 2646.4(a)(1) because is filed within forty-five (45) days of the July 5, 2024 public notice date.

V. INTEREST OF PETITIONER/INTERVENOR

17. Consumer Watchdog's interest in the above-captioned proceeding is to ensure that State Farm's California Renters and Condominium Unitowners insurance policyholders are charged rates and premiums that comply with the provisions of Insurance Code section 1861.05(a)'s requirement that "no rate shall be approved or remain in effect which is excessive, inadequate, [or] unfairly discriminatory or otherwise in violation of this chapter," and the requirements contained in the regulations promulgated thereunder. For many renters and condo owners, insurance is necessary to protect their property and they may be required to purchase insurance by their landlords or condo owners associations. Consumers who are overcharged by insurers for these insurance coverages and/or arbitrarily non-renewed, even when they have undertaken significant wildfire mitigation efforts to protect their property and lower their risk of loss, are part of Consumer Watchdog's core constituency. The specific issues and positions to be taken by Consumer Watchdog in this proceeding, to the extent known at this time, are set forth in paragraphs 9–12 *ante*.

18. As noted in paragraphs 3–6 *ante*, Consumer Watchdog's staff and consultants have substantial experience and expertise in insurance rate matters, which Consumer Watchdog believes will aid the CDI in its review of the Application and aid the Commissioner in making his ultimate decision as to whether to approve or disapprove the requested rate. As noted in paragraph 6 above, the Commissioner has found that Consumer Watchdog has made a substantial contribution to his decisions in every rate proceeding that has resulted in a final decision and in which Consumer Watchdog sought compensation from 2003–2022, and three additional proceedings in 2023. If leave to intervene is granted, Consumer Watchdog will

participate fully in all aspects of this proceeding.

19. Consumer Watchdog also has an interest in ensuring that Applicant, the CDI, and the Insurance Commissioner comply with the laws enacted by the voters under Proposition 103, and the rules and regulations that implement those laws, including that all information submitted to the CDI in connection with the Application is made publicly available.

VI. AUTHORITY FOR PETITION TO INTERVENE

20. The authority for Consumer Watchdog's Petition to Intervene is Insurance Code section 1861.10, subdivision (a), which grants "any person" the right to "initiate or intervene in any proceeding permitted or established pursuant to this chapter [Chapter 9 of Part 2 of Division 1 of the Insurance Code] . . . and enforce any provision of this article." This proceeding is a rate proceeding to enforce Insurance Code section 1861.05 pursuant to Insurance Code section 1861.10(a), and hence is a proceeding both "permitted" and "established" by Chapter 9. Per the voters' instruction, the mandatory right to intervene under section 1861.10(a), like all the provisions of Proposition 103, must be "liberally construed and applied in order to fully promote its underlying purposes." (Prop. 103, § 8.) Thus, section 1861.10 must be interpreted and applied broadly in a manner to fully encourage consumer participation. (*Ibid.*; see also *Ass'n of California Ins. Cos. v. Poizner*, *supra*, 180 Cal.App.4th at 1052 [stating "the goal of fostering consumer participation in the administrative rate-setting process" as "one of the purposes of Proposition 103"].) The broad intervention standard enacted by section 1861.10 ensures that consumers will be able to participate in proceedings independently of the CDI staff who may take different positions or emphasize different issues in the proceeding, and with all rights accorded to any other party, including the right to raise additional issues and/or violations as they become known during the course of the proceeding through informal or formal discovery.

21. This Petition to Intervene is also authorized by 10 CCR § 2661.1 et seq. In compliance with 10 CCR § 2661.3, the specific issues to be raised and positions to be taken by Consumer Watchdog, to the extent known at this time, are set forth in paragraphs 9–12 *ante*. Each of these issues directly relate to specific standards and requirements under the ratemaking formula and permitted variances at 10 CCR § 2644.1 et seq. and thus are directly relevant to

ultimately determining whether Applicant's requested rates are excessive or otherwise unjustified. Although consumer presence in departmental proceedings typically results in significant reductions to policyholders' rates, the amount of savings for each individual consumer is outweighed by the time and expense of hiring individual counsel or an advocacy group to protect his or her rights. Thus, an independent organization like Consumer Watchdog introduces a voice that otherwise would be absent from this proceeding.

VII. PARTICIPATION OF CONSUMER WATCHDOG

22. Consumer Watchdog verifies, in accordance with 10 CCR § 2661.3, that it will be able to attend and participate in this proceeding without unreasonably delaying this proceeding or any other proceedings before the Insurance Commissioner.

VIII. INTENT TO SEEK COMPENSATION

23. The Commissioner has awarded Consumer Watchdog compensation for its reasonable advocacy and witness fees and expenses in past departmental proceedings. The Commissioner issued Consumer Watchdog's latest Finding of Eligibility on August 2, 2024, effective for two years as of July 12, 2024. Consumer Watchdog was previously found eligible to seek compensation on July 26, 2022, effective as of July 12, 2022; August 25, 2020, effective as of July 12, 2020; July 12, 2018; July 14, 2016; July 24, 2014; July 24, 2012; July 2, 2010; August 25, 2008; July 14, 2006; July 2, 2004; June 20, 2002; October 1, 1997; September 26, 1995; September 27, 1994; and September 13, 1993.

24. Pursuant to 10 CCR § 2661.3(c), Consumer Watchdog's estimated budget in this proceeding is attached hereto as Exhibit A. Consumer Watchdog has based its estimated budget on several factors including: (1) the technical and legal expertise needed to address these issues; (2) its current best estimate of the time needed to participate effectively in these proceedings, taking into account the time already expended by Consumer Watchdog's legal and actuarial staff and an estimate of time needed to complete remaining tasks through completion of a noticed evidentiary hearing; and (3) past experience in similar rate proceedings before the CDI. The estimated budget is reasonable and the staffing level is appropriate, given the expertise that Consumer Watchdog and its consultants bring to these proceedings when the issues involved are

issues at the very core of its organizational mission and strike at the very heart of Proposition 103 itself. The attorney, paralegal, and staff and consulting actuaries' hourly rates contained in the attached budget do not exceed market rates as defined by 10 CCR § 2661.1(c).[30] The budget presented in the attached Exhibit A is a preliminary estimate, and Consumer Watchdog reserves the right to amend its proposed budget as its expenses become more certain, or in its request for final compensation. Further, Consumer Watchdog affirms that it will file an amended budget as soon as possible when it learns that its total estimated budget amount increases by $10,000 or more, in accordance with 10 CCR § 2661.3(d).

WHEREFORE, Consumer Watchdog respectfully requests that (1) the Insurance Commissioner (1) GRANT its Petition for Hearing and Petition to Intervene in the proceeding, having all rights and responsibilities accorded any other party to the proceeding, and

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[30] 10 CCR § 2661.1(c) defines "market rates" as "the prevailing rate for comparable services in the private sector in the Los Angeles and San Francisco Bay Areas *at the time of the Commissioner's decision awarding compensation* for attorney advocates, non-attorney advocates, or experts with similar experience, skill and ability." (Emphasis added.) Attached as Exhibit B and Exhibit C are the two most recent Decisions Awarding Compensation by Commissioner Lara to Consumer Watchdog in 2023 in rate proceedings, which found that the *same* 2024 rates used in the estimated budget set forth in Exhibit A for its attorneys and paralegal, Mr. Rosenfield, Ms. Pressley, Mr. Mellino, Mr. Powell, and Ms. Gentile, were reasonable and did not exceed market rates in the private market in Los Angeles and the San Francisco Bay Area. Those decisions also found Consumer Watchdog's consulting actuary Allan I. Schwartz's 2023 hourly rate was reasonable and did not exceed market rates. (Exh. B [Decision Awarding Compensation, July 12, 2023, *In the Matter of the Rate Applications of Farmers Insurance Exchange, Fire Insurance Exchange, and Mid-Century Insurance Company*, File No. PA-2022-00007], pp. 9–11, 15; Exh. C [Decision Awarding Compensation, Nov. 8, 2023, *In the Matter of the Rate Application of CSAA Insurance Exchange*, File No. PA-2023-00004], pp. 4–7, 10.) Consumer Watchdog will submit a declaration from Mr. Schwartz supporting his 2024 hourly rate when it submits any request for compensation in this matter. Mr. Armstrong is Consumer Watchdog's staff actuary with over 12 years of professional actuarial experience who joined staff in May 2023. His $425 hourly rate in the estimated budget in Exhibit A is comparable to the $415 market rate found reasonable by the Commissioner in the Decisions attached as Exhibits B and C for one of Mr. Schwartz's former associates who does not have the additional Fellow Casualty Actuarial Society designation that Mr. Armstrong does. Since this is a preliminary estimated budget, and section 2661.1(c) defines "market rate" as the prevailing market rates at the time of the Commissioner's compensation award, Consumer Watchdog intends to submit further support for its attorneys' and actuaries' market rates at the time it submits any request for compensation.

(2) REJECT State Farm's requested overall 41.8% rate increase (comprised of a 52% requested rate increase for Renters and 36% increase for Condo Unitowners), and instead approve substantially lower overall rate increases for each policy form based on the record in the proceeding.

DATED: August 19, 2024

Respectfully submitted,
Harvey Rosenfield
Pamela Pressley
Ryan Mellino
CONSUMER WATCHDOG

By: Pamela Pressley
Pamela Pressley
Attorneys for CONSUMER WATCHDOG

VERIFICATION OF PAMELA PRESSLEY IN SUPPORT OF CONSUMER WATCHDOG'S PETITION FOR HEARING, AMENDED PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION

I, Pamela Pressley, verify:

1. I am Senior Staff Attorney for Consumer Watchdog. If called as a witness, I could and would testify competently to the facts stated in this verification.

2. I personally prepared, in consultation with Consumer Watchdog's actuarial experts, the pleading titled "Consumer Watchdog's Petition for Hearing, Amended Petition to Intervene, and Notice of Intent to Seek Compensation" filed in this matter. All of the factual matters alleged therein are true of my own personal knowledge, or I believe them to be true after conducting some inquiry and investigation.

3. Pursuant to California Code of Regulations, title 10, section 2661.3, Consumer Watchdog attaches as Exhibit A its estimated budget in this proceeding. I affirm that the hourly rates in the estimated budget do not exceed market rates.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed August 19, 2024 at Los Angeles, California.

Pamela Pressley

Pamela Pressley

EXHIBIT A

EXHIBIT A
PRELIMINARY BUDGET

ITEMS **ESTIMATED COST**

1. Consumer Watchdog Attorneys, Paralegal, and Staff Actuary

Pamela Pressley (Senior Staff Attorney) @ $595 per hour, 100 hours $59,500

- Draft and edit petition for hearing and petition to intervene; supervise Consumer Watchdog counsel; oversee preparation of discovery requests, motions, briefing; confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; assist in all phases of proceeding, evidentiary hearing, and preparation of post-hearing briefing.

Ryan Mellino (Staff Attorney) @ $250 per hour, 200 hours..... $50,000

- Confer with Consumer Watchdog counsel and outside experts regarding legal and evidentiary issues; participate in discussions with CDI and Applicant's counsel; participate in briefing legal issues; conduct discovery, preparation of motions, and preparation for evidentiary hearing; participate in examination of witnesses and all phases of evidentiary hearing and post-hearing legal briefing; prepare request for compensation.

Kaitlyn Gentile (Paralegal) @ $200 per hour, 50 hours $10,000

- Draft and edit petition for hearing and petition to intervene; assist with discovery and preparation of motions and briefs; prepare request for compensation.

Harvey Rosenfield (Of Counsel) @ $695 per hour, 50 hours $34,750

- Supervise Consumer Watchdog counsel and participate in strategy discussions.

Ben Armstrong, Staff Actuary @ $425 per hour, 100 hours..... $42,500

- Staff actuary to review rate application, all discovery documents; prepare actuarial analysis; participate in meet and confers with the parties as needed; prepare written testimony; testify and assist attorneys in preparation for cross-examination of insurer's expert witnesses.

2. Consumer Watchdog Expenses

Office expenses (photocopies, facsimile, telephone calls, postage, etc.) $2,000

Travel (ground transportation; airfare; hotel) $5,000

Consumer Watchdog Subtotal $203,750

3. Expert Witness: AIS Risk Consultants, Inc.

Allan I. Schwartz, President of AIS Risk Consultants @ $955 per hour, 100 hours $95,500

- Consulting actuary to review rate application and prepare actuarial analysis on variance 6 issues; participate in meet and confers with the parties as needed; assist with preparation of written and oral testimony and cross-examination of insurers' expert witnesses as needed, with a focus on variance 6.

Office expenses (photocopies, facsimile, telephone calls, postage, etc.) $2,000

Travel (ground transportation; airfare; hotel) $5,000

AIS Risk Consultants, Inc. Subtotal $102,500

TOTAL ESTIMATED BUDGET: $306,250

EXHIBIT B

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Requests for Compensation of **CONSUMER WATCHDOG,** Intervenor.	FILE NO. RFC-2023-006 *In the Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company* *PA-2022-00007*

DECISION AWARDING COMPENSATION

In this Request for Compensation (RFC) Consumer Watchdog (CW or Petitioner) seeks $82,814.50 in compensation for its intervention in a Rate Application (RA) filed by Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company (Farmers or Applicant). The RA sought a 24.9 percent increase in its homeowners multiple peril insurance line of insurance, but was ultimately resolved by a stipulation, granting Farmers a 17.7% increase. Farmers did not oppose CW's Request for Compensation arising therefrom. For the reasons explained below, the Request for Compensation is GRANTED.

FINDINGS OF FACT

Farmers' Rate Application

On June 15, 2022, Farmers filed a Rate Application with the Department of Insurance (Department) seeking a 24.9 percent increase in its homeowners' multiple peril insurance line.[1]

[1] RFC, p. 3.

The Department assigned the RA to Darjen Kuo for investigation.[2] On July 8, 2022, Farmers' RA was made public.[3] Several events occurred on August 22, 2022. The Department requested that Applicant waive the deemer period,[4] Applicant responded by waiving both the 60-day and the 180-day deemer periods,[5] and CW filed a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation (collectively, "Petition").[6]

In its Petition, CW raised a number of concerns, which may be briefly described as Farmers': (a) failure to demonstrate that its proposal to non-renew 10,000 policies will not create excessive and/or unfairly discriminatory rates;[7] (b) use of only one model for Fire Following Earthquake (FFEQ);[8] (c) use of quarterly rather than annual paid loss development;[9] (d) failure to demonstrate that the use of incurred rather than paid loss development is the most actuarially sound method;[10] (e) failure to demonstrate that the selected trend factors and trend data period used were the most actuarially sound, and how the non-renewal of policies would likely impact the trend;[11] (f) failure to demonstrate that all institutional advertising expenses were accounted for;[12] (g) failure to justify for the loss trend factors proposed in the Variance 7B request;[13] (h) failure to justify the loss trend factors proposed in the variance 8B request;[14] and (i)

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[2] Rate Applications may be found online at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:13936543914997. An administrative agency may take official notice of its own records, (See Evid. Code, § 452, subd. (d).) Official Notice is hereby taken of the Rate Application number 22-1617, as well as the related Rate Applications numbered 22-1617-A, and 22-1617-B. Citations in this decision to a Rate Application ("RA") utilize the State Tracking number. Although Rate Applications do not contain continuous internal pagination, page numbers are referenced according to their order of appearance in the .pdf.
[3] RFC, p. 3.
[4] RA #22-1617, p. 17.
[5] RA #22-1617, p. 38.
[6] Exh. 3, attached to Powell Decl., RFC, p. 4.
[7] Petition, ¶ 8.a.
[8] Petition, ¶ 8.b.
[9] Petition, ¶ 8.c.
[10] Petition, ¶ 8.d.
[11] Petition, ¶ 8.e.
[12] Petition, ¶ 8.f.
[13] Petition, ¶ 8.g.
[14] Petition, ¶ 8.h.

failure to comply with filing instructions and submission of exhibits in searchable Excel and PDF format.[15]

On September 6, 2022, the Commissioner granted CW's Petition to Intervene.[16] The Commissioner found that CW complied with the procedural requirements in the Insurance Regulations, and that the issues it sought to address were relevant to the ratemaking process.[17] The decision withheld a ruling on the Petition for Hearing.[18]

On October 4, 2022, the Department issued an Objection Letter asking Farmers to respond to eight concerns. In brief, the concerns raised by the Department seek the following information: (1) how the decision to non-renew 10,000 policies due to wildfire risk will affect the proposed rate and premium; (2) a justification for the use of only one model to calculate FFEQ; (3) a justification for the use of quarterly time rather than annual in calculating catastrophe adjustment; (4) an explanation for why using incurred losses to develop ultimate losses is the most actuarially sound selection; (5) a justification for the use of 12-point for premium trends and 12-point with closed Frequency and Total Paid Severity; (6) a standard exhibit 7 for Smart Plan Home data only; (7) given annual losses and exposures, a correction to the assigned 0% credibility for Smart Plan Home's experiences in calculating the loss trends and loss development factors; and (8) the resubmission of multiple exhibits in Excel and PDF formats according to specifications.[19] Six of the eight Objections raised by the Department had already been raised or partially raised by CW in its August 22 Petition.

On October 11, 2022, Farmers responded to the Department's inquiries by resubmitting

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[15] Petition, ¶ 8.i.
[16] RFC, p. 6.
[17] Exh. 4, attached to Powell Decl.
[18] *Ibid.*
[19] RA #22-1617, p. 16.

exhibits in Excel and PDF formats.[20] In its response, Farmers rescinded the non-renewal plan and declared that it was not moving forward with any "wildfires non-renewals."[21] In explanation for its use of only one model to calculate FFEQ, Farmers argued that use of only one model was the commonly accepted practice among its competitors. It referenced other rate applications by various competitors where only one model was used and argued that the RMS model complies with "actuarial statutory standards."[22] Farmers' explanation for calculating quarterly, rather than annual, catastrophe ratios, was because the main contributor to catastrophe losses in California—wildfires—occur more frequently in the 4th quarter of the fiscal year. According to Farmers, "this causes the total to [*sic*] non-CAT factor to be inflated in years experiencing extreme Q4 event[s] and extraordinary CAT losses," as was the case in years 2003, 2007, 2018, and 2020.[23] To explain its use of incurred losses, Farmers argued that, paid losses are driven by smaller damage claims, while incurred losses more accurately reflect rising inflation and other repair costs and ALE expenses.[24] As explanation for its use of 12-point, rather than 20-point, loss experience, Farmers explained that the shorter period gave greater weight to the pandemic and recent inflation, which it believed would be more suited to prospective rate making.[25] In response to the Department's request for a standard Exhibit 7 for Smart Plan Home data only, Farmers provided it in an electronic attachment.[26] Farmers did not provide corrected loss trends and loss development factors in response to the Department's concerns about its use of 0% credibility for Smart Plan Home's experiences. It did, however, provide a reasoned explanation for its failure to do so. Essentially, Farmers stated its willingness to make the requested changes,

[20] RA #22-1617, p. 33; see also Exh. C, attached to Powell Decl.
[21] Exh. C, attached to Powell Decl.
[22] *Ibid.*
[23] *Ibid.*
[24] *Ibid.*
[25] *Ibid.*
[26] *Ibid.*

as soon as sufficient data became available.[27] Finally, Farmers provided Excel files for each exhibit requested by the Department.[28]

On November 21, 2022, CW made a request for information, seeking the following additional information from Farmers: (1) A new table showing competitors' filings where more than one model was used for FFEQ; (2) support for Applicant's claim that inflation has caused longer cycle time on repairs, higher lumber costs, higher material costs, and increasing ALE expenses, and support for the claim that paid losses are driven by smaller damage claims; (3) a complete description and explanation of the impact from the pandemic on California homeowners insurance costs; (4) a basis for the claim that the response to Item 5 was the most actuarially sound choice for frequency and severity analysis; (5) an annual distribution of modeled losses used to obtain the expected average annual losses for the RMS FFEQ model results; (6) which portion of the AAL is attributable to the use of Loss Amplification factors in the RMS FFEQ model results; (7) any analyses performed showing the underwriting and operating results of the Applicants for Homeowners Insurance in California covering 2019 to the present; (8) a description of any changes in operations related to California homeowners insurance that has occurred from 2019 to the present, as well as any such changes anticipated for the future; and (9) a list of the actions taken or expected to be taken by Farmers regarding homeowners insurance in California.[29]

On November 18, 2022, the Department issued an Objection Letter in which it asserted that Farmers, through subsidiaries, was applying the Supergroup Exemption and Multi-policy Discount at the same time.[30] To correct for this error, the Department ordered Farmers to revise

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[27] *Ibid.*
[28] *Ibid.*
[29] Powell Decl., ¶ 42; Exh. D, attached to RFC.
[30] RA # 22-1617, p. 15.

its manuals to indicate which companies the multi-policy discounts could be applied to. On November 23, 2022 Farmers responded to the Department's Objections by disputing the Department's apparent contention that the Super Group Exemption applies to all Farmers programs, including Homeowners programs.

On November 26, 2022. the Department issued an Objection Letter, demanding that Farmers provide premiums, losses, and loss ratios information for each peril in Excel format to justify the proposed base rate change by peril, for each policy form.

On November 28, 2022, Farmers responded to the November 26 Objection Letter, stating, "Current base rates used to develop proposed base rates already reflect the latest loss experience by peril; therefore, no further adjustments at the peril level were needed and applied in this filing. As a result, base rates were revised uniformly for each peril to achieve overall rate proposal for each form." In short, Farmers made no changes to its Application, and provided no additional documents.

On December 6, 2022, the Department issued an Objection Letter following up on Farmers' October 11 response. In particular, the Department sought further explanation for: (1) why incurred ultimate loss is the most actuarially sound selection, given that there had been a drastic increase of Average Case Reserve on Open Claims for each of the perils in the three most recent accident years; (2) "why the closed frequencies for 'All Other' peril are so high ranging from 17.9% to 76.98% for Smart Plan Renter, and from 3.9% to 32.92% for Next Generation form. What perils are included in 'All Other' Peril?"; (3) proof that all institutional advertising expenses had been reflected in the excluded expense provision.[31]

On December 7, 2022, Farmers provided a response to CW's November 21 inquiry. In brief, Farmers responded: (1) with a list of other companies using a single model to develop

[31] RA #22-1617, p.12.

FFEQ losses, and a list of their SERFF filing numbers; (2) documentation supporting trends toward higher prices for lumber and other repair materials, as well as shortages in those materials resulting in smaller damage claims dominating paid losses, making accurate future predictions more difficult; (3) supply chain issues, increased cost of goods, and a strong demand for building materials in the California market have increased materials costs, as well as putting pressure on labor costs; (4) the basis for this claim is that this approach provides the closest match in terms of timing of when a claim is counted as fully paid and the total dollar amount associated with that claim; (5) Farmers identified the exhibit that shows annual aggregate losses by policy form for various return periods underlying the expected average annual losses; (6) Farmers provided a graph with breakdown of the percentage of total AAL attributable to the demand surge for each policy form; (7) Farmers provided a table showing the results for its most recent five year history; (8) a statement affirming that there have been no significant changes in operations since 2019, and no future changes are planned; and (9) a statement affirming that all major actions have been filed with the Department, with a supporting list of filings/tracking numbers.

On January 19, 2023, the parties participated in a teleconference.[32] In late January and early February 2023, CW and Farmers engaged in a series of communications both seeking and providing additional information and explanation regarding the Rate Application.[33]

On January 31, 2023, CW made two Requests for Information. It sought a list of payments to affiliates for the period 2019-2021, with supporting documentation, and requested a discussion of the loss reserving methods used to derive the values for homeowners insurance reserves contained in the Annual and Quarterly financial statements submitted to the

[32] Powell Decl., ¶ 44.
[33] Powell Decl., ¶ 45; Exh. F, attached to Powell Decl.

Department.[34] On February 1, 2023, Farmers partially responded to the January 31 request for information, but also disputed, to some degree, CW's asserted need for the information.[35] CW provided a justification for the requested information on February 3, 2023, followed by its actuarial analysis of the Rate Application on February 6.[36] On February 8, the parties participated in another teleconference, which resulted in Farmers providing additional information regarding its trend selections, loss development method, and management fees.[37] On February 9, 2023, CW sought more data directly arising from the February 8 response by Farmers.[38] Farmers provided the data the same day.[39]

On March 10, 2023, the parties reached a Settlement Stipulation.[40] In it, the parties agreed that a 17.7 percent increase was "supportable" and should be implemented with an effective date of June 17, 2023.[41] In return, CW agreed to withdraw its Petition for Hearing upon the Commissioner's approval of the Settlement Agreement.[42]

On March 14, 2023, the Commissioner gave his approval of the Settlement Stipulation and, accordingly, CW withdrew its Petition for Hearing, effective March 24, 2023.[43]

This Request for Compensation was filed on April 11, 2023. In total, CW seeks $42,425.50 in fees for its employees' time, and $40,389 in expert witness fees.[44]

CW's Request for Compensation

CW is a non-profit, public interest organization that conducts its education and advocacy

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[34] Powell Decl., ¶ 45.
[35] Powell Decl., ¶46; Exh. G, attached to RFC.
[36] Powell Decl., ¶ 47, Exh. H, attached to RFC.
[37] RFC, p. 8.
[38] RFC, pp. 8-9.
[39] RFC, p. 9; Exh. K, attached to RFC.
[40] Exh. 5, attached to Powell Decl.
[41] *Ibid.*
[42] *Ibid.*
[43] Exh. 6, attached to Powell Decl.
[44] Exh. A, attached to RFC.

efforts as a public interest service.[45] As a result of its intervention in Farmers' RA, CW's attorneys and paralegal incurred 80.6 hours of labor in the proceeding.[46] Attached to Benjamin Powell's Declaration as Exhibit 1.a. are detailed billing records for CW's attorneys Pamela Pressley, Harvey Rosenfield, and Benjamin Powell, as well as for CW Paralegal, Kaitlyn Gentile.[47]

In total, Pressley performed 51.6 hours of work on this matter, for which she billed $595 per hour.[48] Pressley has over 26 years' experience as a consumer advocate.[49] In that role, she has litigated a number of matters of first impression involving the implementation and enforcement of Proposition 103.[50] She has also participated in a number of rulemaking proceedings involving implementation of Proposition 103's rating factor requirements.[51] Pressley's hourly rate is within the range of rates charged by similarly-qualified attorneys in the Los Angeles area.[52]

CW's attorney Benjamin Powell performed 15.4 hours of work on this matter, at an hourly rate of $350.[53] Powell began working at CW before he was admitted to the California State Bar in 2016. His employment at CW has included work on civil litigation maters as well as on matters relating to Proposition 103.[54] Powell's hourly rate of $350 is within the range of rates charged by similarly-qualified attorneys in Los Angeles and the San Francisco Bay Area.[55]

CW's attorney Harvey Rosenfield is an attorney with over 40 years of experience in

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[45] Powell Decl., ¶ 4.
[46] Powell Decl., ¶ 6.
[47] Exh. 1.a., attached to Powell Decl.
[48] *Ibid.*
[49] Powell Decl., ¶ 13.
[50] *Ibid.*
[51] *Ibid.*
[52] Exh. 2, attached to Powell Decl.
[53] Exh. 1.a., attached to Powell Decl.
[54] Powell Decl., ¶ 16.
[55] Powell Decl., ¶ 19; Exh. 2, attached to Powell Decl.

insurance regulatory and litigation matters.[56] He is the founder of CW and author to Proposition 103. As such, he has participated in numerous lawsuits involving the interpretation an enforcement of Proposition 103.[57] He has also participated in numerous rulemaking proceedings implementing Proposition 103.[58] Rosenfield spent 7.3 hours working on this matter, for which he billed his hourly rate of $695.[59] Rosenfield's hourly rate is within the range of hourly rates charged by similarly-qualified attorneys in Los Angeles and the San Francisco Bay Area.[60]

Finally, CW's paralegal, Kaitlyn Gentile, has over 14 years of professional experience.[61] Gentile worked 6.3 hours on this matter, for which she billed $200 per hour.[62] Gentile's hourly rate is within the range of hourly rates charged by paralegals in Los Angeles and the San Francisco Bay Area.[63]

In addition to seeking fees for work performed by its own staff, CW seeks fees for 56.6 hours performed by its expert witnesses, AIS Risk Consultants, in the amount of $40,389.[64] Allan I. Schwarz is an actuary with over 40 year of consulting actuarial experience.[65] He performed 34.3 hours of work on this matter at his rate of $915 per hour. Data regarding consulting actuarial rates are typically not made public.[66] However, Schwarz's prior approved rates are known. For example, in 2021 and 2022, Schwarz's hourly rate was $835 and $870, respectively.[67] In a 2023 request for compensation, Schwarz's hourly rate of $870 was deemed

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[56] Powell Decl., ¶ 9.
[57] *Ibid.*
[58] Powell Decl., ¶ 10.
[59] Powell Decl., p. 19.
[60] Exh. 2, attached to Powell Decl.
[61] Powell Decl., ¶ 20.
[62] Powell Decl., p. 19.
[63] Exh. 2, attached to Powell Decl.
[64] Exh. 8, attached to Schwarz Decl.
[65] Schwarz Decl., ¶ 1.
[66] Schwarz Decl., ¶ 2.
[67] Schwarz Decl., ¶¶ 2-3.

reasonable for work performed in 2022.[68] His current rate of $915 represents a 5.2% increase over his 2022 billing rate. This increase is lower than the rate of inflation in the U.S. for the same period.[69]

Katherine Tollar is an Actuarial Assistant with over 30 years of professional experience.[70] Tollar worked for 17.3 hours on this matter, for which she billed $415 per hour.[71]

Marianne Dwyer is an Actuarial Assistant with over 30 years of professional experience.[72] She spent 5 hours on this matter, for which she billed $365 per hour.[73]

DISCUSSION

I. Prior Approval Framework and Public Participation

The 1988 approval of Proposition 103 by California's voters added Article 10, "Reduction and Control of Insurance Rates" to Division 1, Part 2, Chapter 9 of the Insurance Code. Proposition 103 establishes a system of "prior approval" for changes to insurance rates in automobile, home, and other property-casualty policies.[74] The application for rate change and any hearings arising therefrom are subject to public notice and scrutiny.[75] Thus, as of November 8, 1989, "insurance rates . . . must be approved by the Commissioner prior to their use."[76]

Insurance Code section 1861.05(a) prohibits the Commissioner from approving any rate that is "excessive, inadequate, unfairly discriminatory, or otherwise in violation of this chapter," or from allowing such rates to remain in effect. The primary consideration in the

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[68] Schwarz Decl., ¶ 8.
[69] Schwarz Decl., fn. 5.
[70] Exh. 6, attached to Schwarz Decl.
[71] Exh. 8, attached to Schwarz Decl.
[72] Exh. 7, attached to Schwarz Decl.
[73] Exh. 8, attached to Schwarz Decl.
[74] Cal. Code Regs., tit. 10, § 1861.05, subd. (b).
[75] Cal. Code Regs., tit. 10, § 1861.05, subd. (c), and §§ 1861.06 – 1861.07.
[76] Cal. Code Regs., tit. 10, § 1861.01, subd. (c).

Commissioner's determination must be "whether the rate mathematically reflects the insurance company's investment income."[77]

In order to encourage consumer participation, Section 1861.10 of the Insurance Code authorizes any person to initiate a proceeding to enforce any provision of Proposition 103.[78] To that end, the Commissioner has promulgated regulations setting forth the substantive and procedural requirements for those seeking compensation under the code.[79] Given the statute's purpose to encourage public participation, the regulations should be liberally construed in favor of compensation.[80] The statute and regulations set forth both procedural and substantive requirements for an award of compensation.

Intervenors who represent the interests of consumers and make a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner are to be compensated for reasonable advocacy and witness fees.[81]

A. CW Met the Procedural Prerequisites to Compensation for Public Participation

Before an intervenor may file a request for compensation, they must first obtain a finding from the Commissioner's Public Advisor that they are eligible to seek compensation—i.e., that they represent the interests of the consumer.[82] An intervenor is found to represent the interests of the consumer if it represents the interests of individual insurance consumer(s), or the intervenor is a group organized for the purpose of consumer protection as demonstrated by, but is not limited to, a history of representing consumers in administrative, legislative or judicial

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[77] Ins. Code, § 1861.05, subd. (a).
[78] Ins. Code, § 1861.10, and *State Farm Insurance Co. v. Lara* (2021) 71 Cal.App.5th 197
[79] Cal. Code Regs., tit. 10, §§ 2661.3 – 2661.4.
[80] *State Farm Insurance Co. v. Lara, supra,* 71 Cal.App.5th 197.
[81] Ins. Code, § 1861.10, and Cal. Code Regs., tit. 10, § 2662.5.
[82] Cal. Code Regs., tit. 10, § 2662.3.

proceedings.[83]

Once granted, a Finding of Eligibility to Seek Compensation is valid in any proceeding in which the intervenor's participation commences within two years of the finding of eligibility, provided the intervenor still meets all the requirements in the initial request.[84]

In addition to establishing that it represents the interests of the consumer the intervenor must also submit a request for an award of compensation within 30 days after the Commissioner's decision or action in the proceeding for which intervention was sought, or within 30 days after conclusion of the entire proceeding.[85] A "proceeding" is any action conducted pursuant to Proposition 103, including a proceeding other than a rate proceeding.[86]

Failing to comply with the procedural as well as substantive requirements may be fatal to a Request for Compensation. For example, where the Commissioner failed to grant permission to intervene in a particular matter, a later request for compensation by the putative intervenor was denied.[87]

1. CW Represents the Interests of Consumers

On July 26, 2022, the Commissioner issued CW its most recent Finding of Eligibility, effective for two years from July 12, 2022.[88] The Commissioner's finding of eligibility to seek compensation under Insurance Regulation 2662.2 is conclusive on this matter.

2. CW Made a Timely Request for Compensation

CW filed the present RFC on April 11, 2023, less than 30 days from the Commissioner's March 14 approval of the Settlement Stipulation. Accordingly, CW has made a timely Request

[83] Cal. Code Regs., tit. 10, § 2661.1, subd. (j).
[84] Cal. Code Regs., tit. 10, § 2662.2
[85] Cal. Code Regs., tit. 10, § 2662.3, subd. (a).
[86] Cal. Code Regs., tit. 10, § 2661.2, subd. (f).
[87] RFC-2021-002.
[88] RFC, p. 2, fn. 3.

for Compensation, per Insurance Regulation section 2662.3, subdivision (a).

B. CW Met the Substantive Requirements for Compensation

Once the intervenor has established that it is eligible to seek compensation, and has made a timely request for compensation, it must then establish that it has made a "substantial contribution" to the proceedings.

An intervenor's contribution is substantial when, viewed as a whole, their contribution results in more relevant, credible, and non-frivolous information being available than would otherwise have been available to the Commissioner to make a decision.[89] In the context of an application for a rate change, a substantial contribution may be found whether a petition for hearing is granted or denied.[90] Moreover, the intervenor need not be a prevailing party in order to be deemed to have made a substantial contribution.[91]

1. CW Made a Substantial Contribution to the Commissioner's Decision

In its RFC, CW describes its asserted "substantial contribution" as: initiating the proceeding and raising issues through its Petition; identifying issues regarding Farmers' payments of management fees and the proper accounting therefor; eliciting Farmers' responses to its requests for information; teleconferences; and participation discussions leading to the Settlement Stipulation.

Of particular importance to the determination whether CW's contribution was relevant, were the requests for information that prompted Farmers' response thereto. In particular, Farmers' December 7 response to CW's November 21 request for information resulted in more relevant, credible, and non-frivolous information being available to the commissioner.

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[89] Cal. Code Regs., tit. 10, § 2661.1, subd. (k).
[90] *Ibid.*
[91] *State Farm Insurance Co. v. Lara, supra,* 71 Cal.App.5th 197.

Specifically, this data came in the form of lists of other companies utilizing similar models for FFEQ losses, documentation of economic factors affecting damages claims, as well as graphic breakdowns and tables justifying the requested increase. Accordingly, CW has made a substantial contribution to these proceedings.

C. An Intervenor is Entitled to Reasonable Fees and Expenses

Reasonable advocacy and witness fees are determined according to the prevailing rate for comparable services in the private sector in the Los Angeles and San Francisco Bay Areas at the time of the Commissioner's decision awarding compensation.[92] This standard is applied to attorney advocates, non-attorney advocates, and experts with similar experience, skill and ability. Reasonable, actual out of pocket costs may also be compensated.[93] Billing rates shall not exceed the market rate.[94]

The requirement that fees be reasonable preserves the Commissioner's discretion to reduce fees for unnecessary, excessive, or duplicative work.[95] For example, when an intervenor seeks contributions for efforts that were not authorized in the ruling on the Petition to Intervene, and when those efforts duplicate the contribution of another party, the request for compensation may be reduced accordingly.[96] An intervenor may not reopen matters that were decided prior to their petition being granted.[97] The intervenor is required to file a "detailed description of services and expenditures," "legible time and/or billing records," and citations to the record of the proceedings.[98]

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[92] Cal. Code Regs., tit. 10, § 2661.1, subd. (c).
[93] Cal. Code Regs., tit. 10, § 2661.1, subds. (b) and (d).
[94] *Ibid.*
[95] *State Farm Insurance Co. v. Lara, supra*, 71 Cal.App.5th 197.
[96] Cal. Code Regs., tit. 10, § 2662.5, subd. (b).
[97] Cal. Code Regs., tit. 10, § 2661.3, subd. (h).
[98] Cal. Code Regs., tit. 10, § 2662.3, subd. (b).

1. Petitioner's Requested Fees are Reasonable.

CW has provided detailed billing records for the staff and expert witnesses who worked on this matter. Moreover, it has established through the Declarations of Richard M. Pearl and Allan I. Schwarz that the hourly rates charged by its staff and expert witnesses were reasonable and/or comparable to services in the private sector in the Los Angeles and San Francisco Bay Area at the time they were incurred. Accordingly, CW's fees are reasonable.

CONCLUSIONS

CW is entitled to advocacy and witness fees in the amount of $82,814.50 for its substantial contribution to the *Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company*, PA-2022-00007. The award shall be paid by Respondent.

ORDER

1. Consumer Watchdog is hereby awarded $82,814.50 in advocacy fees in connection with the *Matter of the Rate Application of Farmers Exchange, Fore Insurance, and Mid-Century Insurance Company*, PA-2022-00007.

2. Respondent shall pay the award no later than thirty (30) days after the date of this Decision and shall notify the Department's Office of the Public Advisor[99] upon making payment.

Date: July 12, 2023

RICARDO LARA
Insurance Commissioner

By: _____
Alicia A. Clement
Administrative Law Judge

[99] Jamie Katz, 1901 Harrison Street, 4th Floor, Oakland, California 94612 or jamie.katz@insurance.ca.gov.

PROOF OF SERVICE

Case Name/Number: In the Matter of the Request for Compensation of
CONSUMER WATCHDOG
File No. **RFC-2023-006**

I, Camille E. Johnson, declare that:

I am employed by the California Department of Insurance, Administrative Hearing Bureau, in the City of Oakland and County of Alameda. I am over the age of eighteen (18) years and not a party to this action. My business address is 1901 Harrison Street, 3rd Floor, Oakland, CA 94612.

I am readily familiar with the business practices of the California Department of Insurance for collecting and processing correspondence for mailing, electronic filing and electronic mail. On July 12, 2023, I served the **DECISION AWARDING COMPENSATION** regarding in the **Matter of the Request for Compensation of CONSUMER WATCHDOG.**

___X___ **(By U.S. Mail)** on those identified parties in said action, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013.

___X___ **(By Intra-Agency Mail)** on those identified parties in said action, by placing this correspondence in a place designated for collection for delivery by Department of Insurance intra-agency mail.

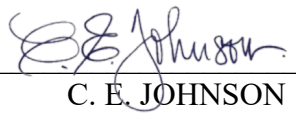
_____ **(By Facsimile transmission)** on those identified parties in said action, by transmitting said document(s) from our office by facsimile machine to facsimile machine number(s) shown below. Following the transmission, I received a "Transmission Report" from our fax machine indicating that the transmission had been transmitted without error.

___X___ **(By Email)** on those identified parties in said action, in accordance with Code of Civil Procedure §1013, by emailing true copies thereof at the address set forth below.

SEE ATTACHED PARTY SERVICE LIST

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed in Oakland, California, on July 12, 2023.

July 12, 2023
DATE



C. E. JOHNSON

PARTY SERVICE LIST

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EXHIBIT C

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Requests for Compensation of **CONSUMER WATCHDOG,** Intervenor.	FILE NO. RFC-2023-011 **DECISION AWARDING COMPENSATION** *In the Matter of the Rate Application of CSAA Insurance Exchange* *PA-2023-00004*

INTRODUCTION

Consumer Watchdog ("CW" or Petitioner), files this Request for Compensation (RFC) in the amount of $77,693.50, for its intervention in proceedings initiated by a Rate Application (RA) filed by CSAA Insurance Exchange (CSAA or Applicant). CSAA did not oppose the RFC. Upon consideration of all the facts and evidence in this case, and for the reasons explained below, the Request for Compensation is GRANTED.

FINDINGS OF FACT[1]

On February 1, 2023, CSAA filed a Rate Application[2] with the Department, seeking a 25 percent increase in its Auto Liability and Physical Damage lines. Over the course of the ensuing investigation, the Department issued five objection letters.[3] CSAA responded to each of the Objection Letters in a timely fashion.[4] On April 10, 2023, CW filed a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation.[5] In its Request for Hearing, CW provided a non-exhaustive list of issues related to the Rate Application that it intended to explore, along with a list of evidence it intended to produce.[6] On April 14, 2023, CSAA filed an Answer to the Request for Hearing, refuting CW's claims that the RA was actuarially unsound.[7] On April 24, 2023, the Department granted CW's Petition to Intervene.[8] In it, the Department found that CW "has raised and seeks to address issues that are relevant to the ratemaking process."[9]

On May 2, 2023, CW submitted a Request for Information to CSAA that sought responses to 24 separate inquiries.[10]

On May 3, 2023, CSAA submitted a "Response to Consumer Watchdog's Petition to

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[1] All findings of fact in this matter are derived from the Petitioner's filings and attachments, and from the Department's official files. Neither CSAA nor the Department filed a response to the RFC.
[2] Rate applications may be found online at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:13936543914997. An administrative agency may take official notice of its own records, such as the Rate Application filed with the Department of Insurance on February 1, 2023, and assigned State Tracking Number 23-385. (See Evid. Code, § 452, subd. (d).) Official Notice is hereby taken of the Rate Application number 23-385. Citations in this decision to the Rate Application ("RA") utilize the State Tracking # 23-385. Although the document does not contain continuous internal pagination, page numbers are referenced according to their order of appearance in the .pdf.
[3] RA #23-385, p. 4.
[4] *Ibid.*
[5] Exh. 3 attached to Declaration of Daniel L. Sternberg.
[6] Request for Hearing, ¶ ¶ 7-9.
[7] Answer to Request for Hearing.
[8] Ruling Granting Consumer Watchdog's Petition to Intervene.
[9] Ruling Granting Consumer Watchdog's Petition to Intervene, ¶ 5.
[10] Exh. B, attached to RFC.

Intervene."[11] In its response, CSAA included argument and "a detailed explanation for how [it] derived the selected trends for the four largest coverages...."[12] It also provided excerpts of financial statements from 2020 and 2021 to support its variance for loss development.[13]

On May 4, 2023, CSAA provided an extensive "Response to Consumer Watchdog's Requests for Information." In its point-by-point response to CW's information request, CSAA included, among other things, additional annual statements from 2019 through 2022, additional consolidated annual statements from 2019 through 2022, corrected tables of data (upon discovery of an error), and comparison data between the trends filed in the RA compared against the actuarial reserve report for 2022.[14]

On May 16, 2023, CW submitted a "Second Set of Requests for Information" to CSAA.[15]

On May 17, 2023, CSAA provided a detailed "Response to Consumer Watchdog's Second Set of Requests for Information."[16] In CSAA's response to the second set of information requests, CSAA defined its newly-coined phrase, "*reverse* catastrophe" as "a rare phenomenon (once in a century) that led to *fewer* than expected losses."[17] CSAA also provided additional data justifying its application of annual trends to trend historical losses to 2022 levels.[18]

On May 23, 2023, the parties and the Department participated in the first of two teleconferences.[19]

On June 20, 2023, in advance of a second teleconference scheduled for June 23, CSAA

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[11] Exh. C, attached to RFC.
[12] *Ibid.*
[13] *Ibid.*
[14] Exh. D, attached to RFC.
[15] Exh. E, attached to RFC.
[16] Exh. F, attached to RFC.
[17] *Ibid*, emphasis added.
[18] *Ibid.*
[19] Sternberg Decl., ¶ 43.

provided CW with advance copies of its yet-to-be filed updated rate templates.[20] CSAA prefaced its e-mail to which these updated rate templates were attached, with the statement, "These differ from the filing in selected trends, which we'll be prepared to fully discuss on Friday."[21] A second teleconference was convened on June 23, 2023.

On July 17, 2023, the parties entered into a settlement stipulation that includes a rate change of 16.7 percent, rather than the 25 percent increase sought in the RA.[22]

The Commissioner approved the Stipulated Settlement on July 20, 2023.[23]

In keeping with the terms of the Stipulated Settlement, CW subsequently withdrew its Petition for Hearing on July 28, 2023.[24]

At various times during their intervention, the attorneys for CW engaged in the following tasks: conferred regarding overall strategy and positions; drafted, reviewed, and edited CW's filed documents; reviewed CSAA's RA and updated filings; prepared the requests for information; exchanged correspondence regarding and participated in the two conference calls; consulted with CW's actuary; negotiated the stipulated settlement; and drafted the Request for Compensation, including supporting declarations and exhibits.[25] In addition to this generalized list, CW includes detailed records of how each attorney, paralegal, and expert witness spent their time on this matter.

An extensive survey of hourly rates charged by attorneys in the Los Angeles area in 2022, correlated to their relative level of experience demonstrates that the rates CW charged in 2022 were comparable and competitive at that time.[26] In April 2023 the Department approved of

[20] Exh. G, attached to RFC.
[21] *Ibid.*
[22] RFC, pp.1, 8.
[23] RFC, p. 8.
[24] *Ibid.*
[25] Decl. of Sternberg, ¶ 8.
[26] Exh. 2, attached to Sternberg Decl.

CW's current hourly rates in its Ruling Granting Consumer Watchdog's Petition to Intervene in the Application of CSAA Insurance Exchange, application number 23-385.[27]

Pamela Pressley is an attorney with over 26 years of experience in consumer advocacy. She has spent 16 years as an attorney with CW, focusing primarily on insurance regulatory and litigation matters before the Department.[28] Detailed time records of Pressley's work demonstrate that she was heavily involved in this matter from its inception and continuing until the RFC was filed, from April through August 2023.[29] Pressley spent a total of 33.9 hours on this matter. At her hourly rate of $595.00, she billed a total of $20,170.50.[30]

Harvey Rosenfield is an attorney with over 40 years of experience in insurance regulatory and litigation matters.[31] As the author of Proposition 103, he has participated in a number of major lawsuits interpreting and enforcing the statute.[32] Detailed time records of Rosenfeld's work tend to demonstrate that he provided oversight ("review") of CSAA's RA from April through June 2023.[33] Rosenfield spent a total of 2.3 hours on this matter. At his hourly rate of $695.00, his bill for services amounts to $1,598.50.[34]

Daniel L. Sternberg is an attorney with seven years of professional experience in litigation and advocacy.[35] He has been with CW for less than a year, but has spent the majority of that time litigating matters before the Department.[36] Detailed records of Sternberg's work reveal that his involvement in this matter was concentrated on reviewing CW's correspondence with CSAA as well as CW's internal work product, including e-mails, requests for information,

[27] Exh. 5, attached to Sternberg Decl.
[28] Sternberg Decl., ¶13.
[29] Exh. 1a, attached to Sternberg Decl.
[30] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[31] Sternberg Decl., ¶ 9.
[32] *Ibid.*
[33] Exh. 1a, attached to Sternberg Decl.
[34] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[35] Sternberg Decl., ¶ 16.
[36] *Ibid.*

and settlement offers.[37] Sternberg spent a total of 36.2 hours on this matter. At his hourly rate of $350.00 his bill for services amounts to $12,670.00.[38]

Ryan Mellino was admitted to the California State Bar in 2022.[39] His professional experience includes work with the Legal Aid Foundation of Los Angeles, the ACLU, and the Los Angeles Homeless Services Authority, as well as CW.[40] Detailed records of Mellino's work show that he was only involved in this matter during May 2023 with regard to requests for information.[41] Mellino spent a total of 2.1 hours on this matter. At his hourly rate of $250.00, his bill for services totals $525.00.[42]

Kaitlyn Gentile is a paralegal at CW with over fourteen years of professional experience in litigation support. Gentile worked a total of 7.1 hours on this matter. Detailed time records of Gentile's work demonstrate that she was primarily engaged in preparing and finalizing the RFC during the month of August 2023.[43] At her hourly rate of $200.00, her bill for services totals 1,420.00.[44]

Allan I. Schwartz is the President of AIS Risk Consultants, Inc., and is an actuary with over 40 years consulting actuarial experience.[45] He provided consulting actuarial services to CW on this matter, as he has in numerous Proposition 103 matters.[46] Detailed time records of Schwartz's work demonstrate that he spent larger blocks of time reviewing CSAA's initial filings, as well as its responses to CW's information requests in April and May 2023.[47] Schwartz

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[37] Exh. 1a, attached to Sternberg Decl.
[38] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[39] Sternberg Decl., ¶ 20.
[40] *Ibid.*
[41] Exh. 1a, attached to Sternberg Decl.
[42] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[43] Exh. 1a, attached to Sternberg Decl.
[44] Sternberg Decl., ¶ 7; Exh. 1a, attached to Sternberg Decl.
[45] Schwartz Decl., ¶ 1.
[46] Schwartz Dec., ¶ 2.
[47] Exh. 8, attached to Schwartz Decl.

worked 41.7 hours on this matter.[48] At his hourly rate of $915.00,[49] his bill for services totals $38,155.50.[50]

Katherine Tollar is an Actuarial Assistant at AIS Risk Consultants, Inc., with over 20 years of professional actuarial experience.[51] Detailed records of Tollar's work demonstrate that the majority of her time was spent on "trend and indication," work, which was primarily performed during May and June 2023.[52] Tollar worked a total of 7.6 hours on this matter at her hourly rate of $415.00, for which she billed $3,154.00.[53]

In total, CW has established that its hourly rates, and the hours billed for services rendered in this matter are reasonable.

DISCUSSION

I. Prior Approval Framework and Public Participation

In California, insurance rates for automobile, home, and other property-casualty policies must be approved by the Commissioner prior to their use."[54] Insurance Code section 1861.05, subdivision (a), prohibits the Commissioner from approving any rate that is "excessive, inadequate, unfairly discriminatory, or otherwise in violation of this chapter," or from allowing such rates to remain in effect. The primary consideration in the Commissioner's determination must be "whether the rate mathematically reflects the insurance company's investment income."[55]

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[48] Exh. 8, attached to Schwartz Decl.
[49] Schwartz Decl., ¶ 6.
[50] Exh. 8, attached to Schwartz Decl.
[51] Exh. 6, attached to Schwartz Decl.
[52] Exh. 8, attached to Schwartz Decl.
[53] Exh. 8, attached to Schwartz Decl.
[54] Ins. Code, § 1861.01, subd. (c).
[55] Ins. Code, § 1861.05, subd. (a).

In order to foster "consumer participation in the rate-setting process,"[56] section 1861.10 of the Insurance Code authorizes any person to initiate a proceeding to enforce any provision of Proposition 103.[57] Intervenors who represent the interests of consumers and make a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner are to be compensated for reasonable advocacy and witness fees.[58] To that end, the Commissioner has promulgated regulations setting forth the substantive and procedural requirements for those seeking compensation under the code.[59] These regulations are binding on the AHB and have the force of statute.[60] Given the statute's purpose to encourage public participation, the regulations should be liberally construed in favor of compensation.[61]

A. The Procedural Prerequisites for Compensation are Met

Before an intervenor may file a request for compensation, they must first obtain a finding from the Commissioner's Public Advisor that they are eligible to seek compensation—i.e., that they represent the interests of the consumer.[62] Once granted, a Finding of Eligibility to Seek Compensation is valid in any proceeding in which the intervenor's participation commences within two years of the finding of eligibility, provided the intervenor still meets all the requirements in the initial request.[63] There is no dispute that CW is eligible to seek compensation in this case.

In addition to establishing that it represents the interests of the consumer the intervenor must also submit a request for an award of compensation within 30 days after the

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[56] See *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 197, 215, citing *State Farm Mutual Automobile Ins. Co. v. Garamendi, supra*, 32 Cal.4th 1029.
[57] Ins. Code, § 1861.10, and *State Farm Insurance Co. v. Lara* (2021) 71 Cal.App.5th 197
[58] Ins. Code, § 1861.10, and Cal. Code Regs., tit. 10, § 2662.5.
[59] Cal. Code Regs., tit. 10, §§ 2661.3 – 2661.4.
[60] *Agriculture Labor Relations Board v. Superior Court* (1976)16 Cal.3d 392.
[61] *State Farm Insurance Co. v. Lara, supra*, 71 Cal.App.5th 197.
[62] Cal. Code Regs., tit. 10, § 2662.3.
[63] Cal. Code Regs., tit. 10, § 2662.2

Commissioner's decision or action in the proceeding for which intervention was sought, or within 30 days after conclusion of the entire proceeding.[64] CW's RFC was filed on August 18, 2023, less than 30 days after the Commissioner approved the Stipulated Settlement on July 20, 2023. Accordingly, the RFC was timely filed.

B. The Substantive Requirements for Compensation are Met

Once the intervenor has established that it is eligible to seek compensation, and has made a timely request for compensation, as CW has done here, it must then establish that it has made a "substantial contribution" to the proceedings.[65] The only *statutory requirements* for compensation are set out subdivision (b) of Insurance Code section 1861.10.[66] But the statutory language does not encapsulate the whole of the intervenor's obligation. The regulations adopted by the Insurance Commissioner fill in the details not specified by Proposition 103.[67] The regulations state that a "substantial contribution"

> "...means that the intervenor substantially contributed, as a whole, to a decision, order, regulation, or other action of the Commissioner by presenting relevant issues, evidence, or arguments which were separate and distinct from those emphasized by the Department of Insurance staff or any other party, such that the intervenor's participation resulted in more relevant, credible, and non-frivolous information being available for the Commissioner to make the Commissioner's decision than would have been available to the Commissioner had the intervenor not participated. A substantial contribution may be demonstrated without regard to whether a petition for hearing is granted or denied."[68]

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[64] Cal. Code Regs., tit. 10, § 2662.3, subd. (a).
[65] Ins. Code, §1861.10, subd. (b); Cal. Code Regs., tit. 10, §§ 2661.2, subd. (k), and 2662.3, subd. (b)(3).
[66] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1047-1048.
[67] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1050.
[68] Cal. Code Regs., tit. 10, § 2661.2(k).

What constitutes a substantial contribution requires a fact-intensive analysis by the tribunal in which the matter originated.[69] And, while the intervenor's substantial contribution may be shown with documents,[70] it is incumbent on the intervenor to provide specific citations to its services and expenditures.[71] There is no question in this case that CW participated in the rate proceedings.

As a direct result of CW's participation in this case, CSAA produced additional analysis and data concerning the Trend Selection for Bodily Injury Property Damage, Comprehensive and Collision;[72] CSAA also provided several years' worth of Annual Statements and Consolidated Annual Statements;[73] and in connection with CW's inquiries, CSAA discovered and corrected several data errors.[74] Accordingly, CW has established that its intervention in this case made a substantial contribution to the Commissioner's ultimate approval of the stipulated settlement by providing more relevant credible, and non-frivolous information than would have been available had the intervenor not participated. Additionally, through detailed time records, rate surveys, and prior findings by the Department, CW has established that it charged market rates, as that phrase is defined by regulation.[75]

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[69] *Economic Empowerment Foundation v. Quackenbush* (1997) 57 Cal.App.4th 677.
[70] *Association of California Insurance Companies v. Poizner* (2009) 180 Cal.App.4th 1029, 1040.
[71] *Economic Empowerment Foundation v. Quackenbush, supra*, 57 Cal.App.4th 677, 681; Cal.Code Regs., tit. 10, § 2662.5, subd. (a)(1).
[72] Exh. C, attached to RFC.
[73] Exh. D, attached to RFC.
[74] Exh. D, attached to RFC.
[75] Cal. Code Regs., tit. 10, § 2661.1, subd. (c).

CONCLUSION

For the foregoing reasons, CSAA is entitled to expenses and advocacy fees *in the Matter of the Rate Application of CSAA Insurance Exchange*, Prior Approval File No. PA-2023-00004, in the amount of $77,693.50.

ORDER

1. Consumer Watchdog is hereby awarded $77,693.50 in advocacy and expert witness fees in connection with CSAA's Rate Application (Prior Approval File No. *PA-2023-00004*).
2. CSAA shall pay the award no later than 30 days after the date of this Decision and shall notify the Department's Office of the Public Advisor[76] upon making payment.

Date: November 8, 2023

RICARDO LARA
Insurance Commissioner

By: _____
Alicia A. Clement
Administrative Law Judge

[76] Jon Phenix, Public Advisor, 1901 Harrison Street, 4th Floor, Oakland, CA 94612, or jon.phenix@insurance.ca.gov.

PROOF OF SERVICE

Case Name/Number: In the Matter of the Request for Compensation of
CONSUMER WATCHDOG
File No. **RFC-2023-011**

I, Florinda Cristobal, declare that:

I am employed by the California Department of Insurance, Administrative Hearing Bureau, in the City of Oakland and County of Alameda. I am over the age of eighteen (18) years and not a party to this action. My business address is 1901 Harrison Street, 3rd Floor, Oakland, CA 94612.

I am readily familiar with the business practices of the California Department of Insurance for collecting and processing correspondence for mailing, electronic filing and electronic mail. On August 18, 2023, I served **DECISION AWARDING COMPENSATION** regarding **In the Matter of the Request for Compensation of Consumer Watchdog.**

__X__ **(By U.S. Mail)** on those identified parties in said action, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013.

__X__ **(By Intra-Agency Mail)** on those identified parties in said action, by placing this correspondence in a place designated for collection for delivery by Department of Insurance intra-agency mail.

_____ **(By facsimile transmission)** on those identified parties in said action, by transmitting said document(s) from our office by facsimile machine Fax Number to facsimile machine number(s) shown below. Following the transmission, I received a "Transmission Report" from our fax machine indicating that the transmission had been transmitted without error.

__X__ **(By Email)** on those identified parties in said action, in accordance with Code of Civil Procedure §1013, by emailing true copies thereof at the address set forth below.

SEE ATTACHED PARTY SERVICE LIST

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed in Oakland, California, on August 18, 2023

November 8, 2023
(Date)

F. CRISTOBAL

PARTY SERVICE LIST

Name/Address	Method of Service
Harvey Rosenfield, SBN 123082 Pamela Pressley, SBN 180362 Daniel L. Sternberg, SBN 329799 **Ryan Mellino, SBN 342497** **CONSUMER WATCHDOG** 6330 San Vicente Boulevard, Suite 250 Los Angeles, CA 90048 Tel No.: (310) 392-0522 Fax No.: (310) 392-8874 harvey@consumerwatchdog.org pam@consumerwatchdog.org danny@consumerwatchdog.org ryan.m@consumerwatchdog.org	via Email & U. S. mail
Lisbeth Landsman-Smith Melissa Wurster Sara Ahn Rate Enforcement Bureau **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 4th Floor Oakland, CA 94612 Tel No.: (415) 538-4500 Fax No.: (510) 238-7830 Lisbeth.Landsman@insurance.ca.gov Melissa.Wurster@insurance.ca.gov Sara.Ahn@insurance.ca.gov	via Email & Intra-agency
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NON-PARTY

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PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

State of California, City of Los Angeles, County of Los Angeles

I am employed in the City and County of Los Angeles, State of California. I am over the age of 18 years and not a party to the within action. My business address is 6330 South San Vicente Boulevard, Suite 250, Los Angeles, California 90048, and I am employed in the city and county where this service is occurring.

On August 19, 2024, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S PETITION FOR HEARING, PETITION TO INTERVENE, AND NOTICE OF INTENT TO SEEK COMPENSATION

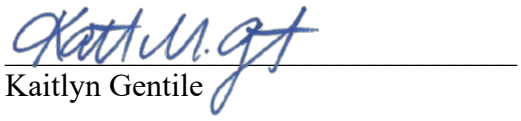
upon the persons named in the attached service list, in the following manner:

1. If marked FAX SERVICE, by facsimile transmission this date to the FAX number stated to the person(s) named.

2. If marked EMAIL, by electronic mail transmission this date to the email address stated.

3. If marked U.S. MAIL or OVERNIGHT or HAND DELIVERED, by placing this date for collection for regular or overnight mailing true copies of the within document in sealed envelopes, addressed to each of the persons so listed. I am readily familiar with the regular practice of collection and processing of correspondence for mailing of U.S. Mail and for sending of Overnight mail. If mailed by U.S. Mail, these envelopes would be deposited this day in the ordinary course of business with the U.S. Postal Service. If mailed Overnight, these envelopes would be deposited this day in a box or other facility regularly maintained by the express service carrier, or delivered this day to an authorized courier or driver authorized by the express service carrier to receive documents, in the ordinary course of business, fully prepaid.

I declare under penalty of perjury that the foregoing is true and correct. Executed on August 19, 2024 at Los Angeles, California.



Kaitlyn Gentile

Service List

Nikki McKennedy Rate Enforcement Bureau **California Department of Insurance** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Tel. (415) 538-4500 Fax (510) 238-7830 Nikki.McKennedy@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Jon Phenix Public Advisor Tina Warren Office of the Public Advisor **California Department of Insurance** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Tel. (916) 492-3705 Fax (510) 238-7830 Jon.Phenix@insurance.ca.gov Tina.Warren@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Nicole Pettis Pricing Manager **State Farm General Insurance Company** 1 State Farm Plaza Bloomington, IL 61710-0001 Tel. 309-766-2265 nicole.pettis.m3ht@statefarm.com	☐ FAX ☒ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL

NOTICE OF HEARING
EXHIBIT D

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Attorneys for Applicant
STATE FARM GENERAL INSURANCE COMPANY

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company Applicant.	File No. 24-1271 **STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING** [Ins. Code §§ 1861.05(c) and 1861.10; Cal. Code Regs., tit. 10, § 2653.4]

State Farm General Insurance Company ("State Farm") answers the Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation ("Petition") submitted by Consumer Watchdog ("CW") as follows:

State Farm is answering the Petition for Hearing only. Under 10 CCR § 2653.4, an answer to a petition for hearing is optional. State Farm answers the Petition here in order to provide information to the California Department of Insurance ("CDI") relevant to its review of the Petition, and to counter certain allegations made in the Petition, including the absence of factual allegations. In conformance with the optional nature of an Answer no allegation is admitted.

Answering paragraphs 1-2, State Farm responds that it filed its Prior Approval Rate Application, CDI File No. 24-1271, on or about June 27, 2024, and File No. 24-1271 was publicly noticed on July 5, 2024. State Farm understands this filing to be the subject of the Petition.

In its Petition, CW makes no plausible allegation that State Farm's applied-for rates fail to meet governing standards.

In paragraph 7, CW states that it "will present and elicit evidence to show that the rates proposed in the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a) . . . ." This is simply a recitation of the statutory standard. It is not a proper allegation and is to be disregarded in considering whether the Petition "states a claim" (in this case, states a disputed issue requiring resolution). *Cf. Freeman v. San Diego Ass'n of Realtors*, 77 Cal. App. 4th 171, 196 (1999) (plaintiff must do more than recite the words of the statute to allege a contract, combination, or conspiracy); *Wolfe v. State Farm Fire and Cas. Ins. Co.*, 46 Cal. App. 4th 554, 560 (1996) (court does not "assume the truth of contentions, deductions or conclusions of fact or law."). There is no hint as to any way in which the applied-for rates might violate the recited standard. CW's further recitation that it "will present and elicit evidence to show that the rates proposed in the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a)" similarly identifies a legal standard, but does not identify any way in which the applied-for rates might be

alleged to violate the cited standard.

The only paragraphs in the Petition that contains any factual allegations concerning State Farm's Rate Application No. 24-1271 are paragraphs 9 through 12. Those are therefore the only paragraphs that require examination to determine whether CW's Petition has stated any issues requiring determination by hearing. *Cf. Freeman*, 77 Cal. App. 4th at 196; *Wolfe*, 46 Cal. App. 4th at 560.

Answering paragraph 9 ["Loss and Premium Trends (10 CCR § 2644.7)"], CW alleges that "State Farm's selected 8-point Reported/Paid frequency and severity trends give too much weight to recent experience." CW's allegations are conclusory and unsupported. With respect to CW's argument on the trend factors, the text of 10 CCR § 2644.7(b) states that trend factors are to be developed using "the insurer's most actuarially sound…data…for the most recent 8, 12, 16, 20, or 24 quarters," and that "[t]he insurer shall file its rate change application using the single data period that it determines to be the most actuarially sound." That is, the text of the regulation requires the data to be "the most actuarially sound" and requires the insurer to use "the most actuarially sound" time period. It does not require "the most actuarially sound" "trend factors."

Regardless, as used in the regulation and as applied to data, a data period, or a trend selection, the "most actuarially sound" standard is vague, ambiguous, inconsistent with common usage of the term "actuarially sound" in the actuarial profession, and the regulatory definition fails to provide reasonably clear direction such that persons of ordinary intelligence versed in the profession must necessarily guess at its meaning and differ as to its application. Neither California regulations nor actuarial literature provides for a process or procedure for determining how to compare multiple actuarially sound estimates within a range of reasonable choices as being "the most appropriate," the test for being "the most actuarially sound" per 10 CCR § 2642.8. State Farm further responds that where a trend selection falls within the range of being "actuarially sound," that does not make it most or least actuarially sound.

State Farm's selected net trend is supported within the filing as detailed in the Filing Memorandum and within the objection response submitted 7/29/2024 (see response to Objection

4).

Answering paragraph 10 ["Catastrophe Adjustment (10 CCR § 2644.6)"], CW alleges that "State Farm has not supported the current filing's AIY value of $846M, a value which seems counterintuitive considering the ultimate Loss + DCCE is projected to decrease," and that the "resulting Catastrophe Adjustment Factor contributes directly to State Farm's overall rate indication and causes it to be overstated." According to CW, its "preliminary analysis shows that a lower Catastrophe Adjustment Factor, based on tempering the impact of the 23% increase to current AIY, is most actuarially sound." CW's allegations are conclusory, unsupported, and reflect a misunderstanding of the filed data. As detailed in State Farm's Filing Memorandum and Exhibit 9, an update to the catastrophe definition was included in this filing. As such, any comparisons to the Catastrophe Adjustment in prior filings would be inappropriate. Further, CW relies upon a misleading comparison (CAT to Non-CAT losses) to overstate the change to the CAT factor (which is a 6% increase, based on data). Moreover, what "seems counterintuitive" to CW is not a factual allegation requiring a hearing.

Answering paragraph 11 [alleged "Improper/Unsupported Excluded Expenses (10 CCR § 2644.10)"], CW alleges that "State Farm has not shown that the three-year sum of the institutional advertising expenses listed on page 4.1 of the Prior Approval Rate Template, $2,436,227,444 (1.2% of premium), is appropriate." According to CW, "[t]his is particularly questionable since the institutional advertising amounts given for each of the three years on page 4.1 are exactly 75% of total advertising, and clearly not the total of actual institutional advertising expenditures." This paragraph contains only conclusory and unsupported argument, which does not meet the requirements for a petition for hearing set forth in 10 CCR §§ 2653.1(a)(3) and 2653.1(b). State Farm has used 75% as the value CDI has accepted for nine years, including in the rate application approved December 21, 2023, which is an overstated value, to avoid the waste of resources on all sides that would be required to prove up the smaller number that would thereby result. The difference to the rate calculation does not warrant the time and resources necessary for that exercise.

Answering paragraph 12 ["Variance 6 (10 CCR § 2644.27(f)(6))"]: CW alleges that "State

Farm has failed to meet its burden to show that (i) the grounds for the variance request are supported; and (ii) the amount of the variance requested is appropriate." CW's allegations are conclusory and unsupported. Exhibit 13 supporting the Prior Approval Rate Application provides an explanation for why the variance is needed due to State Farm decreasing surplus. State Farm must rehabilitate its surplus position in order to provide appropriate protection to California policyholders. State Farm's goal is to remain in the California market and return to pursuit of profitable growth. State Farm's rates are plainly "inadequate" to enable that goal. *See Calfarm Ins. Co. v. Deukmejian*, 48 Cal. 3d 805, 813 (Cal. 1989) (quoting marks omitted).

CW alleges in paragraphs 12(a) through (b) that "[t]here exists no reasonable basis for State Farm to extract excess premium charges of more than $5 billion from policyholders." This assertion (and CW's $5 billion calculation) is conclusory and unsupported. State Farm does not propose "excess" premiums. As State Farm has explained, these premium charges are necessary to increase State Farm's surplus and provide appropriate protection to California policyholders.

CW alleges in paragraphs 12(c) through 12(h) that "[i]t appears that the reinsurance agreement between the Applicant and SFMAIC is not a true transfer of risk, but instead is a mechanism for transferring profits out of the Applicant and into its Parent Company," and that "[t]he reinsurance agreement between the Applicant and SFMAIC has resulted in a significant drain on the surplus of the Applicant, while at the same time enriching its parent company." CW's allegations are conclusory and unsupported, as demonstrated by the absence of allegations identifying facts from which CW's conclusions "appear." Reinsurance is necessary to protect California's policyholders against catastrophic events, such as the 2017 wildfires, where State Farm experienced over $3 billion in loss. CW's allegation that State Farm's reinsurance agreement "is not a true transfer of risk" is conclusory and ignores the important role reinsurance plays in protecting State Farm's policyholders and ensuring that State Farm can meet risk metrics considered by regulators. The reinsurance agreements at issue are filed annually with State Farm General's regulator to ensure the terms are fair and reasonable for the affiliated companies. CW alleges in paragraph 12(i) that "[h]omeowners insurance has not been a significant drain on surplus" and that "Applicant had a four-year underwriting profit of $1.4 billion from homeowners

insurance." CW's allegations about State Farm's underwriting profit exclude the cost of purchasing reinsurance, which is significant expense due to the risk of catastrophic loss in California. CW's allegations about profits over a four-year period ignore the longer-term picture in California, where homeowner's insurance experienced over $3 billion in loss in 2017 and a $350 million loss in 2018. CW's conclusory and unsupported allegation that "homeowner's insurance has not been a significant drain on surplus" thus fails to account for key reasons why State Farm's homeowner's insurance has contributed to State Farm's decreased surplus.

CW alleges in paragraph 12(j) that "instead of using the enormous extra premiums it is requesting through the variance to support writing business in California, the Applicant actually intends to continue its moratorium on new business, significantly decrease the number of policies written, and simply retain the excess premiums." CW's allegations are conclusory, unsupported, and inappropriately interpret the analysis provided within the filing. As detailed in State Farm's objection response submitted 7/29/2024, the purpose of the scenarios shown in Exhibit 13 is to demonstrate impact to surplus based on different rate assumptions. Projected lapses out to 2028 in Exhibit 13 scenarios are based strictly on historical lapse rate and not resuming new business; there is not a plan for State Farm General to reduce its exposure by the amounts shown. This is a typical approach to demonstrate the impact of changing one factor in a projection.

CW alleges in paragraph 12(k) that "the values used by the Applicant with regard to loss trends, catastrophes, and other factors are actuarially unsound," and that "other assumptions made and used in the forecast, which are not part of the rate template calculations, such as 'reinsurance premium' and 'ceded catastrophe losses,' have absolutely no support or justification in the Application." CW further alleges that "the Financial Forecasts are based on various calculations and formulas which were not provided in the PDF file 'NT HO Filing Exhibits,'" and that "the Excel file 'NT Filing Exhibits' does not include any variance calculations." CW's allegation that State Farm's values for loss trends, catastrophes, and other factors are "actuarially unsound" is conclusory and unsupported. Support for the variance is documented within Exhibit 13, with additional support provided in the objection response submitted 7/29/2024. State Farm intends to submit additional information on this topic in a forthcoming Note To Reviewer.

CW alleges in paragraphs 12(l) through (o) that "the Applicant's sole reliance on the IRIS ratios is misplaced and contrary to the applicable guidance from the NAIC," and that "Applicant's 'Total adjusted capital' is more than twice as large as its 'Authorized control level risk-based capital.'" CW further alleges that "Applicant lists four items outside the standard ranges" with respect to the IRIS tests, but that "none of those unusual values are the result of homeowner insurance," and that "homeowners insurance would . . . contribute to an increase, not a decrease, in surplus." CW also alleges that "[w]ith regard to the 'One-Year Reserve Development to Surplus,' the actual value of 21 is just barely above the upper range of 20," and that "homeowners insurance contributed very little to the 'One-Year Reserve Development.'" CW's allegations are conclusory and unsupported. State Farm submitted IRIS ratios in support of the variance request as outlined in CCR § 2644.27(f)(6)(A). State Farm's solvency regulator has initiated company action level supervision over the Company, conclusively establishing the financial distress and solvency risk the Company faces.

CW alleges in paragraphs 12(p) through (r) that "[t]he adverse results in 2023 can be attributed to commercial and liability insurance," and that "the actuary retained by the Applicant who prepared the Statement of Actuarial Opinion confirmed that the adverse experience in 2023 was not the result of homeowners insurance." This rate application is for homeowner's insurance. State Farm has submitted separate rate applications for commercial and liability insurance. CW's conclusory allegations ignore past events significantly impacting State Farm's surplus, including the substantial 2017 and 2018 homeowner's insurance losses, as well as the risk of future losses from homeowner's insurance.

CW alleges in paragraphs 12(s) through (u) that State Farm's plan to restore its financial condition "would force policyholders to capitalize the Applicant with over $5.2 billion in excessive charges from 2025 to 2028, but would not allow the policyholder to have any ownership rights in exchange," an approach allegedly rejected by the Texas Commissioner of Insurance. CW's assertions are conclusory and unsupported. CW cites a case involving different facts litigated under Texas law, without explaining how California law supports CW's position under the facts of this case. *State Farm Lloyds v. Rathgeber*, 453 S.W.3d 87 (Tex. App. 2014),

involved a unique statutory scheme where Texas transitioned from "a largely unregulated Texas homeowners insurance market" to a regulated market, and which required "mandatory refunds" to policyholders in some situations. *Id.* at 93-94. It also involved a different factual scenario, where Texas's Insurance Commissioner analyzed the specific risks faced by State Farm Lloyds in the Texas market when determining the appropriate premium, and the Texas court deferred to the Texas Insurance Commissioner's resolution of "'vexing' and 'difficult' questions of insurance regulation, economic theory, and public policy." *Id.* at 109-110. This case involves both different facts and different law.

CW alleges in paragraphs 12(v) through (x) that State Farm's "'plan' is vague and omits information required by the regulation and necessary to assess the requested variance," that State Farm's "explanation is so vague, arbitrary, and capricious that it is impossible to objectively implement, monitor, or regulate," and that State Farm's "conditions and caveats illegally cede the authority of the California Insurance Commissioner over rates to be charged in California to unnamed rating agencies and to the Illinois Department of Insurance." CW further alleges that State Farm's statement that "[a]fter State Farm General's financial condition has been restored, it will submit an application with a defined future effective date to reduce its rates in at least one line of business . . . . does *not* 'compensate consumers for excessive charges.'" Instead, CW alleges that "the Applicant *must* return the entirety of the excessive charges, with interest, to those who paid the excessive rates." CW's allegations are conclusory and unsupported. State Farm has included in the variance request a plan to reduce rates once the insurer's condition is restored, as required by CCR § 2644.27(f)(6)(D). The purpose of increasing State Farm's surplus is to better protect its policyholders from future catastrophic losses. CW's suggestion that once State Farm's surplus is restored, it must return that surplus to policyholders—and thus again face an inadequate surplus—is contrary to the goal of protecting State Farm's policyholders. CW does not cite any law requiring such an outcome. Additionally, rates approved by the Commissioner considering the issues raised by Variance 6 are by definition not "excessive."

Given the many deficiencies in CW's Petition, State Farm submits that the Commissioner should deny CW's request for a hearing. A court may dismiss a deficient complaint without

further proceedings. *See*, *e.g.*, *Whittemore v. Owens Healthcare-Retail Pharmacy, Inc.*, 185 Cal. App. 4th 1194, 1199 (2010). The Commissioner likewise has authority to conclude that a hearing is unnecessary because CW's Petition does not meet the requirements of 10 CCR § 2653.1(a) and (b). *See* CIC § 1861.05 (stating that "the commissioner must hold a hearing upon a timely request" where "the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines"); 10 CCR § 2653.1 (defining what qualifies as a "request" for a hearing). As that regulation explains, a petition for hearing is a "pleading," and it must contain "[a]n objection to the granting, in whole or in part, of the rate requested in the application, or other request to initiate a proceeding *and the basis therefor*," as well as an "*offer of the evidence* which the person requesting the hearing would present or elicit at the public hearing." 10 CCR § 2653.1(a)(1), (3) (emphases added). In addition, "[a] petition for hearing shall state, in plain language, *the facts constituting grounds for the request* for hearing." *Id.* § 2653.1(b) (emphasis added). CW's formulaic recitations in the Petition do not meet those requirements, and the Commissioner is thus not required to grant a hearing on CW's deficient Petition.[1]

WHEREFORE, State Farm prays that CW's petition for hearing be denied and that the rate application be approved.

Dated: August 12, 2024

HOGAN LOVELLS US LLP

By: _____

Vanessa Wells
Victoria Brown
Attorneys for Applicant
STATE FARM GENERAL INSURANCE COMPANY

[1] State Farm recognizes that the Commissioner has pledged to take a hard look at State Farm's request for Variance 6 and will choose the manner of taking that hard look. That is a separate question from whether CW has adequately alleged facts entitling it to a grant of its Petition.

VERIFICATION

I, Adam Swope, declare as follows:

I hold the title and position of Assistant Vice President and Actuary Property & Casualty Actuarial at State Farm Mutual Insurance Company ("State Farm"). Pursuant to California Code of Regulations, title 10, section 2652.3(a), I make this Verification for and on State Farm's behalf. I worked on State Farm's application given California Department of Insurance File No. 24-1271 and am listed as a State Farm contact person in this filing. I have read the document entitled "State Farm General Insurance Company's Answer to Consumer Watchdog's Petition for Hearing" and am familiar with the contents of that document. The factual matters stated in that document are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this Verification was executed on August 12, 2024 at Bloomington, Illinois.

Adam Swope, FCAS, CPCU, MAAA

PROOF OF SERVICE

I, Kristel Gelera, declare:

I am employed in the County of San Mateo, State of California. I am over the age of eighteen years and not a party to the within-entitled action. My business address is 855 Main Street, Suite 200, Redwood City, California 94063. On August 12, 2024, I caused the foregoing document(s) described as:

STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING

to be served on the interested parties in this action as follows:

☐ If U.S. Mail service is indicated, by placing a true and correct copy(ies) thereof in an envelope addressed to the attorney(ies) of record, addressed as stated below.

☒ If electronic-mail service is indicated, by causing a true copy to be sent via electronic transmission from Hogan Lovells US LLP's computer network in Portable Document Format (PDF) this date to the email address(es) stated, to the attention of the person(s) named.

☐ If Electronic Filing Service (EFS) is indicated, I electronically filed the document(s) with the Clerk of the Court by causing the documents to be sent to One Legal, the Court's Electronic Filing Services Provider for electronic filing and service. Electronic service will be effected by One Legal's case-filing system at the electronic mail addresses indicated on the attached Service List.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on August 12, 2024, at San Jose, California.

Kristel Gelera

SERVICE LIST

In the Matter of the Rate Application of
State Farm General Insurance Company
File No. 24-1271

Via Email Harvey Rosenfield Pamela Pressley Benjamin Powell Ryan Mellino **CONSUMER WATCHDOG** 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 Telephone: (310) 392-0522 Facsimile: (310) 392-8874 Email: harvey@consumerwatchdog.org pam@consumerwatchdog.org ben@consumerwatchdog.org ryan@consumerwatchdog.org	***Via Email*** Nikki Kennedy *Rate Enforcement Bureau* **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 4th Floor Oakland, CA 94612 Telephone: (415) 538-4111 Facsimile: (510) 238-7830 Email: Nikki.McKennedy@insurance.ca.gov
Via Email Jon Phenix Teresa Campbell Heather Hoesterey Tina Warren *Office of the Public Advisor* **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Tel. (916) 492-3705 Fax (510) 238-7830 Email: Jon.Phenix@insurance.ca.gov CampbellT@insurance.ca.gov Heather.Hoesterey@insurance.ca.gov Tina.Warren@insurance.ca.gov	

NOTICE OF HEARING
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STATE FARM GENERAL INSURANCE COMPANY

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No. PA-2024-00011 **STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING** File No. 24-1273 [Ins. Code §§ 1861.05(c) and 1861.10; Cal. Code Regs., tit. 10, § 2653.4]

State Farm General Insurance Company ("State Farm") answers the Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation ("Petition") submitted by Consumer Watchdog ("CW") as follows:

State Farm is answering the Petition for Hearing only. Under 10 CCR § 2653.4, an answer to a petition for hearing is optional. State Farm answers the Petition here in order to provide information to the California Department of Insurance ("CDI") relevant to its review of the Petition, and to counter certain allegations made in the Petition, including the absence of factual allegations. In conformance with the optional nature of an Answer no allegation is admitted.

Answering paragraphs 1-2, State Farm responds that it filed its Prior Approval Rate Application, CDI File No. 24-1273, on or about June 27, 2024, and File No. 24-1273 was publicly noticed on July 5, 2024. State Farm understands this filing to be the subject of the Petition.

In its Petition, CW makes no plausible allegation that State Farm's applied-for rates fail to meet governing standards.

In paragraph 7, CW states that it "will present and elicit evidence to show that the rates proposed in the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a) . . . ." This is simply a recitation of the statutory standard. It is not a proper allegation and is to be disregarded in considering whether the Petition "states a claim" (in this case, states a disputed issue requiring resolution). *Cf. Freeman v. San Diego Assn of Realtors*, 77 Cal. App. 4th 171, 196 (1999) (plaintiff must do more than recite the words of the statute to allege a contract, combination, or conspiracy); *Wolfe v. State Farm Fire and Cas. Ins. Co.*, 46 Cal. App. 4th 554, 560 (1996) (court does not "assume the truth of contentions, deductions or conclusions of fact or law."). There is no hint as to any way in which the applied-for rates might violate the recited standard. CW's further recitation that it "will present and elicit evidence that Applicant's proposed rates violate 10 CCR § 2644.1, which provides that '[n]o rate shall be approved or remain in effect that is above the maximum permitted earned premium as defined in section 2644.2'" similarly identifies a legal standard, but does not identify any way in

which the applied-for rates might be alleged to violate the cited standard.

The only paragraphs in the Petition that contains any factual allegations concerning State Farm's Rate Application No. 24-1273 are paragraphs 9 through 12. Those are therefore the only paragraphs that require examination to determine whether CW's Petition has stated any issues requiring determination by hearing. *Cf. Freeman*, 77 Cal. App. 4th at 196; *Wolfe*, 46 Cal. App. 4th at 560.

Answering paragraph 9 ["Loss and Premium Trends (10 CCR § 2644.7)"], CW alleges that "State Farm's 20-point Reported/Paid frequency and severity trend selections result in unreasonable and excessive net trends (+4.4% for Renters and +4.6% for Condominium Unitowners) that overstate the projected losses, causing an inflated rate indication". CW's allegations are conclusory and unsupported. With respect to CW's argument on the trend factors, the text of 10 CCR § 2644.7(b) states that trend factors are to be developed using "the insurer's most actuarially sound…data…for the most recent 8, 12, 16, 20, or 24 quarters," and that "[t]he insurer shall file its rate change application using the single data period that it determines to be the most actuarially sound." That is, the text of the regulation requires the data to be "the most actuarially sound" and requires the insurer to use "the most actuarially sound" time period. It does not require "the most actuarially sound" "trend factors."

Regardless, as used in the regulation and as applied to data, a data period, or a trend selection, the "most actuarially sound" standard is vague, ambiguous, inconsistent with common usage of the term "actuarially sound" in the actuarial profession, and the regulatory definition fails to provide reasonably clear direction such that persons of ordinary intelligence versed in the profession must necessarily guess at its meaning and differ as to its application. Neither California regulations nor actuarial literature provides for a process or procedure for determining how to compare multiple actuarially sound estimates within a range of reasonable choices as being "the most appropriate," the test for being "the most actuarially sound" per 10 CCR § 2642.8. State Farm further responds that where a trend selection falls within the range of being "actuarially sound," that does not make it most or least actuarially sound.

State Farm's selected net trend is supported within the filing as detailed in the Filing

Memorandum and within the objection response submitted 7/29/2024 (see response to Objection 4).

Answering paragraph 10 ["Catastrophe Adjustment (10 CCR § 2644.6)"], CW alleges that increases in State Farm's Cat Provision to Non-Cast Loss + DCCE values for Renters and Condominium Unitowners over the same provisions for State Farm's last CA HO filing "are driven by leveraging of the abnormally large 2023 Cat/AIY ratios from Column r of Exhibit 9, pages 2 and 3, which occurs because 2023 receives the most weight under State Farm's weighting scheme. State Farm's weighting methodology corresponds with that authorized by the precedent decision in PA-2015-00004, pp. 28 and 29. CW alleges that "[t]he resulting Catastrophe Adjustment Factors for these coverages contribute directly to State Farm's overall rate indication and rated indications by policy form, and cause them to be overstated". According to CW, its "preliminary analysis shows that a lower Catastrophe Adjustment Factor, based on tempering the impact of the 2023 Cat/AIY ratios, are more actuarially sound". CW's allegations are conclusory, unsupported, and reflect a misunderstanding of the filed data. As detailed in State Farm's Filing Memorandum and Exhibit 9, an update to the catastrophe definition was included in this filing. As such, any comparisons to the Catastrophe Adjustment in prior filings would be inappropriate. Further, CW relies upon a misleading comparison (CAT to Non-CAT losses) to overstate the change to the CAT factor (which is a 2.1% increase for Renters and 2.2% increase for Condominium Unitowners, based on data provided in the original filing submission).

Answering paragraph 11 [alleged "Improper/Unsupported Excluded Expenses (10 CCR § 2644.10)"], CW alleges that "State Farm has not shown that the three-year sum of the institutional advertising expenses listed on page 4.1 of the Prior Approval Rate Template, $2,436,227,444 (1.2% of premium), is appropriate." According to CW, "[t]his is particularly questionable since the institutional advertising amounts given for each of the three years on page 4.1 are exactly 75% of total advertising, and clearly not the total of actual institutional advertising expenditures." This paragraph contains only conclusory and unsupported argument, which does not meet the requirements for a petition for hearing set forth in 10 CCR §§ 2653.1(a)(3) and 2653.1(b). State Farm has used 75% as the value CDI has accepted for nine years, including in

the rate application approved December 21, 2023, which is an overstated value, to avoid the waste of resources on all sides that would be required to prove up the smaller number that would thereby result. The difference to the rate calculation does not warrant the time and resources necessary for that exercise.

Answering paragraph 12 ["Variance 6 (10 CCR § 2644.27(f)(6))"]: CW alleges that "State Farm has failed to meet its burden to show that (i) the grounds for the variance request are supported; and (ii) the amount of the variance requested is appropriate." CW's allegations are conclusory and unsupported. Exhibit 13 supporting the Prior Approval Rate Application provides an explanation for why the variance is needed due to State Farm decreasing surplus. State Farm must rehabilitate its surplus position in order to provide appropriate protection to California policyholders. State Farm's goal is to remain in the California market and return to pursuit of profitable growth. State Farm's rates are plainly "inadequate" to enable that goal. *See Calfarm Ins. Co. v. Deukmejian*, 48 Cal. 3d 805, 813 (Cal. 1989).

CW alleges in paragraphs 12(a) through (b) that "[t]here exists no reasonable basis for State Farm to extract excess premium charges of more than $350 million from policyholders." This assertion (and CW's $350 million calculation) is conclusory and unsupported. State Farm does not propose "excess" premiums. As State Farm has explained, these premium charges are necessary to increase State Farm's surplus and provide appropriate protection to California policyholders.

CW alleges in paragraphs 12(c) through 12(h) that "[i]t appears that the reinsurance agreement between the Applicant and SFMAIC is not a true transfer of risk, but instead is a mechanism for transferring profits out of the Applicant and into its Parent Company," and that "[t]he reinsurance agreement between the Applicant and SFMAIC has resulted in a significant drain on the surplus of the Applicant, while at the same time enriching its parent company." CW's allegations are conclusory and unsupported, as demonstrated by the absence of allegations identifying facts from which CW's conclusions "appear." Reinsurance is necessary to protect California's policyholders against catastrophic events, such as the 2017 wildfires, where State Farm experienced over $3 billion in loss. CW's allegation that State Farm's reinsurance

agreement "is not a true transfer of risk" is conclusory and ignores the important role reinsurance plays in protecting State Farm's policyholders and ensuring that State Farm can meet risk metrics considered by regulators. The reinsurance agreements at issue are filed annually with State Farm General's regulator to ensure the terms are fair and reasonable for the affiliated companies. CW alleges in paragraph 12(i) that "[h]omeowners insurance has not been a significant drain on surplus" and that "Applicant had a four-year underwriting profit of $1.4 billion from homeowners insurance." CW's allegations about State Farm's underwriting profit exclude the cost of purchasing reinsurance, which is significant expense due to the risk of catastrophic loss in California. CW's allegations about profits over a four-year period ignore the longer-term picture in California, where homeowner's insurance experienced over $3 billion in loss in 2017 and a $350 million loss in 2018. CW's conclusory and unsupported allegation that "homeowner's insurance has not been a significant drain on surplus" thus fails to account for key reasons why State Farm's homeowner's insurance has contributed to State Farm's decreased surplus.

CW alleges in paragraph 12(j) that "instead of using the enormous extra premiums it is requesting through the variance to support writing business in California, the Applicant actually intends to continue its moratorium on new business, significantly decrease the number of policies written, and simply retain the excess premiums." CW's allegations are conclusory, unsupported, and inappropriately interpret the analysis provided within the filing. As detailed in State Farm's objection response submitted 7/29/2024 for filing 24-1273 the purpose of the scenarios shown in Exhibit 13[1] is to demonstrate impact to surplus based on different rate assumptions. Projected lapses out to 2028 in Exhibit 13 scenarios are based strictly on historical lapse rate and not resuming new business; there is not a plan for State Farm General to reduce its exposure by the amounts shown. This is a typical approach to demonstrate the impact of changing one factor in a projection.

CW alleges in paragraph 12(k) that "the values used by the Applicant with regard to loss trends, catastrophes, and other factors are actuarially unsound," and that "other assumptions made

[1] The Exhibit 13s in filing 24-1271 and 24-1273 are submitted for the same purpose, applying to different sublines.

and used in the forecast, which are not part of the rate template calculations, such as 'reinsurance premium' and 'ceded catastrophe losses,' have absolutely no support or justification in the Application." CW further alleges that "the Financial Forecasts are based on various calculations and formulas which were not provided in the PDF file 'TN HO Filing Exhibits,'" and that "the Excel file 'TN Filing Exhibits' does not include any variance calculations." CW's allegation that State Farm's values for loss trends, catastrophes, and other factors are "actuarially unsound" is conclusory and unsupported. Support for the variance is documented within Exhibit 13, with additional support provided in the objection response submitted 7/29/2024 and the Note to Reviewer submitted 8/29/2024.

CW alleges in paragraphs 12(l) through (o) that "the Applicant's sole reliance on the IRIS ratios is misplaced and contrary to the applicable guidance from the NAIC," and that "Applicant's 'Total adjusted capital' is more than twice as large as its 'Authorized control level risk-based capital.'" CW further alleges that "Applicant lists four items outside the standard ranges" with respect to the IRIS tests, but that "none of those unusual values are the result of homeowner insurance," and that "homeowners insurance would . . . contribute to an increase, not a decrease, in surplus." CW also alleges that "[w]ith regard to the 'One-Year Reserve Development to Surplus,' the actual value of 21 is just barely above the upper range of 20," and that "homeowners insurance contributed very little to the 'One-Year Reserve Development.'" CW's allegations are conclusory and unsupported. State Farm submitted IRIS ratios in support of the variance request as outlined in CCR § 2644.27(f)(6)(A). State Farm's solvency regulator has initiated company action level supervision over the Company, conclusively establishing the financial distress and solvency risk the Company faces.

CW alleges in paragraphs 12(p) through (r) that "[t]he adverse results in 2023 can be attributed to commercial and liability insurance," and that "the actuary retained by the Applicant who prepared the Statement of Actuarial Opinion confirmed that the adverse experience in 2023 was not the result of homeowners insurance." This rate application is for homeowner's insurancE, specifically California Renters and Condominium Unitowners. State Farm has submitted separate rate applications for commercial and liability insurance. CW's conclusory

allegations ignore past events significantly impacting State Farm's surplus, including the substantial 2017 and 2018 homeowner's insurance losses, as well as the risk of future losses from homeowner's insurance.

CW alleges in paragraphs 12(s) through (u) that State Farm's plan to restore its financial condition "would force policyholders to capitalize the Applicant with over $350 million in excessive charges from 2025 to 2028, but would not allow the policyholder to have any ownership rights in exchange," an approach allegedly rejected by the Texas Commissioner of Insurance. CW's assertions are conclusory and unsupported. CW cites a case involving different facts litigated under Texas law, without explaining how California law supports CW's position under the facts of this case. *State Farm Lloyds v. Rathgeber*, 453 S.W.3d 87 (Tex. App. 2014), involved a unique statutory scheme where Texas transitioned from "a largely unregulated Texas homeowners insurance market" to a regulated market, and which required "mandatory refunds" to policyholders in some situations. *Id.* at 93-94. It also involved a different factual scenario, where Texas's Insurance Commissioner analyzed the specific risks faced by State Farm Lloyds in the Texas market when determining the appropriate premium, and the Texas court deferred to the Texas Insurance Commissioner's resolution of "'vexing' and 'difficult' questions of insurance regulation, economic theory, and public policy." *Id.* at 109-110. This case involves both different facts and different law.

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who paid the excessive rates." CW's allegations are conclusory and unsupported. State Farm has included in the variance request a plan to reduce rates once the insurer's condition is restored, as required by CCR § 2644.27(f)(6)(D). The purpose of increasing State Farm's surplus is to better protect its policyholders from future catastrophic losses. CW's suggestion that once State Farm's surplus is restored, it must return that surplus to policyholders—and thus again face an inadequate surplus—is contrary to the goal of protecting State Farm's policyholders. CW does not cite any law requiring such an outcome. Additionally, rates approved by the Commissioner considering the issues raised by Variance 6 are by definition not "excessive."

Given the many deficiencies in CW's Petition, State Farm submits that the Commissioner should deny CW's request for a hearing. A court may dismiss a deficient complaint without further proceedings. *See*, *e.g.*, *Whittemore v. Owens Healthcare-Retail Pharmacy, Inc.*, 185 Cal. App. 4th 1194, 1199 (2010). The Commissioner likewise has authority to conclude that a hearing is unnecessary because CW's Petition does not meet the requirements of 10 CCR § 2653.1(a) and (b). *See* CIC § 1861.05 (stating that "the commissioner must hold a hearing upon a timely request" where "the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines"); 10 CCR § 2653.1 (defining what qualifies as a "request" for a hearing). As that regulation explains, a petition for hearing is a "pleading," and it must contain "[a]n objection to the granting, in whole or in part, of the rate requested in the application, or other request to initiate a proceeding *and the basis therefor*," as well as an "*offer of the evidence* which the person requesting the hearing would present or elicit at the public hearing." 10 CCR § 2653.1(a)(1), (3) (emphases added). In addition, "[a] petition for hearing shall state, in plain language, *the facts constituting grounds for the request* for hearing." *Id.* § 2653.1(b) (emphasis added). CW's formulaic recitations in the Petition do not meet those requirements, and the Commissioner is thus not required to grant a hearing on CW's deficient Petition.[2]

[2] State Farm recognizes that the Commissioner has pledged to take a hard look at State Farm's request for Variance 6 and will choose the manner of taking that hard look. That is a separate question from whether CW has adequately alleged facts entitling it to a grant of its Petition.

WHEREFORE, State Farm prays that CW's petition for hearing be denied and that the rate application be approved.

Dated: September 5, 2024

HOGAN LOVELLS US LLP

By: _____

Vanessa Wells
Victoria Brown
Attorneys for Applicant
STATE FARM GENERAL INSURANCE COMPANY

VERIFICATION

I, Adam Swope, declare as follows:

I hold the title and position of Vice President and Actuary Property & Casualty Actuarial at State Farm Mutual Insurance Company ("State Farm"). Pursuant to California Code of Regulations, title 10, section 2652.3(a), I make this Verification for and on State Farm's behalf. I worked on State Farm's application given California Department of Insurance File No. 24-1273 and am listed as a State Farm contact person in those filings. I have read the document entitled "State Farm General Insurance Company's Answer to Consumer Watchdog's Petition for Hearing" and am familiar with the contents of that document. The factual matters stated in that document are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this Verification was executed on September 5, 2024 at Bloomington, Illinois.

Adam Swope, FCAS, CPCU, MAAA

PROOF OF SERVICE

I, Kristel Gelera, declare:

I am employed in the County of San Mateo, State of California. I am over the age of eighteen years and not a party to the within-entitled action. My business address is 855 Main Street, Suite 200, Redwood City, California 94063. On September 5, 2024, I caused the foregoing document(s) described as:

STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING

to be served on the interested parties in this action as follows:

☐ If U.S. Mail service is indicated, by placing a true and correct copy(ies) thereof in an envelope addressed to the attorney(ies) of record, addressed as stated below.

☒ If electronic-mail service is indicated, by causing a true copy to be sent via electronic transmission from Hogan Lovells US LLP's computer network in Portable Document Format (PDF) this date to the email address(es) stated, to the attention of the person(s) named.

☐ If Electronic Filing Service (EFS) is indicated, I electronically filed the document(s) with the Clerk of the Court by causing the documents to be sent to One Legal, the Court's Electronic Filing Services Provider for electronic filing and service. Electronic service will be effected by One Legal's case-filing system at the electronic mail addresses indicated on the attached Service List.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on September 5, 2024, at San Jose, California.

Kristel Gelera

SERVICE LIST

In the Matter of the Rate Application of
State Farm General Insurance Company
PA-2024-00011
File No. 24-1273

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Via Email Jon Phenix Teresa Campbell Heather Hoesterey Tina Warren *Office of the Public Advisor* **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Tel. (916) 492-3705 Fax (510) 238-7830 Email: Jon.Phenix@insurance.ca.gov CampbellT@insurance.ca.gov Heather.Hoesterey@insurance.ca.gov Tina.Warren@insurance.ca.gov	

NOTICE OF HEARING
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STATE FARM GENERAL INSURANCE COMPANY

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No.: 24-1330 **STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING** [Ins. Code §§ 1861.05(c) and 1861.10; Cal. Code Regs., tit. 10, § 2653.4]

State Farm General Insurance Company ("State Farm General") answers the Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation ("Petition") submitted by Consumer Watchdog ("CW") as follows:

State Farm is answering the Petition for Hearing only. Under 10 CCR § 2653.4, an answer to a petition for hearing is optional. State Farm answers the Petition here in order to provide information to the California Department of Insurance ("CDI") relevant to its review of the Petition, and to counter certain allegations made in the Petition, including the absence of factual allegations. In conformance with the optional nature of an Answer no allegation is admitted.

Answering paragraphs 1-2, State Farm responds that it filed its Prior Approval Rate Application, CDI File No. 24-1330, on or about July 5, 2024, and File No. 24-1330 was publicly noticed on July 12, 2024. State Farm understands this filing to be the subject of the Petition.

In its Petition, CW makes no plausible allegation that State Farm's applied-for rates fail to meet governing standards.

In paragraph 7, CW states that it "will present and elicit evidence to show that the rates proposed in the Application are excessive and/or unfairly discriminatory in violation of Insurance Code section 1861.05, subdivision (a) . . . ." This is simply a recitation of the statutory standard. It is not a proper allegation and is to be disregarded in considering whether the Petition "states a claim" (in this case, states a disputed issue requiring resolution). *Cf. Freeman v. San Diego Assn of Realtors*, 77 Cal. App. 4th 171, 196 (1999) (plaintiff must do more than recite the words of the statute to allege a contract, combination, or conspiracy); *Wolfe v. State Farm Fire and Cas. Ins. Co.*, 46 Cal. App. 4th 554, 560 (1996) (court does not "assume the truth of contentions, deductions or conclusions of fact or law."). There is no hint as to any way in which the applied-for rates might violate the recited standard. CW's further recitation that it "will present and elicit evidence that Applicant's proposed rates violate 10 CCR § 2644.1, which provides that '[n]o rate shall be approved or remain in effect that is above the maximum permitted earned premium as defined in section 2644.2'" similarly identifies a legal standard, but does not identify any way in which the applied-for rates might be alleged to violate the cited standard.

The only paragraphs in the Petition that contains any factual allegations concerning State Farm's Rate Application No. 24-1273 are paragraphs 9 through 12. Those are therefore the only paragraphs that require examination to determine whether CW's Petition has stated any issues requiring determination by hearing. *Cf. Freeman*, 77 Cal. App. 4th at 196; *Wolfe*, 46 Cal. App. 4th at 560.

Answering paragraph 9 ["Loss and Premium Trends (10 CCR § 2644.7)"], CW alleges that "State Farm's selected 20-point Reported/Paid frequency and severity trend selections result in unreasonable and excessive net trend of +6.7% that overstates the projected losses, causing an inflated rate indication". CW's allegations are conclusory and unsupported. With respect to CW's argument on the trend factors, the text of 10 CCR § 2644.7(b) states that trend factors are to be developed using "the insurer's most actuarially sound…data…for the most recent 8, 12, 16, 20, or 24 quarters," and that "[t]he insurer shall file its rate change application using the single data period that it determines to be the most actuarially sound." That is, the text of the regulation requires the data to be "the most actuarially sound" and requires the insurer to use "the most actuarially sound" time period. It does not require "the most actuarially sound" "trend factors."

Regardless, as used in the regulation and as applied to data, a data period, or a trend selection, the "most actuarially sound" standard is vague, ambiguous, inconsistent with common usage of the term "actuarially sound" in the actuarial profession, and the regulatory definition fails to provide reasonably clear direction such that persons of ordinary intelligence versed in the profession must necessarily guess at its meaning and differ as to its application. Neither California regulations nor actuarial literature provides for a process or procedure for determining how to compare multiple actuarially sound estimates within a range of reasonable choices as being "the most appropriate," the test for being "the most actuarially sound" per 10 CCR § 2642.8. State Farm further responds that where a trend selection falls within the range of being "actuarially sound," that does not make it most or least actuarially sound.

State Farm's selected net trend is supported within the filing as detailed in the Filing Memorandum and within the objection response submitted 7/29/2024 (see response to Objection

4).

Answering paragraph 10 ["Catastrophe Adjustment (10 CCR § 2644.6)"], CW alleges that State Farm has not supported the current filing's AIY value of $136M, a value which seems counterintuitive considering the ultimate Loss + DCCE is projected to decrease, " and that the "resulting Catastrophe Adjustment Factor contributes directly to State Farm's overall rate indication and causes it to be overstated". According to CW, its "preliminary analysis shows that a lower Catastrophe Adjustment Factor, based on tempering the impact of the 20% increase to current AIY and the 14% increase to Projected Annual AIY Trend, is more actuarially sound". CW's allegations are conclusory, unsupported, and reflect a misunderstanding of the filed data. As detailed in State Farm's Filing Memorandum and Exhibit 9, an update to the catastrophe definition was included in this filing. As such, any comparisons to the Catastrophe Adjustment in prior filings would be inappropriate. Further, CW relies upon a misleading comparison (CAT to Non-CAT losses) to overstate the change to the CAT factor (which is a 3.6% increase, based on data).

Answering paragraph 11 [alleged "Improper/Unsupported Excluded Expenses (10 CCR § 2644.10)"], CW alleges that "State Farm has not shown that the sum of the institutional advertising expenses listed on page 4.1 of the Prior Approval Rate Template, $2,436,227,444, is appropriate." According to CW, "[t]his is particularly questionable since the institutional advertising amounts given for each of the three years on page 4.1 are exactly 75% of total advertising, and clearly not the total of actual institutional advertising expenditures." This paragraph contains only conclusory and unsupported argument, which does not meet the requirements for a petition for hearing set forth in 10 CCR §§ 2653.1(a)(3) and 2653.1(b). State Farm has used 75% as the value CDI has accepted for nine years, including in the rate application approved December 21, 2023, which is an overstated value, to avoid the waste of resources on all sides that would be required to prove up the smaller number that would thereby result. The difference to the rate calculation does not warrant the time and resources necessary for that exercise.

Answering paragraph 12 ["Variance 6 (10 CCR § 2644.27(f)(6))"]: CW alleges that "State

Farm has failed to meet its burden to show that (i) the grounds for the variance request are supported; and (ii) the amount of the variance requested is appropriate." CW's allegations are conclusory and unsupported. Exhibit 13 supporting the Prior Approval Rate Application provides an explanation for why the variance is needed due to State Farm decreasing surplus. State Farm must rehabilitate its surplus position in order to provide appropriate protection to California policyholders. State Farm's goal is to remain in the California market and return to pursuit of profitable growth. State Farm's rates are plainly "inadequate" to enable that goal. *See Calfarm Ins. Co. v. Deukmejian*, 48 Cal. 3d 805, 813 (Cal. 1989).

CW alleges in paragraphs 12(a) through (b) that "[t]here exists no reasonable basis for State Farm to extract excess premium charges of more than $344 million from policyholders." This assertion (and CW's $344 million calculation) is conclusory and unsupported. State Farm does not propose "excess" premiums. As State Farm has explained, these premium charges are necessary to increase State Farm's surplus and provide appropriate protection to California policyholders.

CW alleges in paragraphs 12(c) through 12(h) that "[i]t appears that the reinsurance agreement between the Applicant and SFMAIC is not a true transfer of risk, but instead is a mechanism for transferring profits out of the Applicant and into its Parent Company," and that "[t]he reinsurance agreement between the Applicant and SFMAIC has resulted in a significant drain on the surplus of the Applicant, while at the same time enriching its parent company." CW's allegations are conclusory and unsupported, as demonstrated by the absence of allegations identifying facts from which CW's conclusions "appear." Reinsurance is necessary to protect California's policyholders against catastrophic events, such as the 2017 wildfires, where State Farm experienced over $3 billion in loss. CW's allegation that State Farm's reinsurance agreement "is not a true transfer of risk" is conclusory and ignores the important role reinsurance plays in protecting State Farm's policyholders and ensuring that State Farm can meet risk metrics considered by regulators. The reinsurance agreements at issue are filed annually with State Farm General's regulator to ensure the terms are fair and reasonable for the affiliated companies.

CW alleges in paragraphs12(i) and 12(j) that "[h]omeowners insurance has not been a

significant drain on surplus" and that "Applicant had a four-year underwriting profit of $1.4 billion from homeowners insurance" and a three-year "average annual underwriting profit of $28,885,002 for Rental Dwelling". CW's allegations about State Farm's underwriting profit exclude the cost of purchasing reinsurance, which is significant expense due to the risk of catastrophic loss in California. CW's allegations about profits over a four-year period (and three-year period for Rental Dwelling) ignore the longer-term picture in California, where homeowner's insurance experienced over $3 billion in loss in 2017 and a $350 million loss in 2018. CW's conclusory and unsupported allegation that "homeowner's insurance has not been a significant drain on surplus" thus fails to account for key reasons why State Farm's homeowner's insurance has contributed to State Farm's decreased surplus.

CW alleges in paragraph 12(k) that "instead of using the enormous extra premiums it is requesting through the variance to support writing business in California, the Applicant actually intends to continue its moratorium on new business, significantly decrease the number of policies written, and simply retain the excess premiums." CW's allegations are conclusory, unsupported, and inappropriately interpret the analysis provided within the filing. As detailed in State Farm's objection response submitted 7/29/2024 for filing 24-1330, the purpose of the scenarios shown in Exhibit 13[1] is to demonstrate impact to surplus based on different rate assumptions. Projected lapses out to 2028 in Exhibit 13 scenarios are based strictly on historical lapse rate and not resuming new business; there is not a plan for State Farm General to reduce its exposure by the amounts shown. This is a typical approach to demonstrate the impact of changing one factor in a projection.

CW alleges in paragraph 12(l) that "the values used by the Applicant with regard to loss trends, catastrophes, and other factors are actuarially unsound," and that "other assumptions made and used in the forecast, which are not part of the rate template calculations, such as 'reinsurance premium' and 'ceded catastrophe losses,' have absolutely no support or justification in the Application." CW further alleges that "the Financial Forecasts are based on various calculations

[1] The Exhibit 13s in filings 24-1271 and 24-1330 are submitted for the same purpose, applying to different sublines.

and formulas which were not provided in the PDF file 'RDP Filing Exhibits,'" and that "the Excel file 'RDP Filing Exhibits' does not include any variance calculations." CW's allegation that State Farm's values for loss trends, catastrophes, and other factors are "actuarially unsound" is conclusory and unsupported. Support for the variance is documented within Exhibit 13, with additional support provided in the objection response submitted 7/29/2024 and the Note to Reviewer submitted 8/28/2024.

CW alleges in paragraphs 12(m) through (p) that "the Applicant's reliance solely on the IRIS ratios is misplaced and contrary to the applicable guidance from the NAIC," and that "Applicant's 'Total adjusted capital' is more than twice as large as its 'Authorized control level risk-based capital.'" CW further alleges that "Applicant lists four items outside the standard ranges" with respect to the IRIS tests, but that "none of those unusual values are the result of homeowners insurance," and that "homeowners insurance would . . . contribute to an increase, not a decrease, in surplus." CW also alleges that "[w]ith regard to the 'One-Year Reserve Development to Surplus,' the actual value of 21 is just barely above the upper range of 20," and that "homeowners insurance contributed very little to the 'One-Year Reserve Development.'" CW's allegations are conclusory and unsupported. State Farm submitted IRIS ratios in support of the variance request as outlined in CCR § 2644.27(f)(6)(A). State Farm's solvency regulator has initiated company action level supervision over the Company, conclusively establishing the financial distress and solvency risk the Company faces.

CW alleges in paragraphs 12(q) through (s) that "[t]he adverse results in 2023 can be attributed to commercial and liability insurance," and that "the actuary retained by the Applicant who prepared the Statement of Actuarial Opinion confirmed that the adverse experience in 2023 was not the result of homeowners insurance." This rate application is for homeowner's insurance, specifically Rental Dwelling. State Farm has submitted separate rate applications for commercial and liability insurance. CW's conclusory allegations ignore past events significantly impacting State Farm's surplus, including the substantial 2017 and 2018 homeowner's insurance losses, as well as the risk of future losses from homeowner's insurance.

CW alleges in paragraphs 12(t) through (v) that State Farm's plan to restore its financial

condition "would force policyholders to capitalize the Applicant with over $350 million in excessive charges from 2025 to 2028, but would not allow the policyholder to have any ownership rights in exchange," an approach allegedly rejected by the Texas Commissioner of Insurance. CW's assertions are conclusory and unsupported. CW cites a case involving different facts litigated under Texas law, without explaining how California law supports CW's position under the facts of this case. *State Farm Lloyds v. Rathgeber*, 453 S.W.3d 87 (Tex. App. 2014), involved a unique statutory scheme where Texas transitioned from "a largely unregulated Texas homeowners insurance market" to a regulated market, and which required "mandatory refunds" to policyholders in some situations. *Id.* at 93-94. It also involved a different factual scenario, where Texas's Insurance Commissioner analyzed the specific risks faced by State Farm Lloyds in the Texas market when determining the appropriate premium, and the Texas court deferred to the Texas Insurance Commissioner's resolution of "'vexing' and 'difficult' questions of insurance regulation, economic theory, and public policy." *Id.* at 109-110. This case involves both different facts and different law.

CW alleges in paragraphs 12(w) through (y) that State Farm's "'plan' is vague and omits information [SIC] required by the regulation and necessary to assess the requested variance," that State Farm's "explanation is so vague, arbitrary, and capricious that it is impossible to objectively implement, monitor, or regulate," and that State Farm's "conditions and caveats illegally cede the authority of the California Insurance Commissioner over rates to be charged in California to unnamed rating agencies and to the Illinois Department of Insurance." CW further alleges that State Farm's statement that "[a]fter State Farm General's financial condition has been restored, it will submit an application with a defined future effective date to reduce its rates in at least one line of business . . . . does *not* 'compensate consumers for excessive charges.'" Instead, CW alleges that "the Applicant *must* return the entirety of the excessive charges, with interest, to those who paid the excessive rates." CW's allegations are conclusory and unsupported. State Farm has included in the variance request a plan to reduce rates once the insurer's condition is restored, as required by CCR § 2644.27(f)(6)(D). The purpose of increasing State Farm's surplus is to better protect its policyholders from future catastrophic losses. CW's suggestion that once State Farm's

surplus is restored, it must return that surplus to policyholders—and thus again face an inadequate surplus—is contrary to the goal of protecting State Farm's policyholders. CW does not cite any law requiring such an outcome. Additionally, rates approved by the Commissioner considering the issues raised by Variance 6 are by definition not "excessive."

Given the many deficiencies in CW's Petition, State Farm submits that the Commissioner should deny CW's request for a hearing. A court may dismiss a deficient complaint without further proceedings. *See*, *e.g.*, *Whittemore v. Owens Healthcare-Retail Pharmacy, Inc.*, 185 Cal. App. 4th 1194, 1199 (2010). The Commissioner likewise has authority to conclude that a hearing is unnecessary because CW's Petition does not meet the requirements of 10 CCR § 2653.1(a) and (b). *See* CIC § 1861.05 (stating that "the commissioner must hold a hearing upon a timely request" where "the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines"); 10 CCR § 2653.1 (defining what qualifies as a "request" for a hearing). As that regulation explains, a petition for hearing is a "pleading," and it must contain "[a]n objection to the granting, in whole or in part, of the rate requested in the application, or other request to initiate a proceeding *and the basis therefor*," as well as an "*offer of the evidence* which the person requesting the hearing would present or elicit at the public hearing." 10 CCR § 2653.1(a)(1), (3) (emphases added). In addition, "[a] petition for hearing shall state, in plain language, *the facts constituting grounds for the request* for hearing." *Id.* § 2653.1(b) (emphasis added). CW's formulaic recitations in the Petition do not meet those requirements, and the Commissioner is thus not required to grant a hearing on CW's deficient Petition.[2]

WHEREFORE, State Farm General prays that CW's petition for hearing be denied and that the rate application be approved.

[2] State Farm recognizes that the Commissioner has pledged to take a hard look at State Farm's request for Variance 6 and will choose the manner of taking that hard look. That is a separate question from whether CW has adequately alleged facts entitling it to a grant of its Petition.

Dated: September 3, 2024

HOGAN LOVELLS US LLP

By: _____
Vanessa Wells
Attorneys for Applicant
STATE FARM GENERAL INSURANCE COMPANY

VERIFICATION

I, Adam Swope, declare as follows:

I hold the title and position of Assistant Vice President and Actuary Property & Casualty Actuarial at State Farm General Insurance Company ("State Farm General"). Pursuant to California Code of Regulations, title 10, section 2652.3(a), I make this Verification for and on State Farm General's behalf. I worked on State Farm General's application given California Department of Insurance File No. 24-1330 and am listed as a State Farm General contact person in those filings. I have read the document entitled "STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING" and am familiar with the contents of that document. The factual matters stated in that document are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this Verification was executed on September 3, 2024 at Bloomington, Illinois.

Adam Swope, FCAS, CPCU, MAAA

HOGAN LOVELLS US LLP
ATTORNEYS AT LAW
SILICON VALLEY

PROOF OF SERVICE

I, Kristel Gelera, declare:

I am employed in the County of San Mateo, State of California. I am over the age of eighteen years and not a party to the within-entitled action. My business address is 855 Main Street, Suite 200, Redwood City, California 94063. On September 3, 2024, I caused the foregoing document(s) described as:

STATE FARM GENERAL INSURANCE COMPANY'S ANSWER TO CONSUMER WATCHDOG'S PETITION FOR HEARING

to be served on the interested parties in this action as follows:

☐ If U.S. Mail service is indicated, by placing a true and correct copy(ies) thereof in an envelope addressed to the attorney(ies) of record, addressed as stated below.

☒ If electronic-mail service is indicated, by causing a true copy to be sent via electronic transmission from Hogan Lovells US LLP's computer network in Portable Document Format (PDF) this date to the email address(es) stated, to the attention of the person(s) named.

☐ If Electronic Filing Service (EFS) is indicated, I electronically filed the document(s) with the Clerk of the Court by causing the documents to be sent to One Legal, the Court's Electronic Filing Services Provider for electronic filing and service. Electronic service will be effected by One Legal's case-filing system at the electronic mail addresses indicated on the attached Service List.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on September 3, 2024, at San Jose, California.

Kristel Gelera

SERVICE LIST

In the Matter of the Rate Application of
State Farm General Insurance Company
File No. 24-1330

Via Email Harvey Rosenfield Pamela Pressley Benjamin Powell Ryan Mellino **CONSUMER WATCHDOG** 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 Telephone: (310) 392-0522 Facsimile: (310) 392-8874 Email: harvey@consumerwatchdog.org pam@consumerwatchdog.org ben@consumerwatchdog.org ryan@consumerwatchdog.org	***Via Email*** Nikki Kennedy *Rate Enforcement Bureau* **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 4th Floor Oakland, CA 94612 Telephone: (415) 538-4111 Facsimile: (510) 238-7830 Email: Nikki.McKennedy@insurance.ca.gov
Via Email Jon Phenix Teresa Campbell Heather Hoesterey Tina Warren *Office of the Public Advisor* **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Tel. (916) 492-3705 Fax (510) 238-7830 Email: Jon.Phenix@insurance.ca.gov CampbellT@insurance.ca.gov Heather.Hoesterey@insurance.ca.gov Tina.Warren@insurance.ca.gov	

NOTICE OF HEARING
EXHIBIT G

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG, Petitioner.	File # IP-2024-00013 **ORDER GRANTING CONSUMER WATCHDOG'S PETITION TO INTERVENE** Application of State Farm General Insurance Company (SFGIC) Rate File No.: 24-1271

As set forth below, the California Insurance Commissioner Ricardo Lara (Insurance Commissioner) grants Petitioner Consumer Watchdog's (Petitioner) Petition to Intervene and Notice of Intent to Seek Compensation (Petition) in the above proceeding regarding the rate application of SFGIC (Applicant).

I. APPLICABLE LAW

In November 1988, California voters approved Proposition 103, which made changes in the regulation of automobile insurance, as well as the approval of premium rates for property and casualty lines of insurance in California. (Ins. Code §§ 1861.01, et seq.) Proposition 103 also allows for public participation through consumer intervention. (Ins. Code § 1861.10.) The Commissioner has implemented Proposition 103's statutory provisions concerning consumer participation through regulations. (California Code of Regulations, Title 10 ("10 CCR") §§ 2661.1, et seq.)

II. BRIEF SUMMARY OF PROCEDURAL HISTORY

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On or about June 27, 2024, Applicant filed the rate change application (File No. 24-1271) with the California Department of Insurance. On or about July 5, 2024, the Department notified the public of the pending application.

On July 26, 2024, Petitioner submitted its verified and consolidated Petition for Hearing, Petitioner to Intervene, and Notice of Intent to Seek Compensation. Petitioner contends it would present and elicit evidence that Applicant's application violates provisions of the Insurance Code and the implementing Regulations. Petitioner contends it has identified issues with Applicant's rate applications. (*Ibid.*) The Petition also purports to reserve Petitioner's right to, at a future time, seek discovery and raise additional issues. Petitioner contends its Petition is based on a preliminary analysis of the rate application. (*Id.* at 6.) Petitioner reserves the right to modify, withdraw, and/or add other issues for consideration as more information becomes available, including but not limited to violations of section 1859. (*Ibid.*)

Petitioner also contends that it will "attend and participate in this proceeding without unreasonably [sic] delaying this proceeding or any other proceedings before the Insurance Commissioner." (Petition at p. 9.)

Petitioner also propounded formal discovery requests on Applicant at the same time that Petitioner submitted its petition to intervene.

Petitioner further stated it intends to seek compensation in this proceeding and submitted its Preliminary Budget along with an explicit statement that the hourly rates Petitioner has sought in Preliminary Budget are market rates and that an amended budget will be filed when Petitioner learns that the Preliminary Budget has increased by ten-thousand dollars ($10,000.00).

On August 12, 2024, Applicant filed an answer in which it denied the material allegations of the Petition for Hearing.

III. FINDINGS

1. The Petition meets the requirements set forth in Cal. Code Regs. §§ 2652.1 through 2652.3, inclusive. Petitioner has verified that it will be able to attend and participate in the proceedings without unreasonably delaying this or any other proceeding before the

Commissioner. (See Cal. Code Regs., §§ 2661.3, 2652.4.) The Commissioner finds that the amount of compensation sought and the possibility of duplication are not grounds for denying intervention.

2. The granting of a Petition to Intervene, and to intervene only, requires only that at least one of the issues Petitioner wishes to raise in the proceeding is pertinent and germane to the rate setting forum. A granting of a Petition to Intervene does not explicitly or implicitly guarantee that any particular issue being raised by Petitioner will be found to be compensable if the Petitioner should seek compensation for participation in regard to any particular issue.

3. Whether the time spent by Petitioner arguing any particular issue raised in the Petition to Intervene is compensable will be determined when and if a request for compensation is submitted.

4. This matter has not been brought to a hearing before an administrative law judge. The formal discovery procedures invoked by Petitioner are not yet available.

IV. ORDER

1. For the foregoing reasons, Petitioner's Petition to Intervene is **GRANTED**. Intervention is granted in this matter, not as to any specific issue that Petitioner may seek to argue.

2. Whether compensation can be sought for any particular issue raised and subsequently argued by Petitioner in the proceeding shall be determined when and if a request for compensation is filed.

3. This Order grants only Petitioner's Petition to Intervene. The Petition for Hearing will be determined in a separate order if needed.

4. Petitioner's formal discovery requests shall be deferred until the Petition for Hearing is adjudicated. While the Petition for Hearing is pending, the discovery requests may be construed as informal requests for information.

5. This Order Granting the Petition to Intervene is based on facts currently before the Commissioner. The relevance of the specific issues raised in the Petition may be impacted by

evidence deduced during the course of these proceedings and any further pleadings, including any amended pleading filed by the Department. Any disputes concerning the continued relevance of specific issues may be raised by the trier of fact and/or any party.

6. This Order Granting the Petition to Intervene does not ensure compensation or compensation at the rates sought. Petitioner must show substantial contribution to the proceedings and document and substantiate the hourly rate being sought in the Request for Compensation, including but not limited to, the attorneys' hourly rate at the time compensation is sought, before compensation will be awarded. Petitioner shall note that the market rate at the time a request for compensation is filed may in-fact be lower than the market rate is today. Petitioner must establish that its advocacy and witness fees and expenses are reasonable and that its substantial contribution to the proceeding does not merely duplicate the participation by the Department of Insurance's staff. In order to receive compensation in this matter, Petitioner must comply with all of the relevant provisions of CIC § 1861.10 and Cal. Code Regs. §§ 2661.1, et seq. A separate Decision regarding compensation, if any, will be issued on the basis of Petitioner's substantial contribution to the proceeding.

Dated: August 14, 2024

RICARDO LARA
California Insurance Commissioner

By _____
LUCY F. WANG
Deputy Commissioner and Special Counsel

PROOF OF SERVICE
In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG, Petitioner.
Case No. IP-2024-00013

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, California 94612. On August 14, 2024, I served the following document(s):

ORDER GRANTING CONSUMER WATCHDOG'S AMENDED PETITION TO INTERVENE - Application of State Farm General Insurance Company (SFGIC) – Rate File No. 24-1271

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city of Sacramento and the county of Oakland, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city of Oakland and the county of Alameda, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at Oakland, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Christine Warren

PROOF OF SERVICE
SERVICE LIST
In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG Petitioner.
Case No. IP-2024-00013

Name/Address	Phone/Fax Numbers	Method of Service
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NOTICE OF HEARING
EXHIBIT H

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG, Petitioner.	File # IP-2024-00015 **ORDER GRANTING CONSUMER WATCHDOG'S PETITION TO INTERVENE** Application of State Farm General Insurance Company File No.: 24-1273

As set forth below, California Insurance Commissioner Ricardo Lara (Commissioner) grants Petitioner Consumer Watchdog's (Petitioner) Petition to Intervene and Notice of Intent to Seek Compensation (Petition) in the above proceeding regarding the application of Applicant State Farm General Insurance Company (Applicant).

I. APPLICABLE LAW

In November 1988, California voters approved Proposition 103, which made changes in the regulation of automobile insurance, as well as the approval of premium rates for property and casualty lines of insurance in California. (Ins. Code §§ 1861.01, et seq.) Proposition 103 also allows for public participation through consumer intervention. (Ins. Code § 1861.10.) The Commissioner has implemented Proposition 103's statutory provisions concerning consumer participation through regulations. (California Code of Regulations, Title 10 ("10 CCR") §§ 2661.1, et seq.)

II. BRIEF SUMMARY OF PROCEDURAL HISTORY

On or about June 24, 2024, Applicant filed the rate change application (File No. 24-1273) with the California Department of Insurance. On or about July 5, 2024, the Department notified

the public of the pending application.

On August 19, 2024, Petitioner submitted its verified Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation. Petitioner contends it would present and elicit evidence that Applicant's application violates provisions of the Insurance Code and the implementing Regulations. (Petition at pp. 6-18.) To that end, Petitioner contends that Applicant proposes loss and premiums trends that result in excessive rates, excessive catastrophe factor adjustments, unsupported institutional advertising expenses, and an unsupported request for Variance 6. (*Ibid.*) Petitioner contends its Petition is based on a preliminary analysis of the Application. (*Id.* at 18.) Petitioner reserves the right to modify, withdraw, and/or add other issues for consideration as more information becomes available, including but not limited to violations of section 1859 and excluded expenses. (*Ibid.*)

Petitioner also contends that it will "attend and participate in this proceeding without unreasonably [sic] delaying this proceeding or any other proceedings before the Insurance Commissioner." (Petition at p. 21.)

Petitioner further stated it intends to seek compensation in this proceeding and submitted its Preliminary Budget for purposes of participation in the total sum of $306,250. (Petition, Exh. A.)

III. FINDINGS

1. The Petition meets the requirements set forth in 10 CCR sections 2652.1 through 2652.3, inclusive. Petitioner has verified that it will be able to attend and participate in the proceeding without "unreasonably" delaying this or any other proceeding before the Commissioner. (See 10 CCR §§ 2661.3, 2652.4.) The Commissioner finds that the amount of compensation sought and the possibility of duplication is not grounds for denying intervention.

2. The Petition complies with the relevant provisions of 10 CCR section 2661.3. The Commissioner finds that at least one of the issues raised in the Petition is relevant to the issues of this proceeding at this time. (See 10 CCR § 2661.2.)

IV. ORDER

1. For the foregoing reasons, Petitioner's Petition to Intervene is **Granted**. Intervention is only granted in this matter, not as to any specific issue that Petitioner may seek to argue.

2. This Order grants only Petitioner's Petition to Intervene. The Petition for Hearing will be determined in a separate Order.

3. This Order Granting the Petition to Intervene is based on facts presently before the Commissioner. The relevance of the specific issues raised in the Petition and the specific issues on which Petitioner is specifically authorized to intervene may be impacted by evidence deduced during the course of these proceedings and any further pleadings, including any amended pleading filed by the Department. Any disputes concerning the continued relevance of specific issues may be raised by the trier of fact and/or any party.

4. This Ruling Granting the Petition to Intervene does not ensure compensation or compensation at the rates sought. Petitioner must show substantial contribution to the proceedings and document and substantiate the hourly rate being sought in the Request for Compensation, including but not limited to, the attorneys' hourly rate, before compensation will be awarded. In order to receive compensation in this matter, Petitioner must comply with all of the relevant provisions of Insurance Code section 1861.10 and 10 CCR sections 2661.1, et seq. A separate Decision regarding compensation, if any, will be issued on the basis of Petitioner's substantial contribution to the proceeding.

Dated: September 3, 2024

RICARDO LARA
California Insurance Commissioner

By _____
LUCY F. WANG
Deputy Commissioner and Special Counsel

PROOF OF SERVICE
In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG, Petitioner.
Case No. IP-2024-00015

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, California 94612. On September 3, 2024, I served the following document(s):

ORDER GRANTING CONSUMER WATCHDOG'S AMENDED PETITION TO INTERVENE - Application of State Farm General Insurance Company (SFGIC) – Rate File No. 24-1273

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city of Oakland and the county of Alameda, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city of Oakland and the county of Alameda, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at Oakland, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Christine Warren

PROOF OF SERVICE
SERVICE LIST
In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG Petitioner.
Case No. IP-2024-00015

Name/Address	Phone/Fax Numbers	Method of Service
Harvey Rosenfield Pamela Pressley Ryan Mellino CONSUMER WATCHDOG 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org ryan@consumerwatchdog.org	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL
Vanessa Wells Victoria Brown HOGAN LOVELLS UP LLP 855 Main Street, Suite 200 Redwood City, CA 94063 vanessa.wells@hoganlovells.com victoria.brown@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Melissa Wurster Daniel Wade Rate Enforcement Bureau Legal Division CALIFORNIA DEPARTMENT OF INSURANCE 1901 Harrison Street, 4th Floor Oakland, CA 94612 Nikki.McKennedy@insurance.ca.gov Melissa.Wurster@insurance.ca.gov Daniel.Wade@insurance.ca.gov	Tel: (415) 538-4500 Fax: (510) 238-7830	Via EMAIL

NOTICE OF HEARING
EXHIBIT I

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG, Petitioner.	File # IP-2024-00016 **ORDER GRANTING CONSUMER WATCHDOG'S PETITION TO INTERVENE** Application of State Farm General Insurance Company File No.: 24-1330

As set forth below, California Insurance Commissioner Ricardo Lara (Commissioner) grants Petitioner Consumer Watchdog's (Petitioner) Petition to Intervene and Notice of Intent to Seek Compensation (Petition) in the above proceeding regarding the application of Applicant State Farm General Insurance Company (Applicant).

I. APPLICABLE LAW

In November 1988, California voters approved Proposition 103, which made changes in the regulation of automobile insurance, as well as the approval of premium rates for property and casualty lines of insurance in California. (Ins. Code §§ 1861.01, et seq.) Proposition 103 also allows for public participation through consumer intervention. (Ins. Code § 1861.10.) The Commissioner has implemented Proposition 103's statutory provisions concerning consumer participation through regulations. (California Code of Regulations, Title 10 ("10 CCR") §§ 2661.1, et seq.)

II. BRIEF SUMMARY OF PROCEDURAL HISTORY

On or about July 5, 2024, Applicant filed the rate change application (File No. 24-1330) with the California Department of Insurance. On or about July 12, 2024, the Department notified

the public of the pending application.

On August 26, 2024, Petitioner submitted its verified Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation. Petitioner contends it would present and elicit evidence that Applicant's application violates provisions of the Insurance Code and the implementing Regulations. (Petition at pp. 6-18.) To that end, Petitioner contends that Applicant proposes loss and premiums trends that result in excessive rates, excessive catastrophe factor adjustments, unsupported institutional advertising expenses, and an unsupported request for Variance 6. (*Ibid.*) Petitioner contends its Petition is based on a preliminary analysis of the Application. (*Id.* at 18.) Petitioner reserves the right to modify, withdraw, and/or add other issues for consideration as more information becomes available, including but not limited to violations of section 1859 and excluded expenses. (*Ibid.*)

Petitioner also contends that it will "attend and participate in this proceeding without unreasonably [sic] delaying this proceeding or any other proceedings before the Insurance Commissioner." (Petition at p. 21.)

Petitioner further stated it intends to seek compensation in this proceeding and submitted its Preliminary Budget for purposes of participation in the total sum of $326,250. (Petition, Exh. A.)

III. FINDINGS

1. The Petition meets the requirements set forth in 10 CCR sections 2652.1 through 2652.3, inclusive. Petitioner has verified that it will be able to attend and participate in the proceeding without "unreasonably" delaying this or any other proceeding before the Commissioner. (See 10 CCR §§ 2661.3, 2652.4.) The Commissioner finds that the amount of compensation sought and the possibility of duplication is not grounds for denying intervention.

2. The Petition complies with the relevant provisions of 10 CCR section 2661.3. The Commissioner finds that at least one of the issues raised in the Petition is relevant to the issues of this proceeding at this time. (See 10 CCR § 2661.2.)

IV. ORDER

1. For the foregoing reasons, Petitioner's Petition to Intervene is **Granted**. Intervention is only granted in this matter, not as to any specific issue that Petitioner may seek to argue.

2. This Order grants only Petitioner's Petition to Intervene. The Petition for Hearing will be determined in a separate Order.

3. This Order Granting the Petition to Intervene is based on facts presently before the Commissioner. The relevance of the specific issues raised in the Petition and the specific issues on which Petitioner is specifically authorized to intervene may be impacted by evidence deduced during the course of these proceedings and any further pleadings, including any amended pleading filed by the Department. Any disputes concerning the continued relevance of specific issues may be raised by the trier of fact and/or any party.

4. This Ruling Granting the Petition to Intervene does not ensure compensation or compensation at the rates sought. Petitioner must show substantial contribution to the proceedings and document and substantiate the hourly rate being sought in the Request for Compensation, including but not limited to, the attorneys' hourly rate, before compensation will be awarded. In order to receive compensation in this matter, Petitioner must comply with all of the relevant provisions of Insurance Code section 1861.10 and 10 CCR sections 2661.1, et seq. A separate Decision regarding compensation, if any, will be issued on the basis of Petitioner's substantial contribution to the proceeding.

Dated: September 10, 2024

RICARDO LARA
California Insurance Commissioner

By _____
LUCY F. WANG
Deputy Commissioner and Special Counsel

PROOF OF SERVICE
In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG, Petitioner.
Case No. IP-2024-00016

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, California 94612. On September 3, 2024, I served the following document(s):

ORDER GRANTING CONSUMER WATCHDOG'S AMENDED PETITION TO INTERVENE - Application of State Farm General Insurance Company – File No.: 24-1330

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city of Oakland and the county of Alameda, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city of Oakland and the county of Alameda, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at Oakland, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Christine Warren

PROOF OF SERVICE
SERVICE LIST
In the Matter of the Petition to Intervene of: CONSUMER WATCHDOG Petitioner.
Case No. IP-2024-00016

Name/Address	Phone/Fax Numbers	Method of Service
Harvey Rosenfield Pamela Pressley Benjamin Powell CONSUMER WATCHDOG 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org ben@consumerwatchdog.org	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL
Vanessa Wells Victoria Brown HOGAN LOVELLS UP LLP 855 Main Street, Suite 200 Redwood City, CA 94063 vanessa.wells@hoganlovells.com victoria.brown@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Melissa Wurster Daniel Wade Rate Enforcement Bureau Legal Division CALIFORNIA DEPARTMENT OF INSURANCE 1901 Harrison Street, 4th Floor Oakland, CA 94612 Nikki.McKennedy@insurance.ca.gov Melissa.Wurster@insurance.ca.gov Daniel.Wade@insurance.ca.gov	Tel: (415) 538-4500 Fax: (510) 238-7830	Via EMAIL

NOTICE OF HEARING
EXHIBIT J

February 3, 2025

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

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. As the largest insurance group in the state, we appreciate all you and your staff are doing to help consumers navigate the aftermath of last month's horrific Los Angeles wildfires. Thousands of State Farm agents, agent team members and employees are on the ground and assisting customers virtually in the wake of this tragedy. As of February 1st, State Farm General Insurance Company[1] (SFG) has received more than 8,700 claims and has already paid over $1 billion to customers. We know we will ultimately pay out significantly more, as these fires will collectively be the costliest in the history of the company. Although reinsurance will assist us in paying what we owe to customers, the costs of these fires will further deplete capital from SFG. Last year, one rating agency downgraded SFG and, with further capital deterioration as a result of the fires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage. With nearly three million policies in force, including more than one million homeowners customers, SFG needs your urgent assistance in the form of emergency interim approval of additional rate to help avert a dire situation for our customers and the insurance market in the state of California.

Nearly a year ago, we shared with you that *"the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings."* (See attached March 2024 letter.) As you are aware, SFG has three rate applications, for four lines of business, that have been pending since last summer.[2] We are requesting that you take emergency action to help protect California's fragile insurance market by immediately approving interim rate increases on these filings, with rates to be effective May 1, 2025, in the following amounts: 22% for Non-Tenant Homeowners, 15% for Tenants – Renters, 15% for Tenants – Condominium Unitowners, and 38% for

[1] As a reminder, SFG is almost exclusively a California insurer, with homeowners insurance being its largest line of business. State Farm products written by affiliates of SFG – such as State Farm branded auto and life insurance – are not the subject of this letter.

[2] See SERFF Filings SFMA-123139896, filed 6/27/2024 for +30.0% for Non-Tenant (Homeowners); SFMA-134139931, filed 6/27/2024 for +52.0% for Tenants – Renters and +36.0% for Tenants – Condominium Unitowners; and SFMA-134139850, filed 7/5/2025 for +38.0% for Rental Dwelling (RDP). We note that these three applications were all originally based on Variance 6, a solvency-related adjustment to what is otherwise the maximum permitted premium under the rate regulations. Because of the upward impact of the Los Angeles fires on the maximum permitted premium, it's possible that SFG's rate increases for some lines may ultimately be supportable without Variance 6, but the financial condition that led to its invocation has only worsened.

Rental Dwelling (RDP). Because all three applications are for rate increases above 7%, and all three have an intervenor, ordinarily they can only be approved after a hearing (if one is requested by the intervenor) or via a three-way settlement. Hearings are historically very rare because of the uncertainty and length of the process, with the last SFG rate hearing not resulting in a final rate order until about 17 months after the notice of hearing was issued. Even resolution through settlement can be very difficult and usually takes months. An emergency *interim* rate approval would allow SFG to start collecting additional premiums much more quickly and possibly begin rebuilding its risk-bearing capacity. A *final* approved rate would subsequently be determined by you after a full hearing, if a settlement can't be reached first. If the final rate (whether after hearing or by settlement) is lower than the interim rate, refunds would be issued by SFG for the difference for any period during which the interim rates were in effect. The interim amounts SFG is requesting are smaller (for most lines) than the full rate need we originally applied for, in the hope that this will facilitate a speedy emergency approval. There is simply too much at stake for SFG's customers and the broader market if any rate increase has to wait on a full hearing or other resolution in the normal course.

While the California Department of Insurance (CDI) has recently approved several smaller SFG rate filings and made progress on your Sustainable Insurance Strategy, the fact is that SFG's capital position continued to deteriorate even *before* the latest fires. By year-end 2024, SFG's Policyholder Protection Fund – i.e. surplus, or capital available to pay claims – was approximately a quarter of what it was in 2016, and its surplus relative to the risk it supports dropped nearly eighty-five percent by one measure, putting the company below certain minimum regulatory Risk-Based Capital requirements. (See attached illustration of SFG's financial deterioration.) Over the nine-year period ending with 2024, SFG will pay $1.26 in claims and expenses for every $1.00 collected in premium, resulting in over $5 billion in cumulative underwriting losses. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period. Meanwhile, SFG's attempts over that same period to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success. This was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties.[3]

In order to better preserve its claims-paying capacity under these circumstances, SFG made the difficult decision in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused. Any of these homeowner policies which had pended non-renewals in Los Angeles County that were on the books on January 7th will have an option to renew with SFG. The high concentrations of risk covered by SFG in the fire footprint will generate a direct loss many times larger than the company's pre-event surplus. SFG's already stressed financial position will be further weakened, even after accounting for billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance

[3] For example, intervenors succeeded in convincing the prior commissioner to order SFG to reduce dwelling insurance rates 7% and issue a $100M+ refund after SFG filed in 2014 for a 7% increase (an annual difference of more than $150M). SFG's legal position in the dispute was later vindicated, but not until 2022 (when the California Supreme Court denied review of the Court of Appeal's decision in SFG's favor).

Company ("State Farm Mutual") as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover. External reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not exist. These fires reinforce why reinsurance is a critically important part of SFG's claims-paying capacity, now and into the future, allowing SFG to write or retain significantly more property insurance in areas with significant risk such as wildfires than would otherwise be possible. The situation also reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – that is irresponsible and simply not true.

The importance of our ask for your immediate help to protect all Californians cannot be overstated. The magnitude of expected claims payments for the Los Angeles fires, along with SFG's participation in FAIR Plan losses[4], puts tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rating agency) measures of financial strength and claims-paying ability, which must necessarily include the potential for *additional* catastrophic loss events in the future. Last March, SFG's financial strength rating was downgraded by AM Best[5] and SFG triggered a regulatory Company Action Level Event after failing to meet the NAIC's Risk-Based Capital ratio requirements based on its year-end 2023 financial position. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile.

As the Insurance Commissioner, you can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Ordinarily, the conditional nature of such a rate approval (i.e. the possibility of refunds if the final approved rate is lower than the interim rate) might not be enough to prevent much more significant and necessary actions by SFG or to assuage solvency regulators and the rating agencies. In this case, however, the enormous losses generated by the Los Angeles fires will soon flow into the CDI rating template and will clearly demonstrate that the interim amounts SFG has requested are supportable.[6] This then is primarily a

[4] SFG is required to book its share of FAIR Plan losses on its financial statements, regardless of whether an assessment is issued. SFG's participation rate for dwelling losses (commercial losses are treated separately) is expected to be around 16%.

[5] The downgraded financial strength rating is below what is acceptable to some mortgage lenders as appropriate insurance cover for mortgage collateral. This had limited impact on SFG policyholders because the company continued to receive an acceptable rating from another rating agency. Additional downgrades have the potential to force hundreds of thousands of SFG policyholders to seek insurance from another company or the FAIR Plan.

[6] We request that the full hearing for final rate amounts be based on fully-updated rate templates using data from the first quarter of 2025. For purposes of determining the interim rates requested, we have calculated an updated rate indication using the standard rate templates included in the filings by changing two inputs: 1) using a 5/1/2025 effective date and 2) a new catastrophe provision that incorporates wildfire loss estimates up through the most recent fires. The following table shows the initial indication prior to the adjustments, the updated indication, and the interim rate request.

Line of Business	**Filed CDI Template Indication (without using Variance 6)**	**Updated CDI Template Indication**	**Interim Rate Increase Request**
Non-Tenant Homeowners	-10.0%	+21.8%	+22.0%
Tenants – Renters	+7.9%	+16.6%	+15.0%
Tenants – Condominium Unitowners	+5.1%	+20.0%	+15.0%
Rental Dwelling	+10.5%	+42.0%	+38.0%

question of timing, and of what could happen to SFG's customers and the larger market if SFG has to wait months for additional premiums to begin flowing to possibly halt the decline of, or even begin to rebuild, SFG's Policyholder Protection Fund.

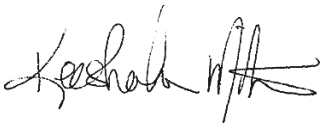
You have noted your desire to have an insurance market where insurers want to invest and protect more Californians. In addition to your other efforts, immediate approval of additional and appropriately supported rate for SFG (even on an interim basis) sends a strong message that the state is serious about reforming its insurance market and allowing insurers to collect sufficient premiums to protect Californians against the risk of loss to their homes. When insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market.

We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. Having said that, your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

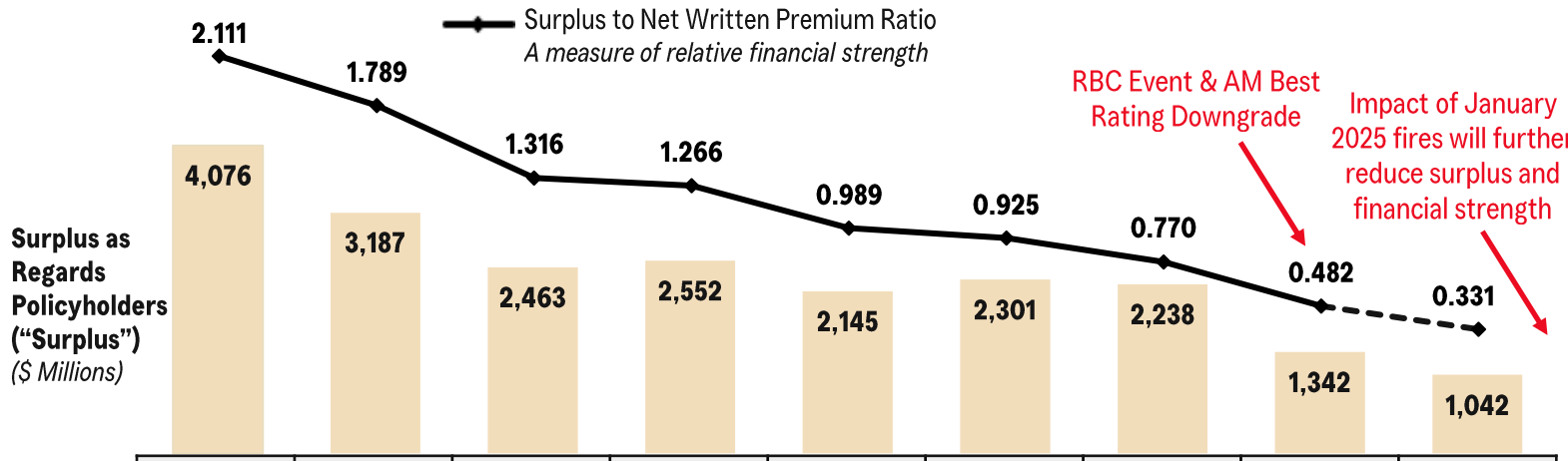
CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- March 20, 2024 letter from State Farm General to Commissioner Lara
- Illustration of State Farm General financial deterioration

State Farm General Insurance Company

Financial Results 2016 – 2024[1]



	2016	2017	2018	2019	2020	2021	2022	2023	2024[1]
Combined Ratio	103.4	184.5	160.8	102.8	127.2	101.0	108.9	137.4	119.2

[1] Year-end 2024 represents a preliminary result. All other values sourced from annual financial statements filed with insurance regulators on or by March 1 of each year. The combined ratio is based on net results and calculated by taking incurred losses plus incurred expenses and dividing that sum by earned premium (a number above 100 represents an underwriting loss with the underwriting gain/loss calculated by subtracting incurred losses and incurred expenses from earned premium).

Financial Strength Deterioration

State Farm General (SFG) is almost exclusively a California insurer, with homeowners insurance being its largest line of business.

The surplus of SFG continued to deteriorate in 2024. SFG's already stressed financial position will be further weakened by the financial impact of the January 2025 fires, including SFG's participation in FAIR Plan losses. This is even after accounting for the billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance Company ("State Farm Mutual") as the primary reinsurer.

Year-end 2024 surplus is estimated at $1.04 billion **– a quarter of its value compared to year-end 2016 and less than half its value since just year-end 2022.** The year-end 2024 surplus to net written premium ratio is estimated to be 0.331 with the first quarter 2025 ratio expected to fall below the NAIC range provided by the Insurance Regulatory Information Systems (IRIS) manual.

The cumulative underwriting loss for 2016 – 2024 is $5.3 billion with a cumulative combined ratio of 125.7% – meaning SFG will pay $1.26 in claims and expenses for every $1 of premium collected. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period ending December 31, 2024, and is clearly not sustainable.

Risk Based Capital (RBC) – RBC is a uniform capital standard prescribed by the National Association of Insurance Commissioners (NAIC) and used by insurance regulators, including the California and Illinois Departments of Insurance. The RBC framework requires various corrective actions on the part of the insurer and its domestic regulator should the insurer's capital fall below certain defined trigger points. As a result of SFG's 2023 financial position, the **company triggered a Company Action Level Event after failing to meet the NAIC's RBC ratio requirements**, which dictated that a plan be filed with the Illinois Department of Insurance ("IDOI" is SFG's domestic financial solvency regulator) specifying corrective actions that would address the event. Based on the further deterioration in surplus during 2024, SFG expects to again fail to meet the RBC standard and will be required to file an another / updated RBC Plan with the IDOI. The net (after-reinsurance) impact of the January 2025 fires, along with SFG's participation in FAIR Plan losses, puts further strain on an already strained financial position resulting in the expectation of further deterioration of the company's RBC. The NAIC is considering inclusion of wildfire catastrophe risk into RBC as it is not currently included – its inclusion will put even greater pressure on the SFG RBC ratio. SFG must meet solvency and regulatory requirements, including RBC requirements, on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity.

AM Best Financial Strength Rating – In March 2024, credit rating agency AM Best **downgraded** SFG's Financial Strength Rating (FSR) to B (Fair) and its Long-Term Issuer Credit Rating (ICR) to bb+ (Fair). AM Best noted the following in its release[2]: "The Credit Ratings (ratings) reflect State Farm General's balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance…The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company's ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation…and the challenging regulatory environment within California's marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion."

[2] See March 2024 AM Best news release - https://news.ambest.com/pr/PressContent.aspx?refnum=34559&altsrc=2

NOTICE OF HEARING
EXHIBIT K

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

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.)

State of California
Department of Insurance (CDI)

Company: State Farm General Insurance Company
Line: Homeowners Multiple Peril
CDI File # (Department Use Only):

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%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

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%**

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State of California
Department of Insurance (CDI)

Company: State Farm General Insurance Company
Line: Homeowners Multiple Peril
CDI File # (Department Use Only):

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%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

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%**

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State of California
Department of Insurance (CDI)

Company: State Farm General Insurance Company
Line: Homeowners Multiple Peril
CDI File # (Department Use Only):

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%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

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		***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			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%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

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		***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			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%**

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NOTICE OF HEARING
EXHIBIT L

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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **STIPULATION TO INTERIM RATE SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE; [PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE**

STIPULATION TO INTERIM RATE SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE

Applicant STATE FARM GENERAL INSURANCE COMPANY ("Applicant") and the Department of Insurance ("Department") (collectively, "Parties") hereby stipulate and agree to the interim resolution of a factual issue and the applicability of provisions of law material to the pending rate applications. The Parties stipulate to an appropriate interim rate, subject to refunds with interest following a full rate hearing in this matter, as set forth herein. Pursuant to the inherent authority vested in the Commissioner under Proposition 103 and confirmed by the California Supreme Court in *Calfarm Insurance Company v. Deukmejian* (1989) 48 Cal.3d 805 and *20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, the Parties request the Commissioner issue the proposed stipulated interim rate order subject to refunds with interest following a full rate hearing in this matter, as follows:

RECITALS

1. The Applicant is licensed by the Department to conduct insurance business in California and is the largest property insurer licensed in California, writing 20.7% of the written premium in the personal homeowners line in the California market in 2023.

2. On or about June 27, 2024 for File Nos. 24-1271 and 24-1273 and on July 5, 2024 for File No. 24-1330, Applicant filed three rate applications (collectively, "Applications") requesting overall rate increases, as follows:

File No.	Line	Rate requested
24-1271	Homeowners Non-Tenant HO-3	+30.0%
24-1273	Overall Renter/Condo Tenant	+41.8%
24-1330	Rental Dwelling	+38.0%

3. In the Applications, Applicant requests that its maximum permitted earned premium be increased in order to protect Applicant's solvency, pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(6) ("Variance 6").

4. The Department notified the public of the Applications on July 5, 2024 as to File Nos. 24-1271 and 24-1273, and on July 12, 2024 as to File No. 24-1330, pursuant to Insurance Code section 1861.05, subdivision (c).

5. On September 3, 2024 for File Nos. 24-1271 and 24-1273 and September 10, 2024 for File No. 24-1330, Applicant waived the 60-day and 180-day "deemed approved" dates set forth in Insurance Code section 1861.05(c) for these Applications with a five-day grace period for reactivation.

6. On July 26, 2024, as to File No. 24-1271, August 19, 2024 as to File No. 24-1273, and August 26, 2024 as to File No. 24-1330, Intervenor Consumer Watchdog ("Intervenor") submitted its Petition to Intervene, Petition for Hearing, and Notice of Intent to Seek Compensation in each of the Applications.

7. On August 12, 2024 as to File No. 24-1271, September 5, 2024 as to File No. 24-1273, and September 3, 2024 as to File No. 24-1330, Applicant submitted its Answer to the Intervenor's Petition for Hearing in each of the Applications.

8. On August 24, 2024 as to File No. 24-1271, September 3, 2024 as to File No. 24-1273, and September 10, 2024 as to File No. 24-1330, the Commissioner granted Intervenor's Petition to Intervene.

9. On September 21, 2023, Governor Gavin Newsom of the State of California issued Executive Order N-13-23, requesting the Commissioner of Insurance to take prompt regulatory action in response to more frequent, severe wildfires as a result of climate change, including, without limitation, by: (1) "[i]mprov[ing] the efficiency, speed, and transparency of the Department's rate approval process"; (2) "[t]ailor[ing] the rate approval process to account for all factors necessary to promote a robust, competitive insurance marketplace, including through potential revisions to the way catastrophe risks and insurer costs are accounted for"; and (3) "[m]aintain[ing] the long-term availability of homeowners and commercial property insurance coverage."

10. On January 7, 2025, Governor Newsom issued a Proclamation of a State of Emergency ("Proclamation"), due to the wildfires which had ignited in Los Angeles County and

burned over 1,200 acres as of the time the Proclamation was issued. In the Proclamation, the Governor directed "[a]ll agencies of the state government [to] utilize and employ state personnel, equipment, and facilities for the performance of any and all activities consistent with the direction of the Office of Emergency Services and the State Emergency Plan."

11. On January 9, 2025, California Insurance Commissioner Ricardo Lara ("Commissioner") issued a Moratorium on Cancellations and Nonrenewals in areas affected by the Palisades, Eaton, and several other fires (collectively, the "Palisades/Eaton Fires), and called on all property insurers "to forego any pending nonrenewals and cancellations that are due to take effect on residential properties located within and around these wildfires."

12. On January 13, 2025, the Commissioner issued a Declaration of Emergency Situation to address the effects of the magnitude of the Palisades/Eaton Fires in Southern California.

13. Previously in March 2024, Applicant had announced it would not offer renewals on approximately 30,000 homeowners, rental dwelling, and other property insurance policies and would also nonrenew all commercial apartment policies. On January 15, 2025, Applicant heeded the Commissioner's January 9th call for insurers to voluntarily forego pending nonrenewals and cancellations in areas impacted by the Palisades/Eaton Fires, and paused the notification process on homeowner nonrenewals in not only the areas affected by the wildfires but also the entirety of Los Angeles County, thereby going beyond the Commissioner's call and meaning that homeowners with policies with Applicant that were still in force as of January 7, 2025 in Los Angeles County, would still have the option to renew with Applicant for an additional one-year policy term despite having previously been identified for nonrenewal.

14. On February 3, 2025, Applicant submitted a letter to the Commissioner, requesting the Commissioner approve an immediate interim rate increase of 22% in its homeowners line (File No. 24-1271), 15% in its renter/condo tenant line (File No. 24-1273), and 38% in its rental dwelling line (File No. 24-1330) in the pending Applications (the "Interim Rate Request")[1], subject to refunds with interest following a full rate hearing should the Commissioner ultimately

[1] The Interim Rate Request is attached as Exhibit A and its contents incorporated herein by reference.

determine the Interim Rate increase was excessive. In its Interim Rate Request, Applicant reported that as of February 1, 2025, it has received more than 8,700 claims, has already paid more than $1 billion to consumers, and it anticipates having to pay significant additional amounts as a result of the Palisades/ Eaton Fires. Additionally, Applicant stated its financial strength rating was downgraded in 2024 by rating agency A.M. Best and that some of Applicant's customers might have to find other insurance if further downgrades were to happen, due to mortgage lender requirements surrounding appropriate insurance coverage for mortgage collateral. Based on its initial data from the Palisades/Eaton Fires, Applicant provided updated preliminary template indications, in footnote 6 of the Interim Rate Request, for all lines in the Applications, indicating initial support for its Interim Rate Request, subject to being updated with final data at the end of the first quarter of 2025. Overall, Applicant represents that its financial projections show a continued decline in the surplus it needs to support the writing of its homeowners lines of insurance in California including by continuing to pay the future claims of its policyholders, such that the Commissioner should approve implementation of an interim rate increase during the pendency of a rate hearing on the Applications in order to avoid the danger of insolvency.

15. On February 5, 2025, Applicant filed its updated preliminary rate templates, that support footnote 6 of the Interim Rate Request, in the Applications on the publicly available System for Electronic Rate and Form Filings (SERFF). Applicant also provided information regarding its rating agency concerns.[2] (Collectively, the "Updated Information".)

16. On February 7, 2025, the Intervenor informed the Parties that it declined to stipulate to interim rates subject to refunds with interest in the Applications.

17. Based upon the Applications including the information regarding Applicant's concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, the preliminary information provided by Applicant regarding the devasting impacts of the Palisades/Eaton Fires on Applicant's financial condition, and Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance of a final rate order, and without agreeing here with the Applicant's data, assumptions, or

[2] A copy of the rating agency information submitted by Applicant is attached here as Exhibit B.

methodologies as set forth in the Applications or the Updated Information for purposes of a rate hearing to determine a final rate order, the Department agrees that Applicant has made a preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. The Department further agrees that Applicant has made a preliminary showing of exigent circumstances to justify an interim rate increase, subject to refunds with interest, such that the Commissioner should approve Applicant's request to implement an immediate interim rate increase, subject to refunds with interest following a full rate hearing on the Applications.

STIPULATION AND REQUEST FOR INTERIM RATE ORDER

1. The Parties stipulate and agree that the Commissioner has lawful authority to approve an interim rate pending a final determination of the legality of the rate. (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824-825 ("The power to grant interim relief is necessary for the due and efficient administration of Proposition 103[.]"); *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 245.)

2. The Parties stipulate and agree that, following a rate hearing in this matter, the Commissioner has lawful authority in this proceeding to require Applicant to pay refunds with interest to its policyholders for the difference between the interim rate and the final approved rate if the Commissioner ultimately determines in a final rate order that the interim rate order was excessive. The Parties further stipulate and agree that if Applicant fails to comply with the Commissioner's final rate order, the Commissioner can and will appropriately enforce compliance including without limitation the potential assessment of penalties for noncompliance. The Parties do not intend, by this Stipulation, to in any way impact the right of a Party to seek a stay of a final order pursuant to California Insurance Code § 1858.6.

3. The Parties stipulate and agree that an interim rate order, subject to refunds with interest following a rate hearing, by the Commissioner shall not be considered a final order or decision within the meaning of Insurance Code section 1861.09.

4. This Stipulation is made solely to reach a compromise among the Parties. Other than the Parties' agreement regarding the factual issue of an appropriate interim rate subject to

refunds with interest for the Applicant pending a final determination of its legality and the applicability of provisions of law regarding the Commissioner's lawful authority, the Parties' agreement to this Stipulation shall not represent any agreement regarding any of the other matters at issue in this rate proceeding.

5. Based upon the Applications including the information regarding Applicant's concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, the preliminary information provided by Applicant regarding the devastating impacts of the Palisades/Eaton Fires on Applicant's financial condition, and Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance of a final rate order, and without agreeing with the Applicant's data, assumptions, or methodologies as set forth in the Applications or the Updated Information for purposes of a rate hearing to determine a final rate order, the Department agrees that Applicant has made a preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. Accordingly, the Department believes and thereon alleges that based upon information currently available, an interim rate increase, subject to refunds with interest pending a final determination by the Commissioner of its legality, is appropriate in this instance and would be lawfully issued in support of the due and efficient administration of Proposition 103 by the Commissioner as well as in furtherance of the Governor's Executive Order N-13-23 and the Commissioner's recent Proclamation. The Department further believes and thereon alleges that this Stipulation is in the public interest, in order to maintain maximum availability of homeowners insurance options in California, and that taken as a whole it is fundamentally fair, adequate, and reasonable.

6. Accordingly, based upon all of the foregoing, the Applications, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, and such other information and representations provided by Applicant, the Parties stipulate and agree that Applicant shall implement an overall interim rate increase, subject to potential refunds with interest following a full rate hearing and final determination of the legality of the rate by the Commissioner, to be implemented with an effective date of May 1, 2025 for new and renewal

business, as follows:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+21.8%
24-1273	Overall Renter/Condo Tenant	+15%
24-1330	Rental Dwelling	+38%

7. Additionally, Applicant stipulates and agrees that it will maintain appropriate records of all policyholders charged an interim rate through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds with interest if necessary following a full rate hearing on the Applications. If the Commissioner ultimately determines that the interim rate in effect during the pendency of the rate hearing was excessive and that Applicant is required to issue any refunds with interest, Applicant agrees that (1) it will not contest the Commissioner's authority in this proceeding to issue an order requiring refunds with interest; and (2) it will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, subject to any stay issued pursuant to Insurance Code section 1858.6. Additionally, Applicant agrees that it will report in writing to the Department once any and all such refunds with interest have been paid, and that such report shall be publicly available.

8. Moreover, Applicant stipulates and agrees that, after an interim rate has been ordered but before a full rate hearing has been completed and the Commissioner has issued a final rate order, Applicant will not withdraw the currently pending Applications, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn after an interim rate has been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant stipulates and agrees that it will issue refunds with interest of the entirety of the premiums collected pursuant to

the Commissioner's interim rate order, as soon as practical but in no event later than 180 days following the withdrawal.

9. The Department asserts that at the rate hearing on the Applications to determine whether the requested rates and stipulated interim rate are supportable and not excessive, inadequate, and/or unfairly discriminatory, and should be approved as a final rate order of the Commissioner, Department staff will examine and offer evidence and recommendations regarding, without limitation, whether, based upon the updated data through the first quarter of 2025, or another mutually agreed-upon stipulated updated data cut-off date, the Commissioner should enter findings and an order that Applicant's requested rates are reasonable and not excessive, inadequate, unfairly discriminatory, or otherwise in violation in Proposition 103, as well as such other issues as may be raised in a Notice of Hearing or during a rate hearing on the Applications.

10. The Parties stipulate and agree that for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.

11. The Parties stipulate and agree that the Commissioner shall retain jurisdiction for the purpose of enforcing the provisions and terms of this Stipulation and the Order requested thereon.

12. The undersigned represent and warrant under penalty of perjury under the laws of the State of California that they have full and complete authority to enter into and bind the party on whose behalf they are signing to all of the terms of this Stipulation.

Based on all of the foregoing, the parties respectfully request that the Commissioner issue an Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, based upon the terms of the Stipulation as set forth above to resolve the above-described legal and factual issues.

Dated: February 7, 2025

STATE FARM GENERAL INSURANCE COMPANY

By: _____

Vanessa Wells
HOGAN LOVELLS US LLP
Attorneys for Applicant State Farm General Insurance Company

Dated: February 7, 2025

CALIFORNIA DEPARTMENT OF INSURANCE

By: Nikki McKennedy

Nikki S. McKennedy
Attorneys for the California Department of Insurance

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **[PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE**

INTERIM RATE ORDER ADOPTING STIPULATION

Having reviewed the Applications, Applicant's Request for an Interim Rate, and the Parties' Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, and evidence submitted in support, and good cause appearing, IT IS ORDERED THAT the request of Applicant State Farm General Insurance Company ("Applicant) for an interim rate increase subject to refunds with interest pending a final determination of its legality is GRANTED as set forth herein.

IT IS FURTHER ORDERED THAT Applicant shall implement an interim rate as follows, for new and renewal business with an effective date of _____ , 2025:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+_____%
24-1273	Overall Renter/Condo Tenant	+_____%
24-1330	Rental Dwelling	+_____%

IT IS FURTHER ORDERED THAT this Interim Rate Order is not and shall not be considered a final order or decision by the Commissioner and that the interim rate shall be

implemented subject to potential refunds with interest pending a final determination by the Commissioner of its legality, following a full rate hearing in this matter on the Applications.

IT IS FURTHER ORDERED THAT Applicant will maintain appropriate records of all policyholders charged these interim rates through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds subject to interest if necessary. If the Commissioner ultimately determines that Applicant shall issue any refunds with interest, Applicant will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, and Applicant will report in writing to the Department once any and all such refunds with interest have been paid, and such report shall be publicly available. This Order is without prejudice to any application for a stay under California Insurance Code § 1858.6.

IT IS FURTHER ORDERED THAT Applicant will not withdraw the currently pending Applications before a full rate hearing has been completed and a final rate order issued, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn for any reason after the interim rates have been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant will issue refunds with interest of the entirety of the premiums collected pursuant to the Commissioner's Interim Rate Order.

IT IS FURTHER ORDERED THAT for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.

IT IS SO ORDERED.

Dated: _____

RICARDO LARA
Insurance Commissioner

By: _____

EXHIBIT A

February 3, 2025

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

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. As the largest insurance group in the state, we appreciate all you and your staff are doing to help consumers navigate the aftermath of last month's horrific Los Angeles wildfires. Thousands of State Farm agents, agent team members and employees are on the ground and assisting customers virtually in the wake of this tragedy. As of February 1st, State Farm General Insurance Company[1] (SFG) has received more than 8,700 claims and has already paid over $1 billion to customers. We know we will ultimately pay out significantly more, as these fires will collectively be the costliest in the history of the company. Although reinsurance will assist us in paying what we owe to customers, the costs of these fires will further deplete capital from SFG. Last year, one rating agency downgraded SFG and, with further capital deterioration as a result of the fires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage. With nearly three million policies in force, including more than one million homeowners customers, SFG needs your urgent assistance in the form of emergency interim approval of additional rate to help avert a dire situation for our customers and the insurance market in the state of California.

Nearly a year ago, we shared with you that *"the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings."* (See attached March 2024 letter.) As you are aware, SFG has three rate applications, for four lines of business, that have been pending since last summer.[2] We are requesting that you take emergency action to help protect California's fragile insurance market by immediately approving interim rate increases on these filings, with rates to be effective May 1, 2025, in the following amounts: 22% for Non-Tenant Homeowners, 15% for Tenants – Renters, 15% for Tenants – Condominium Unitowners, and 38% for

[1] As a reminder, SFG is almost exclusively a California insurer, with homeowners insurance being its largest line of business. State Farm products written by affiliates of SFG – such as State Farm branded auto and life insurance – are not the subject of this letter.

[2] See SERFF Filings SFMA-123139896, filed 6/27/2024 for +30.0% for Non-Tenant (Homeowners); SFMA-134139931, filed 6/27/2024 for +52.0% for Tenants – Renters and +36.0% for Tenants – Condominium Unitowners; and SFMA-134139850, filed 7/5/2025 for +38.0% for Rental Dwelling (RDP). We note that these three applications were all originally based on Variance 6, a solvency-related adjustment to what is otherwise the maximum permitted premium under the rate regulations. Because of the upward impact of the Los Angeles fires on the maximum permitted premium, it's possible that SFG's rate increases for some lines may ultimately be supportable without Variance 6, but the financial condition that led to its invocation has only worsened.

Rental Dwelling (RDP). Because all three applications are for rate increases above 7%, and all three have an intervenor, ordinarily they can only be approved after a hearing (if one is requested by the intervenor) or via a three-way settlement. Hearings are historically very rare because of the uncertainty and length of the process, with the last SFG rate hearing not resulting in a final rate order until about 17 months after the notice of hearing was issued. Even resolution through settlement can be very difficult and usually takes months. An emergency *interim* rate approval would allow SFG to start collecting additional premiums much more quickly and possibly begin rebuilding its risk-bearing capacity. A *final* approved rate would subsequently be determined by you after a full hearing, if a settlement can't be reached first. If the final rate (whether after hearing or by settlement) is lower than the interim rate, refunds would be issued by SFG for the difference for any period during which the interim rates were in effect. The interim amounts SFG is requesting are smaller (for most lines) than the full rate need we originally applied for, in the hope that this will facilitate a speedy emergency approval. There is simply too much at stake for SFG's customers and the broader market if any rate increase has to wait on a full hearing or other resolution in the normal course.

While the California Department of Insurance (CDI) has recently approved several smaller SFG rate filings and made progress on your Sustainable Insurance Strategy, the fact is that SFG's capital position continued to deteriorate even *before* the latest fires. By year-end 2024, SFG's Policyholder Protection Fund – i.e. surplus, or capital available to pay claims – was approximately a quarter of what it was in 2016, and its surplus relative to the risk it supports dropped nearly eighty-five percent by one measure, putting the company below certain minimum regulatory Risk-Based Capital requirements. (See attached illustration of SFG's financial deterioration.) Over the nine-year period ending with 2024, SFG will pay $1.26 in claims and expenses for every $1.00 collected in premium, resulting in over $5 billion in cumulative underwriting losses. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period. Meanwhile, SFG's attempts over that same period to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success. This was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties.[3]

In order to better preserve its claims-paying capacity under these circumstances, SFG made the difficult decision in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused. Any of these homeowner policies which had pended non-renewals in Los Angeles County that were on the books on January 7th will have an option to renew with SFG. The high concentrations of risk covered by SFG in the fire footprint will generate a direct loss many times larger than the company's pre-event surplus. SFG's already stressed financial position will be further weakened, even after accounting for billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance

[3] For example, intervenors succeeded in convincing the prior commissioner to order SFG to reduce dwelling insurance rates 7% and issue a $100M+ refund after SFG filed in 2014 for a 7% increase (an annual difference of more than $150M). SFG's legal position in the dispute was later vindicated, but not until 2022 (when the California Supreme Court denied review of the Court of Appeal's decision in SFG's favor).

Company ("State Farm Mutual") as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover. External reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not exist. These fires reinforce why reinsurance is a critically important part of SFG's claims-paying capacity, now and into the future, allowing SFG to write or retain significantly more property insurance in areas with significant risk such as wildfires than would otherwise be possible. The situation also reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – that is irresponsible and simply not true.

The importance of our ask for your immediate help to protect all Californians cannot be overstated. The magnitude of expected claims payments for the Los Angeles fires, along with SFG's participation in FAIR Plan losses[4], puts tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rating agency) measures of financial strength and claims-paying ability, which must necessarily include the potential for *additional* catastrophic loss events in the future. Last March, SFG's financial strength rating was downgraded by AM Best[5] and SFG triggered a regulatory Company Action Level Event after failing to meet the NAIC's Risk-Based Capital ratio requirements based on its year-end 2023 financial position. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile.

As the Insurance Commissioner, you can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Ordinarily, the conditional nature of such a rate approval (i.e. the possibility of refunds if the final approved rate is lower than the interim rate) might not be enough to prevent much more significant and necessary actions by SFG or to assuage solvency regulators and the rating agencies. In this case, however, the enormous losses generated by the Los Angeles fires will soon flow into the CDI rating template and will clearly demonstrate that the interim amounts SFG has requested are supportable.[6] This then is primarily a

[4] SFG is required to book its share of FAIR Plan losses on its financial statements, regardless of whether an assessment is issued. SFG's participation rate for dwelling losses (commercial losses are treated separately) is expected to be around 16%.

[5] The downgraded financial strength rating is below what is acceptable to some mortgage lenders as appropriate insurance cover for mortgage collateral. This had limited impact on SFG policyholders because the company continued to receive an acceptable rating from another rating agency. Additional downgrades have the potential to force hundreds of thousands of SFG policyholders to seek insurance from another company or the FAIR Plan.

[6] We request that the full hearing for final rate amounts be based on fully-updated rate templates using data from the first quarter of 2025. For purposes of determining the interim rates requested, we have calculated an updated rate indication using the standard rate templates included in the filings by changing two inputs: 1) using a 5/1/2025 effective date and 2) a new catastrophe provision that incorporates wildfire loss estimates up through the most recent fires. The following table shows the initial indication prior to the adjustments, the updated indication, and the interim rate request.

Line of Business	**Filed CDI Template Indication (without using Variance 6)**	**Updated CDI Template Indication**	**Interim Rate Increase Request**
Non-Tenant Homeowners	-10.0%	+21.8%	+22.0%
Tenants – Renters	+7.9%	+16.6%	+15.0%
Tenants – Condominium Unitowners	+5.1%	+20.0%	+15.0%
Rental Dwelling	+10.5%	+42.0%	+38.0%

question of timing, and of what could happen to SFG's customers and the larger market if SFG has to wait months for additional premiums to begin flowing to possibly halt the decline of, or even begin to rebuild, SFG's Policyholder Protection Fund.

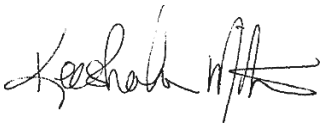
You have noted your desire to have an insurance market where insurers want to invest and protect more Californians. In addition to your other efforts, immediate approval of additional and appropriately supported rate for SFG (even on an interim basis) sends a strong message that the state is serious about reforming its insurance market and allowing insurers to collect sufficient premiums to protect Californians against the risk of loss to their homes. When insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market.

We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. Having said that, your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- March 20, 2024 letter from State Farm General to Commissioner Lara
- Illustration of State Farm General financial deterioration

March 20, 2024

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

Re: Restoring the financial condition of State Farm General Insurance Company

Dear Commissioner Lara,

Thank you for your recent meeting with us and the candid conversation. On behalf of State Farm General Insurance Company (SFG)[1], we write to reinforce our need, and express hope and appreciation, for the role the Department of Insurance must play in our financial recovery, to the benefit of California consumers.

As we discussed, SFG's capital position has severely deteriorated, and we are increasingly concerned about its financial well-being. SFG's policyholder surplus was $2.2 billion and $1.3 billion at year-end 2022 and 2023 respectively, in contrast to $4.1 billion at year-end 2016. Although there haven't been significant wildfire losses for several years, windstorm catastrophes in early 2023 and increasing trends in non-catastrophe water losses and liability claims (especially commercial lines and personal umbrella policies), without the additional premium needed to support those cost increases, have generated large underwriting losses. SFG has managed its policy growth by limiting writing in high-risk areas for many years, and more recently by ending all new policy sales. However, SFG's risk exposure grew tremendously in the last few years, with construction cost inflation being a major driver. Taken together, these trends have resulted in surplus of less than 50 cents for every dollar of risk (as measured by net written premium) we face today, which makes SFG's financial strength less than a quarter of what it was at year-end 2016. With that drop in surplus and increase in exposure, the company necessarily has to rely increasingly on reinsurance cover, the cost of which puts further downward pressure on surplus without the needed additional premium to support this cost.

As also noted, external measures of SFG's financial strength are also becoming increasingly concerning. AM Best already had a negative ratings outlook for SFG and continues to review the financial condition of SFG to determine if additional action is needed. At certain financial strength rating levels, acceptance of SFG policies as appropriate insurance cover for mortgage collateral may diminish. This has the potential to affect existing SFG policyholders across California. Additionally, to comply with solvency regulations, SFG is required to file a Company Action Plan by April 15th with the Illinois Department of Insurance (SFG's solvency regulator) to explain the company's plan to restore its financial condition.

[1] As a reminder, SFG is almost exclusively a California-only insurer.

As we look to continue to serve the insurance needs of Californians, we seek the Department's assistance in helping to rebuild the company's financial strength. We recognize and appreciate the positive impact of the Department's recent homeowners rate approval. Of course, the full effect of that new rate on SFG's surplus position won't begin until March 2025, since the rate is applied to policies as they renew on a rolling 12-month basis. And it's clear more rate is still needed, as market conditions have not remained static since we made our last filing supporting the recently approved increase in February of 2023. Insurance is not insulated from inflationary trends affecting goods across the entire economy. In fact, construction cost increases have been among the highest inflationary categories over the last five years. Short of emergency rate regulations being issued very soon, the limitations of CDI's current rate template may necessitate the next homeowners rate filing to rely on one or more variances. While there will undoubtedly be novel issues to work through, rapid review and approval of a new rate appropriate to the circumstances – along with all other upcoming and pending SFG rate filings – will be critical to SFG's survival, especially in light of potential intervenor delays.

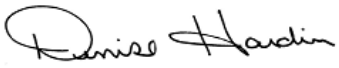
As shared with the Department prior to the February 2023 filing, rate increases alone would likely be insufficient to restore SFG's financial strength. We must now take action to reduce our overall exposure to be more commensurate with the capital on hand to cover such exposure, as most insurers in California have already done. We have been reluctant to take this step, recognizing how difficult it will be for impacted policyholders, in addition to our independent contractor agents who are small business owners and employers in their local California communities. Rebuilding capital, even with higher rates, will take some time. We are striving to minimize the impact of the necessary actions that must be taken. We will continue to be transparent with you and your staff regarding these actions.

You and your Department are an indispensable part of broader market reforms that could eventually allow SFG to resume its normal place in that market. As you have pointed out, California residents are best served in the long run by a fair and well-functioning insurance market, a key component of which is that consumers bear the economic reality of the true costs to insure their property. California homeowners insurance premiums are still below the national average, and far below other disaster-prone states. We understand the impact of higher prices on consumers. At the same time, we are even more concerned with availability of insurance.

We recognize the Department's ongoing efforts to pursue implementation of your Sustainable Insurance Strategy, including the allowance for catastrophe modeling and reinsurance costs in ratemaking and improving rate filing procedures and timelines. Along with addressing the uncapped financial exposure of FAIR Plan assessments, such reforms could materially improve the health of the market, particularly if they allow for more nimble insurer pricing in response to sudden changes in market conditions. We are acutely aware of the political challenges that the actions needed to improve SFG's financial position pose to broader reform efforts. Please know that we have an ongoing desire and commitment to collaborate with you and your staff, as well as the Governor's office, to achieve these reforms as quickly as possible. We cannot overstate, and we agree with your public plea for, the need for regulatory modernization.

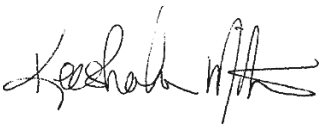
The swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings. We take very seriously our responsibility to be there for customers who experience a claim and our actions are with that goal at the fore. A financial failure of SFG will detrimentally impact the entire market, an outcome we are all trying to avoid. We look forward to working with you and your staff to rebuild the financial health of SFG and to create a firmer foundation on which this market can thrive.

Sincerely,



Denise Hardin
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company

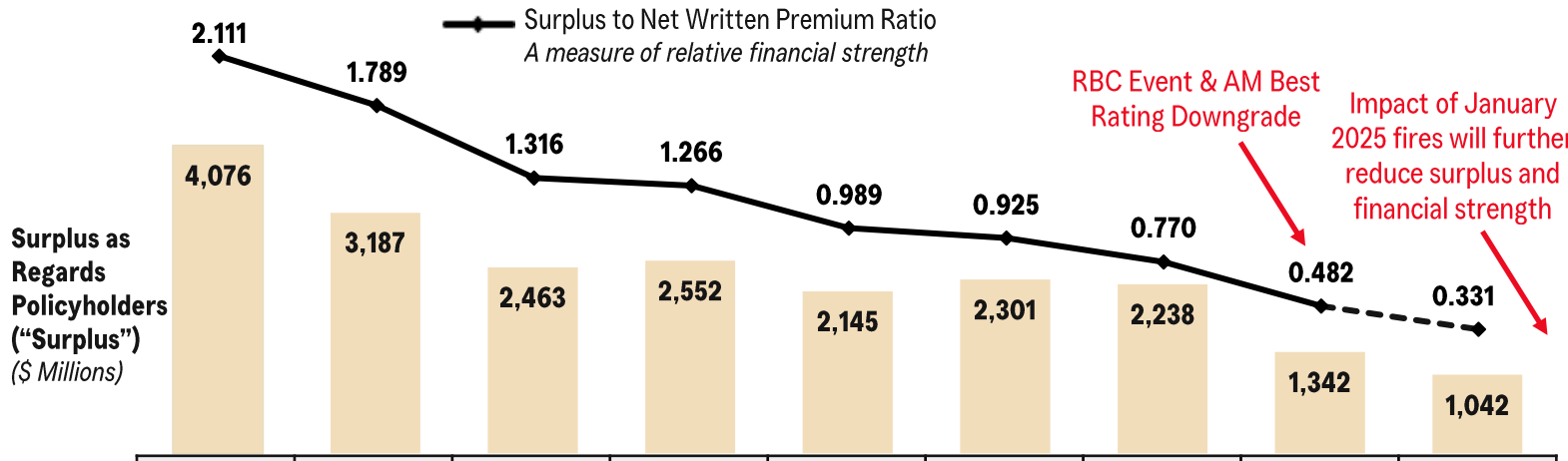


Keesha-Lu Mitra
General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner

State Farm General Insurance Company

Financial Results 2016 – 2024[1]



	2016	2017	2018	2019	2020	2021	2022	2023	2024[1]
Combined Ratio	103.4	184.5	160.8	102.8	127.2	101.0	108.9	137.4	119.2

[1] Year-end 2024 represents a preliminary result. All other values sourced from annual financial statements filed with insurance regulators on or by March 1 of each year. The combined ratio is based on net results and calculated by taking incurred losses plus incurred expenses and dividing that sum by earned premium (a number above 100 represents an underwriting loss with the underwriting gain/loss calculated by subtracting incurred losses and incurred expenses from earned premium).

Financial Strength Deterioration

State Farm General (SFG) is almost exclusively a California insurer, with homeowners insurance being its largest line of business.

The surplus of SFG continued to deteriorate in 2024. SFG's already stressed financial position will be further weakened by the financial impact of the January 2025 fires, including SFG's participation in FAIR Plan losses. This is even after accounting for the billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance Company ("State Farm Mutual") as the primary reinsurer.

Year-end 2024 surplus is estimated at $1.04 billion **– a quarter of its value compared to year-end 2016 and less than half its value since just year-end 2022.** The year-end 2024 surplus to net written premium ratio is estimated to be 0.331 with the first quarter 2025 ratio expected to fall below the NAIC range provided by the Insurance Regulatory Information Systems (IRIS) manual.

The cumulative underwriting loss for 2016 – 2024 is $5.3 billion with a cumulative combined ratio of 125.7% – meaning SFG will pay $1.26 in claims and expenses for every $1 of premium collected. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period ending December 31, 2024, and is clearly not sustainable.

Risk Based Capital (RBC) – RBC is a uniform capital standard prescribed by the National Association of Insurance Commissioners (NAIC) and used by insurance regulators, including the California and Illinois Departments of Insurance. The RBC framework requires various corrective actions on the part of the insurer and its domestic regulator should the insurer's capital fall below certain defined trigger points. As a result of SFG's 2023 financial position, the **company triggered a Company Action Level Event after failing to meet the NAIC's RBC ratio requirements**, which dictated that a plan be filed with the Illinois Department of Insurance ("IDOI" is SFG's domestic financial solvency regulator) specifying corrective actions that would address the event. Based on the further deterioration in surplus during 2024, SFG expects to again fail to meet the RBC standard and will be required to file an another / updated RBC Plan with the IDOI. The net (after-reinsurance) impact of the January 2025 fires, along with SFG's participation in FAIR Plan losses, puts further strain on an already strained financial position resulting in the expectation of further deterioration of the company's RBC. The NAIC is considering inclusion of wildfire catastrophe risk into RBC as it is not currently included – its inclusion will put even greater pressure on the SFG RBC ratio. SFG must meet solvency and regulatory requirements, including RBC requirements, on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity.

AM Best Financial Strength Rating – In March 2024, credit rating agency AM Best **downgraded** SFG's Financial Strength Rating (FSR) to B (Fair) and its Long-Term Issuer Credit Rating (ICR) to bb+ (Fair). AM Best noted the following in its release[2]: "The Credit Ratings (ratings) reflect State Farm General's balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance…The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company's ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation…and the challenging regulatory environment within California's marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion."

[2] See March 2024 AM Best news release - https://news.ambest.com/pr/PressContent.aspx?refnum=34559&altsrc=2

EXHIBIT B

Print This Page

MARCH 28, 2024 03:35 PM (EDT)

AM Best Downgrades Credit Ratings of State Farm General Insurance Company

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FOR IMMEDIATE RELEASE

OLDWICK - MARCH 28, 2024 03:35 PM (EDT)
AM Best has downgraded the Financial Strength Rating (FSR) to B (Fair) from A (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) to “bb+” (Fair) from “a” (Excellent) of State Farm General Insurance Company (State Farm General) (Bloomington, IL). The outlook of the FSR has been revised to stable from negative, while the outlook of the Long-Term ICR is negative.

The Credit Ratings (ratings) reflect State Farm General’s balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance, neutral business profile and appropriate enterprise risk management (ERM). The ratings also reflect lift, as defined within Best’s Credit Rating Methodology, from its parent, State Farm Mutual Automobile Insurance Company.

The rating downgrades reflect continued deterioration in State Farm General’s policyholder surplus at Dec. 31, 2023, which resulted in a corresponding decline in overall risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), and weakening balance sheet metrics. A contributing factor to this decline was sharp increases in claim severity affecting the company’s umbrella and commercial multi-peril lines of business.

The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company’s ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation, trending adverse reserve development occurring on prior accident years, and the challenging regulatory environment within California’s marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion. While management is taking corrective actions to stabilize its balance sheet strength, these actions will need time to gain positive traction over the intermediate term.

This press release relates to Credit Ratings that have been published on AM Best’s website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best’s Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Guide to Best's Credit Ratings. For information on the proper use of Best’s Credit Ratings, Best’s Performance Assessments, Best’s Preliminary Credit Assessments and AM Best press releases, please view Guide to Proper Use of Best’s Ratings & Assessments.

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Related Companies

For information about each company, including the Best's Credit Reports, group members (where applicable) and news stories, click on the company name. An additional purchase may be required.

AMB#	Company Name
002478	State Farm General Insurance Company

002479	State Farm Mutual Automobile Ins Co

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B7-3-01, General Property Insurance Requirements for All Property Types (12/14/2022)

Introduction

This topic contains information on property insurance requirements for insurers, including:

- Overview
- Property Insurer Rating Requirements
- Exceptions to Insurer Rating Requirements
- Other Exceptions to Property Insurance Requirements

Overview

The borrower has the right to select the insurer of their choice to provide property insurance for the subject property, provided that the insurance meets Fannie Mae's requirements. The lender or servicer must ensure that the insurer, policy, and coverage meet Fannie Mae's requirements. In some cases, Fannie Mae may require additional coverage that differs from these requirements.

> **Note:** References to "lender or servicer" include the lender or seller at origination and the servicer for the duration of loan servicing.

Property Insurer Rating Requirements

The property insurance policy for the property securing any first mortgage, including master policies for project developments, must be written by an insurer that meets one of the rating requirements in the following table.

Rating Agency	Rating Category
AM Best Company	“B” or better Financial Strength Rating
Demotech, Inc.	“A” or better Insurance Financial Stability Rating
Kroll Bond Rating Agency	“BBB” or better Insurance Financial Strength Rating (IFSR)
S&P Global	“BBB” or better Insurer Financial Strength Rating

> **Note:** An insurer is only required to meet the rating category requirement for one of the rating agencies, even if they are rated by multiple rating agencies.

Exceptions to Insurer Rating Requirements

The following are exceptions to Fannie Mae's insurer rating requirements:

- **Second Mortgages** — The property insurance policy for a property that secures a second mortgage does not have to be written by an insurer that meets Fannie Mae's rating requirements, unless Fannie Mae also has an interest in the first mortgage.
- **Mortgage Impairment (or Mortgagee Interest) Insurance** — If the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy, and the issuer meets either the AM Best Financial Strength Rating or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements*, Fannie Mae does not require confirmation that the borrower's property insurance coverage is with an insurer that meets Fannie Mae's rating requirements. However, in such instances, the lender should advise the borrower of Fannie Mae's requirements when it originates the loan.
- **Reinsurance Arrangements** — Policies written by an insurer that do not meet Fannie Mae's rating requirements are acceptable provided all conditions outlined in the following table are met.

✓	Conditions for Acceptable Reinsurance Arrangements
	The insurer is covered by reinsurance with a company that meets the AM Best Financial Strength Ratings or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements.*
	The primary insurer and the reinsuring company are authorized (or licensed, if required) to transact business within the state where the property is located.
	The reinsurance agreement has a "cut-through" endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event the primary insurer becomes insolvent.
	Both the primary insurer and the reinsuring company execute an *Assumption of Liability Endorsement (Form 858)*, or any equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice to Fannie Mae of the termination of the reinsurance arrangement. **Note:** Form 858 (or the equivalent endorsement) must be attached to each insurance policy covered by the reinsurance agreement, unless the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy.
	The reinsurance agreement does not allow contributions or assessments to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae's lien.
	The insurance written under the policy cannot exceed any dollar limitation amount specified in the reinsurance endorsement.

Other Exceptions to Property Insurance Requirements

Fannie Mae also accepts the following types of property insurance policies if they are the only coverage that can be obtained at the time of the loan closing or policy renewal:

- policies obtained through state or territory insurance plans, including a state's Fair Access to Insurance Requirements (FAIR) plan, or
- other state-mandated windstorm and beach erosion insurance pools.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021

4703.1

General property insurance requirements

Effective 01/01/2023

For Mortgages sold to Freddie Mac, the Seller must ensure that the Mortgaged Premises are covered by insurance meeting the requirements in this Chapter 4703. The Seller must obtain evidence of insurance meeting the requirements of Section 8202.8.

(a) Licensing of insurer

All insurance companies (insurers) and insurance companies which guarantee coverages provided by other insurance companies (reinsurers) must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the Mortgaged Premises are located.

(b) Assessments

Insurance contracts must provide that no assessment may be made against the Seller/Servicer or Freddie Mac and that any assessment made against others may not become a lien on the Mortgaged Premises superior to the lien of the Freddie Mac Mortgage.

(c) Rating of insurer

The required insurance must be provided by one of the following insurers:

1. An insurer with a current rating that meets the requirements below:
    - For an insurer rated by AM Best Company (AM Best), a minimum Financial Strength Rating of B+, as reported online at **http://www.ambest.com**

- For an insurer rated by Demotech, Inc., a minimum Financial Stability Rating of A as reported online at **http://www.demotech.com**
- For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB as reported online at **http://www.standardandpoors.com**
- For an insurer rated by Kroll Bond Rating Agency (KBRA), a minimum Insurance Financial Strength Rating of BBB as reported online at **https://www.kbra.com**

2. An insurer with coverage that is guaranteed by a reinsurer under all of the following conditions:
   - The reinsurer's current rating meets the requirements below:
     - For a reinsurer rated by AM Best, a minimum Financial Strength Rating of B+; or
     - For a reinsurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB
   - The reinsurer assumes by endorsement 100% of the insurer's liability for any covered loss payable but unpaid by the insurer for reason of insolvency
   - The reinsurer assumes by endorsement to give the policyholder, the Seller/Servicer and insurer 90-day written notice before canceling or otherwise terminating the guarantee
   - The above endorsements are attached to each property insurance policy accepted by the Seller/Servicer on account of the endorsements
3. A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability (such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)
4. A non-admitted insurer with a current rating that meets the requirements below:
   - For an insurer rated by AM Best, a minimum Financial Strength Rating of A, or
   - For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of AA-

5. An insurer with coverage that is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended

Insurers rated by more than one rating company need only meet one of the rating requirements.

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GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

** Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".*

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

Rating Disclosure – Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

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01-Jul-2019 | 05:06 EDT

General Criteria: Group Rating Methodology

(**EDITOR'S NOTE:** On Dec. 17, 2024, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)

OVERVIEW AND SCOPE

1. This article describes S&P Global Ratings' methodology for rating entities that are part of corporate, financial institutions, insurance, and international public finance groups, as well as U.S. public finance obligated groups.

2. These criteria articulate the steps in determining an issuer credit rating (ICR) on group members and their holding companies. This involves assessing the group credit profile (GCP; i.e. the group's overall creditworthiness), the stand-alone credit profiles (SACP) of group members, and the status of an entity relative to other group entities.

3. The criteria also describe how we assess the potential for support (or negative intervention) from group entities, or from other external sources such as a government.

4. These criteria apply to corporate, financial institution, insurance, and international public finance entities that we consider part of a group and U.S. public finance entities that we consider part of an obligated group. For these entities, we believe that their ownership, control, influence, or support by or to another entity could have a material bearing on their credit quality. Examples of entities that are outside the scope of these criteria include project finance and corporate securitizations.

5. These criteria may complement other criteria that address sector-specific support considerations.

6. This methodology follows our request for comment, "Request for Comment: Group Rating Methodology," published Dec. 12, 2018.

Key Publication Information

- Original publication date: July 1, 2019
- These criteria address the fundamentals set out in "Principles Of Credit Ratings," Feb. 16, 2011.

METHODOLOGY

7. These criteria explain how we factor the potential for extraordinary support (or extraordinary negative intervention) into the ICR of an entity that is a member of a group. Such extraordinary support (or negative intervention) is beyond that which we already factor into the entity's SACP, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating."

8. We factor the potential for extraordinary support or extraordinary negative intervention into the ICR even when the need for such support or the possibility for such negative intervention may appear remote.

9. We apply a six-step process for determining the ICR of group members (see chart 1), as follows:

(i) Identify the group parent and the group members (together called the group).

(ii) Assess the creditworthiness of the group (or subgroup) to determine a group SACP and GCP. The potential GCP is based on the group SACP, adjusted for potential external sources of extraordinary support if we believe such support will be extended to the group, or potential extraordinary negative intervention. Finally, we apply any relevant sovereign constraints to determine the GCP (see chart 2). See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."

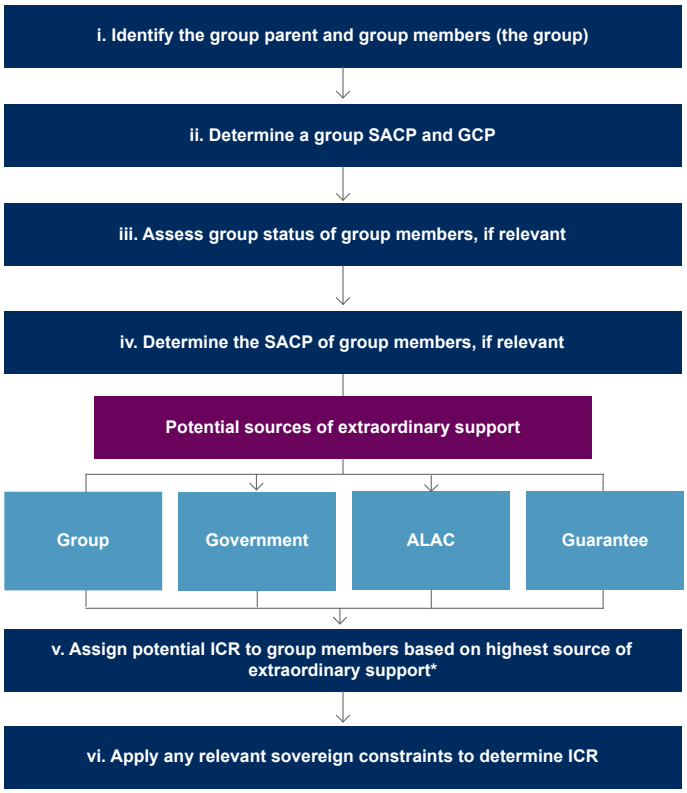
(iii) Assess the group status of each group member to be rated, if relevant.

(iv) Determine the SACPs of group members to be rated, if relevant.

(v) Assign a potential (indicative) ICR to group members. The potential ICR is based on the entity's SACP, if relevant, and the potential for extraordinary support (or extraordinary negative intervention). Extraordinary support is the higher of any group or government influence, or other external support factors (such as additional loss-absorbing capacity (ALAC) support or a guarantee). This step also factors in the degree of insulation, if any, that a group member has from potential negative influence by other weaker group entities.

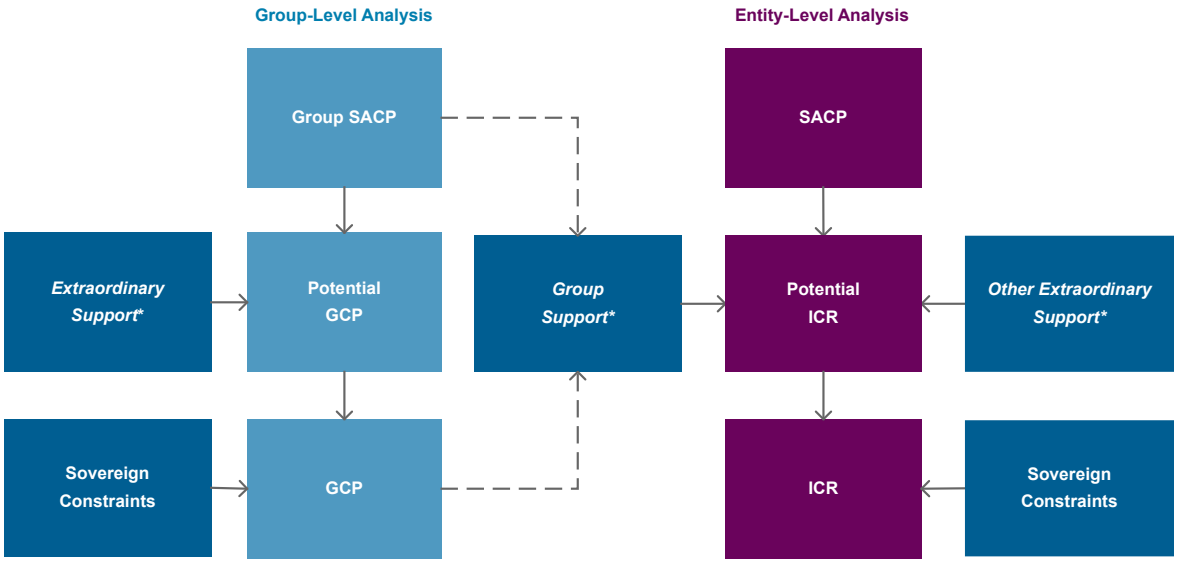
(vi) Assign the final ICR after taking into consideration any relevant sovereign constraints (see "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions").

Chart 1
Determining The Issuer Credit Rating On Group Members



*Subject to any insulation. GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity (applies to certain prudentially regulated entities or groups).ICR—Issuer credit rating.
Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2--Group Rating Methodology Framework



– — → The relevant reference for determining the impact of group support is either the group SACP or GCP.

GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ICR--Issuer credit rating. *Or negative intervention.

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10. These criteria define five categories of group status: core, highly strategic, strategically important, moderately strategic, and nonstrategic. These categories indicate our view of the likelihood that a group member will receive extraordinary support from the group (see table 1).

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR

Group status	Brief definition	Potential ICR*
Core	Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances.	GCP

Highly strategic	Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these group members under almost all foreseeable circumstances.	One notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP.
Strategically important	Less integral to the group than "highly strategic" group members. The rest of the group is likely to provide support in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.	Three notches above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP.
Moderately strategic	Not important enough to warrant support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group.	One notch above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP.
Nonstrategic	No strategic importance to the group.	SACP, subject to a cap defined by the GCP.

* The above conventions do not apply where: potential ICRs exceed the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); and when paragraph 42 applies.

11. A potential ICR on a group member that exceeds its SACP reflects our view of the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group or government support (beyond that already factored into the SACP), thereby strengthening its creditworthiness. Examples of support include additional liquidity or capital to the group member, or one-off transfers of risk from the group member.

12. A potential ICR on a group member that is lower than its SACP reflects our view that if the group or relevant government were in a credit-stress scenario, the group or government would draw resources from the group member (an example of extraordinary negative intervention), thereby weakening its creditworthiness.

13. If the GCP is 'ccc+' or lower, the potential ICR on a group member cannot be lower than 'b-' unless the conditions for a potential ICR of 'ccc+' or lower are met (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," henceforth referred to as "CCC criteria"). The potential ICR would include the potential for extraordinary negative intervention from the group or government.

Identifying The Group And Its Members

14. For the purposes of these criteria, the term "group" refers to the group parent and all the entities (also referred to as group members) over which the group parent has direct or indirect control.

15. The group parent is not necessarily the ultimate holding company in the group structure but is the top entity in the structure that we believe is relevant to the group's credit quality. Accordingly, additional holding companies may exist above the group parent, but be excluded from our group assessment if we believe they have no material liabilities or operating assets and therefore no bearing on the group's overall credit quality. The control chain may include several successive layers of controlling or joint-control interest in other entities. We would generally not consider a natural person, or entities such as family firms, foundations, managed fund, or financial sponsors, to be a group parent. Where we determine that an entity (for instance, an investment holding company) does not have control of an investee company, we do not consider that entity to be the group parent.

16. "Control" refers to the ability to direct a group member's strategy and the disposition of its cash flow. Control may be present even if the group owns 50% or less of the group member's shareholder capital.

17. We generally apply this methodology to an entire group, but may also apply it to a distinct subgroup. A subgroup focus may be appropriate when the subgroup and its components have a distinct credit profile that is separate from that of the broader group. This could be due to factors such as jurisdictional location, regulatory oversight, or support factors that

apply only to the subgroup. References to the term "group" in this methodology can apply to either a subgroup or a group viewed in its entirety.

The Group SACP And Group Credit Profile (GCP)

18. The group SACP and GCP are our opinions of a group's creditworthiness as if it were a single legal entity (subject to any potential restrictions on cash flows associated with insulated entities).

19. The group SACP and GCP are not ratings. They are components contributing to the determination of the ICRs on group members. The group SACP does not take into account sources of potential extraordinary support or negative intervention that we consider external to the assessed group. However, the potential GCP incorporates extraordinary external support that we believe is available to the group, or conversely, extraordinary negative intervention. Finally, the GCP takes into consideration any relevant sovereign constraints. See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."

20. Group SACPs and GCPs range from 'aaa' (the highest assessment) to 'd' (the lowest assessment), on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters indicate their status as a component of a rating rather than as a rating. Like ICRs, group SACPs and GCPs can carry the modifier "+" or "-". Typically, a group SACP or GCP is 'd' only in the case of a generalized group default. In the case of a legal entity within a group, we lower the ICR on that entity to 'D' or 'SD' (selective default) only if we determine the entity is in default (see "S&P Global Ratings Definitions").

21. To determine the group SACP and GCP, we assess the consolidated group using the relevant sector methodologies. The assessed group includes all group entities that we believe have a bearing on the group's credit quality (as per the explanation detailed in the section "Identifying The Group And Its Members"), and may potentially deconsolidate insulated entities as per the "Insulated Entities" section. We typically conduct the assessment of the group SACP and GCP as though the group were a single legal entity.

22. For cross-sector groups (including their holding companies), the specific rating methodology applied to assess the group SACP is the one relevant for the operations that most strongly influence the group's credit profile. This influence can reflect the amount of capital employed, level of earnings, cash flow, dividend contribution, or other relevant metric. However, where the analysis of consolidated financial statements using a single sector's criteria framework may not produce a meaningful picture of credit quality, we may apply a combination of rating methodologies to assess the group SACP. This may be done by applying the relevant methodologies to determine SACPs for the different group members. We would then aggregate these SACPs to derive the overall group SACP. The group SACP would also include adjustments to account for any benefits or risks not captured in the aggregation of the component SACPs.

a) Multiple ownership and joint ventures

23. If a group member is under the joint control of at least two parents--for example, a joint venture (JV)--the insolvency or financial difficulty of one parent may have less impact than if the entity had a single parent.

24. For JVs, we may attribute support from one of its owners (JV partner) even if the JV partner does not have majority ownership in the JV. We typically attribute support from the JV partner that would result in the highest potential ICR on the JV. This would apply where we believe the JV partner would support the JV, regardless of the actions of the other owners. This could include situations where that JV partner makes day-to-day business decisions, or the JV is of critical importance to the supporting JV partner's operations or strategy. In such cases, however, the group status of the JV to the JV partner would typically not exceed strategically important. In addition, we would also take the potential resource demands of the JV on the JV partner into consideration when determining the JV partner's credit profile.

25. The analytical approach for a group's jointly owned business operations, such as whether to fully consolidate, partially consolidate, or equity account the operations when assessing the group SACP, is determined by the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types.

26. In cases where a shareholder agreement or similar arrangement exists that we believe would prevent an otherwise controlling parent from directing the strategy and cash flows of a group member, we may assess that control is not present. When we determine control is not present, we would typically treat the member as an equity affiliate and consider only the projected dividend flows from that member in our group SACP assessment.

b) Insulated entities

27. Where we determine that consolidating an insulated group member does not adequately capture the impact on the group SACP of any material restrictions on cash flows or financial resources within the group, we either:

- Adjust the group SACP down (typically by one or two notches); or
- Treat an insulated group member as an equity affiliate, and reflect this deconsolidated approach in determining the group SACP.

28. When assessing a group that has a bank subsidiary with a potential ICR that is above the GCP either because it is of high systemic or moderate systemic importance (as per "**Financial Institutions Rating Methodology**"), in the country where it is domiciled, or because of ALAC support, the group SACP will take into account the impact of any local restrictions on the flow of capital, funding, and liquidity, and any implications for the business and risk positions of the parent.

c) Entities owned by a financial sponsor

29. If the owner of a group entity is a "financial sponsor" (see Glossary), the potential ICR on that group entity does not directly factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the financial sponsor's creditworthiness. However, the financial sponsor's ownership may still affect the potential ICR through the application of the relevant sector-specific criteria.

30. The group SACP for a group owned by a financial sponsor may, however, include one or more intermediate holding companies of the operating entity, but would exclude the financial sponsor's own financials and its other holdings. This approach reflects our view that an intermediate

holding company's primary purpose is to acquire, control, fund, or secure financing for its operating companies, and is generally reliant on those companies' cash flow to service its financial obligations.

d) U.S. public finance obligated groups

31. U.S. public finance obligated groups typically consist of a group of entities that are cross-obligated as security for specific debt. Obligated group structures are most commonly used by not-for-profit hospitals, health systems, and senior living organizations.

32. Obligated groups are created for purposes of securing debt, and do not have operating or governance independence from the larger group. While debt covenants may contain some restrictions, for example limitations on the transfer of assets out of the obligated group, covenants are generally not strong enough to insulate the obligated group from the strategic and operating influence of the group. An obligated group, therefore, is typically not rated higher than the GCP.

33. Individual obligated group members may have separate legal incorporation and varying strategic value to the group. However, since the purpose of the obligated group is to secure debt on a joint and several basis, group status will be determined for the obligated group as a whole, not for its individual members. In applying these criteria, we consider obligated groups a single entity.

34. Most U.S. public finance ratings are issue ratings, although we sometimes assign ICRs. The issue rating could differ from the ICR based on the specific security package for the rated bonds. We expect that, barring subordination or structural enhancement, U.S. public finance issue ratings will generally be the same as the ICR.

e) External support factors in the GCP

35.Government support. The potential for extraordinary government support can be factored into either the ICRs of certain group members or the GCP, depending on the nature of this support (see Rating Government-Related Entities: Methodology And Assumptions [GRE criteria], and Financial Institutions Rating Methodology). We use the group SACP as a basis from which to determine the GCP when using the government support tables in the GRE criteria or bank criteria.

36. The assessment considers whether government support, driven by GRE status or systemic importance, would likely accrue to all or only some members of the group (see table 2).

37. To determine the potential ICR for a particular group member, where the assessment indicates that the government:

- Is likely to extend such extraordinary support directly to that entity (bypassing the group), any uplift for such support is added to the SACP of that entity in determining the potential ICR;
- Is likely to extend such extraordinary support indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP (which would include uplift, if any, for extraordinary government support); or
- Is unlikely to extend such extraordinary support to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Table 2

Rating Government-Supported Entities--Likelihood Of Government Support Versus Group Support

SACP level	If the subsidiary is likely to benefit directly from extraordinary government support *	If the subsidiary is likely to benefit from extraordinary government support indirectly through the group	If the subsidiary is unlikely to benefit from extraordinary government support either directly or indirectly
SACP is lower than the group SACP	Potential ICR = Higher of (i) the SACP plus uplift for government support, or (ii) SACP plus uplift for group support. The outcome is subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP plus uplift for group support (with reference to the GCP)	Potential ICR = SACP plus uplift for group support (with reference to the lower of the group SACP or the GCP)
SACP is higher than or equal to the group SACP	Potential ICR = SACP plus uplift for government support, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	If SACP < GCP, potential ICR = SACP plus uplift for group support (with reference to the GCP). If SACP >= GCP, potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)

No SACP	SACP required, unless subsidiary is a GRE with almost certain likelihood of government support*	If core, potential ICR = GCP. If highly strategic, potential ICR = GCP - 1.	If core, potential ICR = lower of the GCP or group SACP. If highly strategic, potential ICR = lower of the GCP - 1 or group SACP - 1.

* See GRE criteria for further details, including when an SACP is not required for entities with almost certain likelihood of government support. SACP--Stand-alone credit profile. ICR--Issuer credit rating.

38.ALAC support. The potential for extraordinary external ALAC support can be factored into either the ICRs on certain group members or the GCP, depending on the nature of this support (see "Financial Institutions Rating Methodology"). To determine the potential ICR on a particular group member, where the assessment indicates that ALAC support in the GCP:

- Is likely to extend indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP; or
- Is unlikely to extend to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Assigning The Issuer Credit Rating

39. A potential ICR on a group member reflects its SACP (if relevant) and the potential for external extraordinary support (or negative intervention). We then determine the final ICR by applying any relevant sovereign constraints to the potential ICR.

40. We determine the potential ICR as follows, unless paragraph 41 applies:

- Core group entity is equal to the GCP;
- Highly strategic entity is one notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP;
- Strategically important entity is rated three notches higher than its SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP;
- Moderately strategic entity is rated one notch higher than that entity's SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP; or
- Nonstrategic entity is rated the same as that entity's SACP, subject to a cap defined by the GCP.

41. The above conventions do not apply where: the potential ICR exceeds the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); or when paragraph 42 applies.

42. We may apply a one-notch adjustment to determine the potential ICR (as described in paragraph 40) to better reflect our holistic view of potential extraordinary group support. This adjustment is only applicable if we have determined an SACP and the gap between the potential ICRs, based on group status assessments of highly strategic and strategically important, is at least three notches. The adjustment, if applicable, is as follows:

- When the group status is highly strategic, we may apply a negative one-notch adjustment. The potential ICR could, therefore, be two notches lower than the GCP rather than one notch; or
- When the group status is strategically important, we may apply a positive one-notch adjustment. The potential ICR could, therefore, be four notches higher than its SACP rather than three notches.
- For example, if we determine an entity exhibits characteristics consistent with a highly strategic entity, while a change in group status to strategically important could lead to a potential ICR change of three notches, the potential ICR could be two notches below GCP while the group status remains highly strategic; alternatively, if we determine the entity now exhibits characteristics consistent with a strategically important entity, we will revise the group status to strategically important and the potential ICR could be four notches above the SACP.

Group Status Of Individual Members

43. A group member's group status reflects the extent and timeliness of extraordinary support we expect it will receive from the rest of the group when that entity is under credit stress. We may also assess a group member's group status to a subgroup and the group status of a subgroup to a broader group. This section describes the framework that supports the classification of a member's group status into one of five categories:

- Core;
- Highly strategic;
- Strategically important;
- Moderately strategic; or
- Nonstrategic.

44. The determination of an SACP for a group member categorized as core or highly strategic is not necessary unless otherwise required or analytically relevant. A group status is not necessary for insulated entities, unless otherwise required or analytically relevant.

a) Core entities

45. A core entity exhibits features highly consistent with the group's franchise, supports the realization of group strategic objectives, and is expected to attract extraordinary support, if required, under any foreseeable circumstance. A core entity would also generally be expected to exhibit all the following characteristics:

— Is highly unlikely to be sold;

— Operates in lines of business or functions (which may include group risk management and financing) that are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target markets;

— Has a strong, long-term commitment of support from the group in benign and under stressful conditions, or incentives exist to induce such support (e.g., cross-default clauses in financing documents, or the entity plays an integral role in group risk management or financing);

— Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group's specific targets and group earnings norms over the medium to long term;

— Either constitutes a significant proportion of the consolidated group or is fully integrated with the group;

— Is closely linked to the group's reputation, name, brand, or risk management;

— Has typically been operating for about five years or more; and

— Has been established as a separate entity for legal, regulatory or tax reasons, but otherwise operates more as part of a profit center or division integral to the group.

b) Highly strategic entities

46. A highly strategic group entity generally exhibits almost all of the characteristics of a core entity, and differs only narrowly regarding the extent of expected extraordinary support from the group. An entity assessed as highly strategic is generally expected to have a long-term

commitment from the group. There may be situations in which support for the highly strategic entity will be limited, for instance, to preserve the viability of core entities of the group.

c) Strategically important entities

47. We assess an entity as strategically important when we expect it to receive extraordinary support from the group in most foreseeable circumstances; however, there are some doubts about the extent of group support that precludes it from a higher support category. Strategically important subsidiaries would however typically exhibit all the following characteristics:

- Is unlikely to be sold;
- Is important to the group's long-term strategy;
- Has the long-term commitment of the group, or incentives exist to induce such support (e.g., cross-default clauses in financing documents); and
- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to the group's specific expectations or group earnings norms.

d) Moderately strategic entities

48. When an entity does not exhibit the characteristics for a higher level of group support, but we expect it to receive extraordinary support in some foreseeable circumstances, it is typically considered moderately strategic. Moderately strategic entities are also typically important to the group's long-term strategy or are (or are expected to become) reasonably successful at what they do.

e) Nonstrategic entities

49. When an entity does not exhibit the characteristics of core, highly strategic, strategically important, or moderately strategic, it is categorized as nonstrategic.

Captive (re)insurer

50. A captive (re)insurer may also be assessed as core if it sources its (re)insurance business from companies within the group and writes no, or an immaterial amount, of third-party business. A captive (re)insurer may also be assessed as highly strategic if third-party business is a modest portion of its overall business operations.

Captive finance

51. When assessing group status for captive finance subsidiaries, the attributes we examine to determine group status should be considered within the context of all the following unique factors that captive finance subsidiaries typically provide to their group's marketing efforts:

- The percentage of the group's products sold via the subsidiary (penetration rate). For diversified groups, the percentage of total sales may be less important than the percentage of certain specific product lines. In turn, we consider the importance of these products to the overall performance of the group;
- The alternatives available to sell the group's products; and
- The costs and challenges in conducting its own financing. For some entities, funding costs may outweigh the benefits--or it may become difficult to gain access to capital.

Branches

52. For financial services entities, a branch is part of a legal entity that is typically at another geographic location. A branch therefore has the same creditworthiness as the legal entity, unless the branch is in another country and the actions of that sovereign could affect the branch's ability to service its obligations. See "Ratings Above The Sovereign--Corporate And Government Ratings." With respect to financial institutions, see also "Financial Institutions Rating Methodology."

U.S. public finance obligated groups

53. U.S. public finance obligated groups could be considered core if they contain the majority of the organization's primary operating facilities, such as its hospitals or senior living facilities.

Financing subsidiaries

54. A financing subsidiary of a financial institution or corporate group may be assessed as core when it plays an integral role in group financing, its sole activity is to raise debt on behalf of the group, and it is wholly owned. Such subsidiaries often share a related corporate name with their parents.

55. A financing subsidiary of an insurance group, while generally not assessed as core, is typically assigned a rating as if it is a holding company.

Credit-substitution guarantee of group entities

56. When all of a group member's present and future financial obligations are guaranteed, and the guarantor is obliged to pay that group member's obligations even if the group member defaults, we assign a rating to the group member that reflects the higher of two outcomes:

- A rating reflecting the creditworthiness of the group member absent the benefit of the guarantee; or
- A rating reflecting the creditworthiness of the guarantor (see "Guarantee Criteria").

57. Our assessment of the terms of any intragroup guarantees determines whether a payment default on the part of a group entity is viewed as a default by the guarantor (see "S&P Global Ratings Definitions").

Loan participation notes (LPNs)

58. We rate LPNs and equivalent securities (such as trust preferred) issued by a special-purpose vehicle (SPV) on behalf of a corporate, financial institution, or insurance entity (including their holding companies) at the same level as we would rate an equivalent-ranking debt of its underlying borrower (the LPN sponsor) (and treat the contractual obligations of the SPV as financial obligations of the LPN sponsor) provided that all the following conditions are met:

- All of the SPV's debt obligations are backed by equivalent-ranking obligations with equivalent payment terms issued by the LPN sponsor;
- The SPV is a strategic financing entity for the LPN sponsor set up solely to raise debt on behalf of the LPN sponsor's group; and
- We believe the LPN sponsor is willing and able to support the SPV to ensure full and timely payment of interest and principal when due on the debt issued by the SPV, including payment of any expenses of the SPV.

59. As a consequence, we assign a 'D' or 'SD' ICR to the LPN sponsor if the SPV fails to make payments on the debt when due, as we would typically do in case of default on a similarly ranking debt issuance of the LPN sponsor (see also "S&P Global Ratings Definitions").

60. For multiple LPN sponsor SPVs, or SPVs that do not meet all the conditions above, the relevant structured finance criteria apply, which may include "
Asset Isolation And Special-Purpose Entity Criteria—Structured Finance" and "Global Methodology For Rating Repackaged Securities."

Dedicated supplier/purchaser relationships

61. Group members are typically owned or controlled by the group parent. However, a dedicated supplier/purchaser relationship can create an economic incentive for the supplier to support the purchaser, despite having only a minority ownership interest or none at all. We define the group in this instance as the supplier and the purchaser. A supplier may provide support sufficient for the purchaser to be considered moderately strategic to the supplier when the purchaser comprises a meaningful portion of the supplier's sales, cash flow, volume, or other measure. Such relationships typically have all the following characteristics:

- The term of the supplier/purchaser agreement is either perpetual or long term;
- There is evidence of the supplier's willingness and ability to provide financial support to the purchaser. We determine this by looking at prior loans, capital investments, or marketing support given to the purchaser; and
- The purchaser is closely linked to the supplier's reputation, name, or brand.

Entities with interlocking business relations

62. We can apply this methodology to groups of entities with interlocking business relations even in the absence of control, as defined in the criteria. Group membership will be based on meeting at least four of the following conditions:

- Name affiliation;
- Common management;
- Common board composition or common board control;
- Shared corporate history;
- Common business ties;
- Common financing of group entities;
- Shared corporate support functions; or
- Cross ownership holdings.

In such cases, we determine the GCP by determining the group members' SACPs and aggregating them based on the relative importance of each group member, as we do for the cross-sector groups. Members of this type of group can only be assigned a group status of strategically important, moderately strategic, or nonstrategic.

Insulated Entities

63. Financial stress within the group can negatively affect the creditworthiness of group entities. Accordingly, in such cases a potential ICR on an entity is typically limited by the GCP. This is notably because:

- The group could potentially transfer assets from one group entity to another during financial stress, contributing to credit stress at other group entities;
- The distress at the group could trigger business or financial difficulties at the group member. For instance, the group's problems could cause reputational damage of the group member and a loss of business;
- The group member might rely on operational support from the group on an ongoing basis; and
- In some jurisdictions, a bankruptcy petition by one group entity could include or cause other group entities to go into bankruptcy or similar measures.

64. Some entities (which for the purposes of this section, could also apply to a subgroup) may be insulated, segmented, or ring-fenced from their group, from a credit risk perspective. Such insulation may lead to the rating on the entity being higher than the GCP. The lower the likelihood that the creditworthiness of the entity would be impaired by a credit stress scenario for the group, the greater the potential difference between the potential ICR on the entity and the GCP. That said, we would typically not apply insulation to a group member when group entities above the group member, including the group parent, have debt but do not have significant other assets, either directly or indirectly. In such a case, the financial resources of the group member (where insulation is being contemplated) would be the only source of repayment for debt issued by group entities above it.

65. The potential ICR of an insulated entity is one notch higher than the GCP in cases where the entity is operationally separated from the group and the entity's SACP (or the SACP plus the potential for government

support or ALAC) is at least one notch higher than the GCP. Key characteristics of an operationally separated entity would generally include all of the following:

- The entity holds itself out as a separate entity, its financial performance and funding are highly independent from the group, it has no significant operational dependence on other group entities, and it maintains its own records and funding arrangements and does not commingle funds, assets, or cash flows with them;
- There is a strong economic basis for the group to preserve the entity's credit strength; and
- We do not expect a default of other group entities to directly lead to a default of the insulated entity.

66. The potential ICR of an insulated entity is two notches above the GCP if, in addition to being eligible for one notch of insulation, the group's control of the entity is limited by independent parties, and the entity's SACP (or the SACP plus the potential for government support or ALAC) is at least two notches above the GCP. Limited control would generally be characterized by at least one of the following:

- There are significant minority shareholders with an active economic interest;
- Independent directors have effective influence on decision making, including dividend policy and bankruptcy filings; or
- There are strong legislative, regulatory or similar restrictions that would inhibit the entity from supporting the group to an extent that would unduly impair the entity's stand-alone creditworthiness.

67. The potential ICR on an insulated entity is three notches above the GCP if, in addition to the entity being eligible for two notches of insulation, there are material structural safeguards to protect the entity from group influence, and the entity's SACP (or the SACP plus the potential for

government support or ALAC) is at least three notches above the GCP. Structural safeguards that protect the entity from group influence would generally include at least one of the following:

- The regulator or appropriate legislative body is expected to act, or has acted, to protect the credit quality of the entity, for example to prevent the entity from supporting the group to an extent that would in turn impair its stand-alone creditworthiness;
- There are both: protective governance arrangements (such as independent directors with an effective influence on decision making); and either significant minority shareholders or joint venture partners, with an active economic interest;
- There is an independent trustee or equivalent governance arrangement that can enforce the rights of third parties, and we expect the trustee (or equivalent) to act upon that right; or
- The government or other governmental agency (i) has the authority to change ownership of the entity via existing legislation or other legal powers to separate it from a troubled group; and (ii) we expect it to act upon that right, based, for example, on a statement of intent to do so, or a track record of proactive stress management under similar circumstances.

68. The potential ICR of an insulated entity could be de-linked and therefore not constrained by the creditworthiness of the group if the conditions in either (a) or (b) are met:

(a) In addition to being eligible for three notches of insulation as described in the preceding paragraph:

- We believe that the parent company doesn't exert control due to substantial creditor protections and as a result is unable to adversely impact the entity's credit quality; and
- The entity benefits from governance constraints that severely limit the influence of the parent, preventing it from determining matters such as strategy, material change of business, dividend payments and other material cash flows, and bankruptcy filings. These may arise, for example, due to statutory powers or contractual constraints.

(b) We determine that there is sufficient evidence that significant group credit stress has had minimal impact on the entity's credit profile, and that we do not expect it to have a material negative influence going forward.

69. With respect to our assessment of insulation of captive finance subsidiaries, we could view a captive finance entity as operationally separated from the group when it is able to stand on its own by taking over or subcontracting certain functions previously provided by other group entities. Given the nature of a captive finance entity's business model, we would expect it to retain commercial ties with its group.

70. The potential ICR of a bank subsidiary is typically not subject to a cap linked to the GCP where either: (i) the entity's SACP plus the potential for government support is above the GCP because it is of high systemic or moderate systemic importance (according to "Financial Institutions Rating Methodology"), in the country where it is domiciled; or (ii) the entity's SACP plus the potential for ALAC support is above the GCP (see "Financial Institutions Rating Methodology"). However, where we expect the nature and extent of extraordinary negative group intervention could impact the entity's creditworthiness, although to an extent sufficiently limited that a cap linked to the GCP would not apply, we

may apply a one-notch negative adjustment when determining the potential ICR. This adjustment is to better capture our holistic view of potential extraordinary negative group intervention.

Holding Companies

71. For holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the GCP. For intermediate holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the rating on its core operating entities.

Holding companies of prudentially regulated financial services groups

72. Holding companies are typically reliant on dividends and other distributions from operating companies to meet their obligations. The rating of holding companies of prudentially regulated financial services groups reflects the difference in their creditworthiness relative to the group's operating entities. The rating differential is mainly due to the increased credit risk that arises from possible regulatory constraints to upstream resources and potentially different treatment under a default scenario.

73. For holding companies of prudentially regulated financial institution groups, the ICR is generally:

- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
- At least two notches lower than the GCP if the GCP is 'bb+' or lower.

74. For holding companies of insurance groups, the ICR is generally:

— Two notches lower than the GCP if potential regulatory restrictions to payments are considered low in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company; or

— Three notches lower than the GCP if potential regulatory restrictions to payments are considered high in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company.

75. The notching from the GCP to derive the ICR of a holding company of a financial services group may be narrower than the standard notching in paragraphs 73 or 74, or potentially eliminated, if:

— The holding company directly controls multiple material operating units that are sufficiently diverse and independent such that the suspension of cash flows from any of its operating entities would not substantially weaken the holding company's financial position;

— The potential for regulatory restrictions to payments is significantly lower than we typically observe for prudentially regulated entities and is not adequately reflected in the standard notching;

— The holding company generates sufficient cash flows from its own business activities or from unregulated operating subsidiaries to meet its obligations; or

— The potential for regulatory restrictions on distributions from operating entities is mitigated by our expectation that the holding company will regularly maintain significant unencumbered cash or high-quality liquid fixed-income investments to meet its obligations.

76. The notching from the GCP to derive the ICR on a holding company of a financial services group may be wider than the standard notching in paragraphs 73 or 74 if:

— The holding company itself carries significant asset or liability risks that are not fully captured in our standard notching;

— There are elevated liquidity risks at the holding company, most notably when it has significant debt maturities and other financial obligations relative to its unencumbered cash and liquid assets held or to which is has ready access. For example, high double leverage for a financial institution can reflect elevated liquidity risks;

— There are heightened risks of regulatory constraints or other material restrictions to payments that are not adequately captured in the standard notching; or

— The GCP is higher than the group SACP owing to external extraordinary support that is not expected to accrue to the holding company. In this case, we apply the typical notching from the group SACP rather than the GCP.

77. If the GCP is 'b-' or lower, or if notching would otherwise result in a rating of 'CCC+' or lower, the ICR on a holding company is no lower than 'B-' unless the conditions for an ICR of 'CCC+' or lower are met (see "CCC criteria").

78. We typically notch down the ICR on an intermediate holding company of a financial services group or subgroup from the rating assigned to its core operating entities by applying the same notching we would to a holding company of the group. We may, however, narrow the notching or potentially eliminate the notching if we expect the group to provide extraordinary support for the subsidiaries of the intermediate holding company by investing in the intermediate holding company. We may widen the notching if there are additional risks relating to cash flows from its operating entities or risk relating to the expected extraordinary support from the group.

Rating Group Entities Above The Sovereign

79. The general criteria for rating a group member above the relevant sovereign rating, which is usually the country of domicile of the group member, are in ratings above the sovereign criteria (see Related Criteria).

80. The ICR on a group member is the lower of the potential ICR derived from these criteria or the relevant foreign currency sovereign rating. This would not be the case, however, in the situations outlined below, where we determine the group member's ICR as the highest of a, b, or c:

(a) If the group member passes the appropriate sovereign stress test (without considering group or government support), the result from the combination of the potential ICR derived from these criteria (excluding uplift for group or government support) and the provisions in our ratings above the sovereign criteria;

(b) For a group member where the relevant foreign currency sovereign rating is lower than 'B-', the ICR is no lower than 'B-' (unless T&C restrictions in Ratings Above the Sovereign criteria are applicable) if the conditions for an ICR of 'CCC+' or lower are not met (see "CCC criteria"); or

(c) If we believe the group is willing and able to sufficiently support the group member during the stress associated with a sovereign default, the highest of (i) to (v) below:

- (i) For a group member that has a potential ICR based on a guarantee that meets our credit substitution criteria, the potential ICR;
- (ii) For a financial institution or insurance group member that has less than 10% exposure to the jurisdiction of domicile and we consider the risks (e.g. a deposit freeze or monetary-union exit) associated with that jurisdiction are immaterial, the potential ICR;
- (iii) For core group members of financial institution groups, the lower of the potential ICR derived from these criteria, or up to two notches above the relevant foreign currency sovereign rating;
- (iv) For core group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or three notches above the relevant foreign currency sovereign rating; or
- (v) For highly strategic group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or two notches above the relevant foreign currency sovereign rating.

GLOSSARY

81. ALAC: Additional loss-absorbing capacity. These are securities issued by certain prudentially regulated entities (see Related Criteria) that can absorb losses at or near non-viability--for example, in the event of a bank resolution, in a way that reduces the risk of the bank defaulting, according to our definitions, on its senior unsecured obligations.

82. Captive finance subsidiary: A captive finance subsidiary (as opposed to a financing subsidiary) provides financing for the purchase of the group's products. (For a full definition, see "
The Impact of Captive Finance Operations On Nonfinancial Corporate Issuers
").

83. Captive (re)insurer: A member of an insurance, corporate, or financial institutions (FI) group that mainly insures risks of other group entities. Captive (re)insurers typically show a very high degree of integration with a group's financial and risk management strategy.

84. Double leverage (for financial institutions only): We define double leverage (DL) for FI groups as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholder equity. Holding companies often issue hybrid capital securities that build regulatory capital. They invest the proceeds in operating subsidiaries as equity or as similarly structured hybrid securities. We calculate DL in two ways: (1) with a common equity double-leverage measure that treats hybrid capital as debt, and (2) with a total equity double leverage measure that treats hybrid capital as equity.

85. Equity affiliate: Also defined in our corporate criteria as "unconsolidated equity affiliates." These are entities that are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the affiliate are not typically included in our primary metrics (see "**Corporate Methodology**").

86. Extraordinary negative intervention: Potential extraordinary negative intervention by one or more members of a group. Examples include the extraction of unexpected extraordinary dividends or asset or cash stripping the issuer at the behest of the group to service other obligations of the group.

87. Extraordinary support: We consider support as extraordinary when it is entity specific, nonrecurring, and typically related to financial stress at the entity. Examples include but are not limited to recapitalization with common equity or hybrids, liquidity injections to the group member, or one-off transfers of risk from the group member.

88. Financial institution: Entities that are in-scope for our bank and nonbank FI methodologies.

89. Financial services sector: Consists of financial institutions and insurance companies.

90. Financial sponsor: We define a financial sponsor as an owner that does not have a long-term strategic interest in a company. Rather, the financial sponsor is a financial investment firm primarily motivated to increase the value of its investment by improving its management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include, but are not limited to, private-equity firms, hedge funds, and venture capital firms.

91. Holding company (may also be referred to as a group parent): A legal entity that is the owner of at least one group member that conducts business activities, though it may not carry out its own business activities (e.g. a non-operating holding company). A holding company may also provide services to subsidiaries such as investment and treasury management.

92. Insurance company (or insurers): Entities that are in scope for our insurance ratings methodologies.

93. Intermediate holding company: A legal entity that is a group member and legal owner of at least one other group member that conducts business activities, though it may not carry out its own business activities.

94. Parent: An entity with controlling or joint-control interest in another entity or a joint venture.

95. Prudentially regulated: This refers to the regulation of a financial services entity by one or more regulatory authorities who set standards for, among other things, capital adequacy and potential restrictions on distributions. We generally regard banks and insurers as prudentially regulated sectors.

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APPENDIX

103. This appendix provides additional information and guidance relating to the analytical application of these criteria.

Extraordinary Support In The Group Credit Profile

104. Table 3 gives examples of how we determine uplift for group support when the group credit profile (GCP) includes extraordinary support. In the example, the group stand-alone credit profile (group SACP) is 'bbb+', and we determine there is a high likelihood of potential extraordinary government support to the group from an 'A+' rated sovereign (both local and foreign currency). Under our bank criteria, we determine the potential

GCP is 'a', which includes two notches of uplift for potential extraordinary government support. The GCP is 'a' as the relevant sovereign rating of 'a+' does not constrain the GCP below the potential GCP.

Table 3

Determining Uplift For Group Support--GCP Includes Extraordinary Support

	Financial Institutions Group	Bank Entity A	Bank Entity B	Insurance Entity C	Asset Management Entity D
Group Analysis					
Group SACP	'bbb+'				
Extraordinary support	+2 notches				
Potential GCP	'a'				
Relevant sovereign rating *	'a+'				

Passes sovereign stress test	N.A.				
Impact of sovereign constraint	0				
GCP	'a'				
Entity Analysis					
SACP		N.A.	'bbb'	'bbb-'	'a-'
Group status		Core	Strategically important	Strategically important	Strategically important
Relevant reference point for group support uplift		GCP	GCP	Group SACP	Group SACP
Uplift for group support		N.A.	+2 notches	+1 notch	0
Potential ICR		'a'	'a-'	'bbb'	'a-'

Relevant sovereign rating *	'a+'	'a+'	'a+'	'a+'
Passes sovereign stress test	N.A.	N.A.	N.A.	N.A.
Impact of sovereign constraint	0	0	0	0
Issuer credit rating	'A'	'A-'	'BBB'	'A-'

N.A.--Not applicable. *The relevant sovereign rating is in lowercase to indicate that it is being used as a component of the determination of GCPs and ICRs and is determined in accordance with our "Ratings Above The Sovereign" criteria.

105. The financial institution (FI) group in the example has four group members comprising a bank with core group status and three subsidiaries assessed as strategically important. In the case of bank A and bank B the reference point for determining uplift for group support is the GCP of 'a' because we expect extraordinary government support in the GCP would extend to the bank entities. As a core group member, the issuer credit rating (ICR) on bank A is 'A', equal to the GCP. The ICR on Bank B, a

strategically important group member, is 'A-' because we cap the uplift for group support at one notch below the GCP. For the insurance and asset management entities, the relevant reference point for determining potential uplift for group support is the group SACP of 'bbb+' because we expect extraordinary government support in the GCP is not likely to extend to these entities. The ICR of strategically important insurance subsidiary C is 'BBB' because we cap the uplift for group support at one notch below the group SACP. Given the SACP of asset management subsidiary D is higher than the group SACP, the ICR is 'A-' since we do not constrain the ICR at the level of the group SACP. Had the SACP of subsidiary D been above the GCP, we would need to determine that it is an insulated entity for subsidiary D's ICR to exceed the GCP.

106. The approach laid out in the example applies if the expected extraordinary support in the GCP was from additional loss-absorbing capacity (ALAC) rather than from government support. If we determine that ALAC support in the GCP extends to the banking entities, the relevant reference point for determining any uplift for group support is the GCP. If we determine the ALAC support in the GCP is unlikely to extend to the insurance and asset management entities, the relevant reference point for determining any uplift for group support is the group SACP.

Impact Of Sovereign Constraint On GCP

107. Consider an example where the potential GCP is 'a-' and the relevant sovereign rating is 'bbb'. The GCP would be 'bbb' (assuming the group does not pass the sovereign stress test) because the GCP is the lower of the potential GCP ('a-') or the relevant sovereign rating ('bbb'). We determine the relevant sovereign rating by applying "Ratings Above the Sovereign" criteria and consider, at a group level, the relevant foreign currency sovereign rating, the sovereign stress test (if relevant), the maximum rating

differential above the relevant sovereign rating, and any transfer and convertibility constraints that are relevant for the group's local currency ratings (for example, cross-default clauses).

Determining The Potential ICR

108. The potential ICR includes any adjustment defined in sector criteria to determine the ICR. In our analysis of insulated entities, the SACP plus the potential for government support or ALAC includes any adjustment defined in sector criteria to determine the ICR.

Impact Of Sovereign Constraint On ICR

109. A financial institution group might provide a bank group member with hybrid capital instruments that can absorb losses of the entity at or near nonviability in a way that reduces the risk of the entity defaulting, according to our definitions, on its senior unsecured obligations (we generally refer to such instruments as group internal loss absorbing capacity). In applying our Group Rating Methodology (GRM), we consider such instruments to be ALAC support for the entity instead of extraordinary group support, if the entity and the instruments otherwise meet the conditions detailed in our ALAC criteria. We generally consider such ALAC instruments in determining whether the entity passes the sovereign stress test, if we assume that the entity's host regulator would enforce loss absorption by these instruments in a sovereign default scenario.

Identifying The Group And Its Members

110. To determine the identity of the group parent for purposes of conducting GRM analysis, we assess both the existence of control along with our judgment as to the relevance of the entity to the group's overall credit quality.

111. As a result, the group parent can be, but is not necessarily, the ultimate holding entity in the group structure. Any number of holding companies above the group parent may have been established for a variety of purposes (for example, tax considerations, regulatory requirements, or prefabricated platforms for future equity partners). If they do not hold material liabilities or operating assets (directly or indirectly), we may consider them inconsequential to the group's overall creditworthiness. As such, we may exclude these holding companies from our group analysis.

112. There are several types of owners that may control an entity we are rating but that we may not recognize as group parents because of our judgment as to their irrelevance to the group's overall creditworthiness. For example, we generally do not consider natural persons who directly hold controlling shares in an entity to be group parents. However, natural persons or families may control their businesses through one or more holding companies. Such holding structures may include several successive layers of holding corporations, the relevance of which to the group's overall creditworthiness we will assess as described above.

113. There may be other structural holding variations where a person or family holds controlling shares through a holding vehicle that may itself hold other minority or controlling shares in other companies with meaningful business operations. Such family-owned holding companies

would not qualify as "family firms" because we expect "family firms" to be devoid of (directly or indirectly held) material assets or liabilities--with the exception of the controlling shares in the rated company. Alternatively, such family-owned holding vehicles may not have other material direct or indirect business activities, but may carry a meaningful level of debt or other liabilities. Where structural holding variations exist and we view them as material or meaningful, as described above, we may consider such holding companies to be relevant to the group's overall creditworthiness and, as a result, they could qualify as group parents because of their potential relevance to the credit risk of the entity.

114. Our consideration of nonprofit organizations (including nongovernmental organizations [NGOs]), cooperative organizations, certain funds (for example, those that do not have asset management fees as a key component of their business model), and investment holding companies as potential group parents depends on our view of both their control and relevance to the group's overall credit quality. When we expect such parents to play an active role in the group, including during times of credit stress, we may consider them a group parent. For example, the determination of whether to define nonprofit organizations (including NGOs) and cooperative organizations as the group parent largely depends on their role, which includes charter mandates, track record, and relevant local regulations.

115. We may consider a mutual or cooperative group in the regulated financial services sector as a group even in the absence of a group parent or equity shareholdings between entities. For example, there may be legal, contractual, regulatory, or governance considerations that lead us to conclude that control is present and the entities collectively form the economic equivalent of a group. An example of such a group is a cooperative where all the entities in the group enter into a joint and several guarantee, the regulator and tax authorities view the entities as a single

group, and there is a central body that exercises control such that we conclude that the entities form a group for purposes of defining the group and group members.

Identifying The Group And Its Members--BNDES

116. We consider an entity a group member and include it in the GCP where it is part of an "economic group" owing to "cross-default" clauses on borrowings from Brazil's Banco Nacional de Desenvolvimento Economico e Social (BNDES).

Identifying The Group And Its Members--Subgroups

117. We may determine there are two or more entities within a group that have common characteristics, or features, that are sufficiently unique or distinct from the larger group that warrants an evaluation of this group of entities as a separate group (also referred to as a subgroup).

118. The inclusion of entities within a subgroup is notional and can be separate from how a company operates or reports, and may change over time. Notionally grouping entities through the determination of a subgroup could, for example, be based on entities' location in a particular country.

119. Classification and recognition of group support for a subgroup will reflect our evaluation of the likelihood of the subgroup benefiting from extraordinary group support, similar to our evaluation of group entities. For example, we may capture a number of legal entities in a particular country that, while small relative to the larger group, are expected to receive support. Collectively, the entities may provide diversification and growth prospects within a larger group supporting a subgroup assessment.

120. A complex group can have more than one GCP where we determine a subgroup analysis is analytically relevant. For example, a subgroup analysis may be analytically relevant where there are material liabilities at the intermediate holding company of a subgroup. For an entity that is part of a subgroup, we may also consider (i) the extent of insulation of the entity from the subgroup, and (ii) whether group support would flow directly to the entity from the wider group or through the subgroup.

The Group SACP And GCP--Extraordinary Support

121. Potential sources of extraordinary external support to a group include ALAC support or support coming from a government. To determine the GCP of a subgroup, we also consider support from the wider group as a form of extraordinary external support. Similarly, the potential sources of extraordinary negative intervention can also emanate from a government or from a wider group (in the case of subgroups).

The Group SACP And GCP--Cross-Sector Groups

122. We could derive the group SACP using more than one sector rating methodology if we determine that no single sector rating methodology adequately captures our view of overall creditworthiness. We may combine the SACPs derived from various sector rating methodologies to determine a preliminary group SACP. We could modify this preliminary group SACP to reflect our holistic view of credit quality. This would include taking into consideration factors such as diversification, other group debt, and other positive or negative credit factors that may not be reflected in the underlying SACPs.

123. For instance, suppose there is a group parent that owns one corporate entity and one insurance entity where we believe no single sector rating methodology will result in a group SACP that reflects our view of overall creditworthiness. If, in this case, the individual SACPs are 'bb' and 'a', respectively, and we consider both to have equal influence on the overall creditworthiness of the group, we could average the SACPs resulting in a group SACP of 'bbb'. We could then adjust this according to our analytic judgment to derive the group SACP. For example, we may view diversification benefits as sufficient to raise the group SACP to 'bbb+'.

124. Alternatively, if we determine that the two entities above do not equally influence the overall creditworthiness of the group, but their influence comprises 75% and 25%, respectively, this would suggest a group SACP of one to two notches (representing the weighted average of the six-notch differential) above the 'bb' SACP. This would indicate a group SACP of 'bb+' or 'bbb-'. We may further adjust our result on the basis of analytic judgment to determine the group SACP.

Government-Related Entities

125. There can be specific circumstances where we may choose to apply our Government Related Entities (GRE) methodology, rather than a combination of GRE and GRM, when analyzing an entity classified as a GRE (see the "Rating GRE Subsidiaries" section in our GRE criteria.) For instance, this may occur when a GRE is ultimately owned by the government through a holding company or asset management company, and we believe that the GRE is controlled by the government. In such circumstances, we may not view the holding company or asset management company as a group parent because we don't view it as relevant to the analysis.

Assigning The Issuer Credit Rating

126. Consider the following example that illustrates the potential ICR outcomes where we determine the SACP of a group member is 'bb' and the relevant reference point for determining uplift for group support is the 'aa-' GCP.

Table 4

Potential ICRs

Group Status	--Potential ICR--	
Core	GCP	'aa-'
Highly strategic	GCP -1 or GCP -2	'a+' or 'a'
Strategically important	SACP +3 or SACP +4	'bbb' or 'bbb+'
Moderately strategic	SACP +1	'bb+'
Nonstrategic	SACP	'bb'

127. In this example, the one-notch adjustment to determine the potential ICR is applicable since we have determined an SACP and the gap between the potential ICRs based on group status assessments of highly strategic ('a+') and strategically important ('bbb') is at least three notches (in this case there is a four-notch gap).

128. We may apply the one-notch adjustment to better capture our holistic view of potential extraordinary group support. If we assess the group member as highly strategic, we may determine the potential ICR is 'a+' or apply a negative one-notch adjustment such that the potential ICR is 'a'. If we assess the group member as strategically important, we may determine the potential ICR is 'bbb' or apply a positive one-notch adjustment such that the potential ICR is 'bbb+'.

Group Status Of Individual Members--Potential Sale Of An Entity

129. We may include uplift for group support, even if there is the potential for the sale of the entity, if we have sufficient information to believe the entity would be sold to a group that would be supportive of the entity's current creditworthiness. For example, if a leasing company were for sale and it was responsible for financing a significant portion of transportation assets in a given country, we could maintain the existing group status if we believe that the creditworthiness of the entity would be no lower following a sale. This underscores that we consider the impact of the potential sale on the entity's creditworthiness to the extent possible.

Group Status Of Individual Members--Determining An SACP

130. Determining an SACP is necessary for group members that have strategically important, moderately strategic, or nonstrategic group status. Determining an SACP is not typically necessary for core or highly strategic group members. However, assessing an SACP for a core or highly strategic group member can be required or analytically relevant in situations such as:

- In the event that group status diminishes;
- To determine the group SACP of a diverse group;
- When the group member is insulated;
- When the SACP (or the SACP + ALAC uplift) is above the group SACP and the group SACP is the relevant reference point for group support uplift;
- When rating hybrid instruments that are issued by the group member and we determine group support in the ICR does not benefit the hybrid instrument;
- When uplift for group support is limited by sovereign-related risk but the entity is likely to pass the sovereign stress test; or
- In the case of highly strategic group members that are eligible for a one-notch adjustment to the potential ICR (as described in table 1 and paragraph 42 of the criteria) to better reflect our holistic view of potential extraordinary group support.

Group Status Of Individual Members--Core Entities

131. A core group entity generally either constitutes a significant proportion of the consolidated group or is integrated with the group. An integrated group entity refers to an entity that depends on the rest of the group for its administrative and operational activities and its infrastructure. These operational factors render it highly likely to benefit from group support if required. Examples can include booking or cost centers, captive insurers, captive financing operations, and group entities that exist solely to issue debt or carry on treasury operations on behalf of a group.

132. While a core group entity has typically been operating for about five years or more, there may be cases where a core group member has a shorter operating history because, for example, it has been established to

serve an important customer segment or to comply with regulatory or tax requirements.

Financing Subsidiaries--Financial Institution Group

133. When a financing subsidiary of a financial institution group is wholly owned but its sole activity is to raise debt on behalf of the holding company, it is typically assigned a rating as if it were a holding company. This may be the case, for example, for financing subsidiaries of banking groups where we determine the support flowing to the operating company and reflected in the GCP does not support to the same extent obligations associated with the financing subsidiary.

Financing Subsidiaries--Insurance Group

134. We generally do not assess the group status of a financing subsidiary of an insurance group as core. However, we may assign core group status to a financing subsidiary of an insurance group where all of the following apply:

- It plays an integral role in issuing hybrid instruments that qualify as regulatory capital for the insurer;
- Its sole activity is to raise such capital for the insurer. For example, there is a clear written irrevocable commitment to stand behind the hybrid instruments of the financing subsidiary, thus reducing the importance of the legal separation of the entities;
- It is wholly-owned by the operating insurance company;
- It shares a related corporate name; and
- Issuance by the entity is motivated by regulations in the relevant jurisdiction.

Investment Holding Companies

135. We may consider some investment holding companies (IHCs) (as defined in our article "**Methodology: Investment Holding Companies**") as group parents while we may determine that others are not group parents. This will depend on both the existence of control as well as our judgment as to the relevance of the entity to the group's overall credit quality. For example, IHCs that own a noncontrolling equity stake cannot be group parents because they do not have control, as defined in GRM criteria.

136. Where we determine that an IHC is a group parent, the group status of its investee companies cannot be any higher than moderately strategic, given the nature of the strategic and financing relationship between IHCs and their investee companies (see "Other Rating Considerations" section in "**Methodology: Investment Holding Companies**").

Project Developers

137. Where we determine that a project development company is a group parent (as defined in "**Methodology For Rating Project Developers**"), the group status of its group members is typically classified as nonstrategic or moderately strategic to the developer.

Insulated Entities--Minority Shareholders

138. The presence of significant minority shareholders can place meaningful limitations on the group's control of an entity. These limitations support the insulation of the entity from the rest of the group and contribute to a potential ICR on the entity that is two notches above the GCP. Many jurisdictions have specific regulations in place to protect the

rights of minority shareholders vis-à-vis the ruling majority. Examples of effective rights that limit the control of a majority shareholder include the requirement to attain a majority vote from the minority shareholders, in order to undertake any material changes in the entity's financial or business policies, or to file for voluntary bankruptcy. Even without targeted favorable legislative treatment, an organized minority block with adequate board representation often has sufficient power to prevent dividend payments and to influence decision-making effectively. Such minority shareholders would be unaffiliated with the majority shareholder and would have an active interest and role in corporate governance and the rights to ensure that the entity is adequately capitalized to conduct its business operations with a long-term view.

Insulated Entities--Structural Safeguards

139. To determine whether we expect a regulator to act to protect the credit quality of an entity, we may look to publicly stated policies.

Insulated Entities--Banks

140. We do not apply our typical insulation analysis, as per paragraphs 65-67 of the criteria, if paragraph 70 of the criteria applies to determine insulation. In addition, we consider the impact of the insulation on the group SACP (see paragraphs 27 and 28 of the criteria).

Holding Companies of Corporate Groups--Notching

141. As stated in paragraph 71 of the criteria, the ICR on holding companies of corporate groups and nonregulated nonbank financial institutions is typically the same as the GCP. However, we may rate a

holding company below the GCP if we believe that tight regulatory oversight of its operating subsidiaries increases the credit risk of the holding company, vis-à-vis that of their regulated operating subsidiaries. This may happen, for example, in the regulated utilities, regulated transportation infrastructure, and regulated nonbank financial institutions sectors. In these sectors, there can be significant regulatory constraints on the upstreaming of funds sources to the holding company, at a time when such holding company may be heavily reliant on dividends and other distributions from its regulated operating subsidiaries to meet its obligations. In such instances, to differentiate the credit risk of the holding level from that of the regulated operating level, the ICR on the holding company may be:

- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
- Up to two notches lower than the GCP if the GCP is 'bb+' or lower.

Holding Companies--Insurance Standard Notching

142. To determine the ICRs on holding companies of insurance groups, we consider potential regulatory restrictions to payments. Where we think the regulation of insurance companies results in a higher likelihood of constraints on the movement of cash flows to the holding company, we consider potential regulatory restrictions to payments as high--for example, in the U.S. and Israel. For other jurisdictions, we typically consider regulatory restrictions to payments as low.

Holding Companies--Narrower Notching

143. In determining whether to apply narrower than standard notching for a holding company, we typically assume holding companies of financial institution groups will not retain significant unencumbered cash as their

primary role is to lend or invest cash to generate earnings. For holding companies of insurance groups, we typically expect more than one of the characteristics in paragraph 75 of the criteria to be sustainably present in order to narrow the notching. In determining whether to eliminate the notching for insurance groups and prudentially regulated financial institution groups, we typically expect the holding company to generate sufficient cash flows from its own business activities or from unregulated operating subsidiaries and we consider the regulatory environment. For example, in the U.S., elimination would be unlikely.

144. For some financial institutions, for example those that are rated speculative-grade and whose anchors (see the relevant respective frameworks) are low and already reflect a weak regulatory environment, we may narrow the gap (number of rating notches) between the holding company ICR and the GCP from the standard notching because the assumption of regulatory restrictions to payments typically reflected in the standard gap does not apply.

Holding Companies Of Prudentially Regulated Financial Services Groups--Liquidity

145. For holding companies of financial services groups, we typically include committed undrawn capacity of liquidity facilities available for general corporate purposes when considering the available liquidity resources. We do not include uncommitted facilities, facilities that require encumbrance, or revolvers.

Holding Companies Of Prudentially Regulated Financial Services Groups--Financial Institutions

146. For financial institutions, high double leverage can create elevated liquidity risks for the holding company that may lead us to apply wider than standard notching. In the absence of offsetting liquidity at the holding company, we may consider double leverage as high if, for example, it exceeds 120%. Alternatively, if we view net income as particularly germane to our assessment of the group, we may consider if the nominal amount of double leverage exceeds two years' net income of the group, which would also indicate high double leverage.

Holding Companies Of Prudentially Regulated Financial Services Groups--Intermediate Holding Companies

147. Treatment of intermediate holding companies depends on the role and nature of constraints on the transfer of cash flow across the group. Consider an insurance subgroup headed by an intermediate holding company that is part of a prudentially regulated financial institution group. The GCP is 'a-' and the ICR of the holding company is 'BBB+'. We determine the insurance subgroup is core to the group and its group members are core to the subgroup. The ICRs on the insurance operating entities are 'A-'. The ICR of the intermediate holding company is 'BBB+', because we apply the same notching that we apply to the holding company of the group. Furthermore, we determine there are no additional considerations to widen or narrow the notching.

148. Consider another example, an insurance subgroup that is part of a corporate group. We determine the group status of the insurance subgroup is nonstrategic, and it is eligible for three notches of insulation from the group. The GCP is 'bbb', the ICR on the holding company is 'BBB', and the

insurance subgroup GCP is 'a'. The ICRs on the insurance operating entities are 'A' because we have determined that they are core to the subgroup. Although the ICR of the holding company is at the same level as the GCP, we conclude that wider notching applies to the intermediate holding company to reflect risks relating to cash flows from its regulated operating entities on which it is reliant. We set the ICR of the insurance intermediate holding company at 'BBB' because we conclude that potential regulatory restrictions to payment are high and determine in this case to widen the holding company notching to three notches, in line with the standard notching for holding companies of insurance groups.

Rating Group Entities Above The Sovereign

149. We may assign ratings to group members above the relevant sovereign rating when specific factors lessen the expected influence of sovereign risk. We apply GRM to determine whether uplift for group support can result in an ICR on a group member being higher than the relevant sovereign rating.

150. We apply the transfer and convertibility (T&C) test in ratings above the sovereign criteria to determine whether to assign a foreign currency ICR on a group member above the T&C assessment. As a result, uplift for group support does not result in a group member's foreign currency ICR being higher than the T&C for the relevant sovereign.

151. When considering whether uplift for group support can result in the rating of a financial institutions core group member exceeding the sovereign in which the group member operates, we consider the willingness and ability of the parent to support the group member such that it will pay its financial obligations on a full and timely basis. We also consider the likelihood of the group member remaining core in case of

major stress in the country of domicile of the group member. When considering the ability of the group to support the group member during the stress associated with a sovereign default, we consider the size of the group member relative to the group, the rating differential between the GCP and the relevant sovereign foreign currency rating for the group member, and the extent of financial resources available at the group. We typically rate a core group member no more than one notch above the relevant sovereign rating. However, we may rate a core group member two notches above the relevant sovereign rating on the basis of group support when the group parent and core group member are based in countries that operate under a single regulatory and supervisory framework, are expected to remain part of a single monetary union, and where we consider that the risks of introduction of a deposit freeze or other controls will not affect the parent's ability to support full and timely payment of financial obligations by the group member.

152. Table 5 lists five examples of how sovereign constraints can affect the ICR on group members.

Table 5

The Effects Of Sovereign Constraints On Group Member ICRs

	Entity A	Entity B	Entity C	Entity D	Entity E
Sector	**Bank**	**Corporate**	**Insurance**	**Corporate**	**Bank**
Group SACP	'a'	'a'	'a'	'a'	'a-'
GCP	'a'	'a'	'a'	'a'	'a'

SACP	'bbb'	'bbb+'	'bbb'	'bbb'	'bbb'
Group status	Strategically important	Strategically important	Core	Highly strategic	Strategically important
Uplift for group support	+2 notches	+1 notch	+3 notches	+2 notches	+2 notches
Potential ICR	'a-'	'a-'	'a'	'a-'	'a-'
Relevant sovereign rating*	'bbb'	'bbb'	'bbb'	'bbb'	'bbb'
Passes sovereign stress test	N.A.	Yes	N.A.	N.A.	Yes
Impact of sovereign constraint	-2 notches	-1 notch	0	-2 notches	-1 notch
ICR	'BBB'	'BBB+'	'A'	'BBB'	'BBB+'

N.A.--Not applicable. *The relevant sovereign rating is in lowercase to indicate that it is being used as a component of the determination of GCPs and ICRs and is determined in accordance with "Ratings Above the Sovereign" criteria.

153. Entity A. The potential ICR is 'a-' (SACP + 3 notches, but capped at one notch below the GCP), and the ICR is 'BBB' as the group member's ICR is the lower of the potential ICR ('a-') and the relevant sovereign rating, which in this case is the foreign currency sovereign rating ('bbb'). Uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating for a strategically important group member.

154. Entity B. In this case, the entity passes the sovereign stress test and the maximum rating differential above the sovereign foreign currency rating is limited to two notches (in this example, the corporate operates in a sector where we view sensitivity to country risk as high). The potential ICR is 'a-' and the ICR is 'BBB+' as the potential ICR on the group member (excluding uplift for group support) is 'bbb+', which is above the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. Ratings uplift for group support does not result in the ICR assigned to the group member being higher than the relevant sovereign rating for a strategically important group member.

155. Entity C. The potential ICR is 'a' (equal to the GCP). As a core group member, uplift for group support can result in the ICR on a group member being higher than the relevant sovereign rating. We determine the group is willing and able to support the group member during the stress associated with a sovereign default. The ICR is 'A' as the ICR on the group member is the lower of the potential ICR ('a') or three notches above the relevant sovereign foreign currency rating (i.e. 'a' which is 3 notches above 'bbb').

156. Entity D. The potential ICR is 'a-' (i.e., GCP - 1 notch). As a highly strategic group member, uplift for group support can result in the ICR on the group member being higher than the relevant sovereign rating. However, we determine that the group is willing but unable to support the group member during the stress associated with a sovereign default. The ICR is 'BBB' as the ICR on the group member is the lower of the potential ICR ('a-') or the relevant sovereign foreign currency rating ('bbb').

157. Entity E. The GCP includes uplift for ALAC support and we expect the extraordinary support in the GCP to extend indirectly through the group to the entity. We also determine the entity is eligible for one notch of extraordinary ALAC support based on group internal loss-absorbing capacity provided from the group parent. The two notches of uplift for group support represent the greatest source of extraordinary support (before considering any relevant sovereign constraints), therefore the potential ICR on the bank is 'a-'. As a strategically important entity, uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating ('bbb'). However, we determine that including the ALAC instruments would enable the entity to pass the sovereign stress test. The ICR is 'BBB+' as the group member's potential ICR (but excluding uplift for group support) is 'bbb+' (SACP of 'bbb' + one notch of uplift for ALAC support), which is itself higher than the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. In this case, uplift for ALAC support is the highest source of extraordinary support, after considering any relevant sovereign constraints.

REVISIONS AND UPDATES

This article was originally published on July 1, 2019. These criteria became effective on July 1, 2019.

Changes introduced after original publication:

- On Aug. 27, 2020, we republished this criteria article to make nonmaterial changes. We deleted a sentence from the first paragraph citing the publication of a guidance article because the reference to the related guidance was included in "Key Publication Information." We also deleted a bullet point referring to the effective date from the section "Key Publication Information" because the criteria are now effective in all markets. In addition, we deleted the "Impact On Outstanding Ratings" section, which was related to the initial publication of the criteria and no longer relevant. We also deleted outdated references from the "Related Publications" section, updated article references in paragraphs 57 and 59, and added a "Related Research" section.
- On Dec. 14, 2021, we republished this criteria article to make nonmaterial changes. We updated related criteria and related research references.
- On Nov. 1, 2022, we republished this criteria article to make nonmaterial changes to clarify the criteria intent in paragraph 62 with respect to how we determine the GCP for interlocking groups.
- On Oct. 31, 2023, we republished this criteria article to make nonmaterial changes. As announced in "Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Reports," Oct. 1, 2021, S&P Global Ratings is phasing out guidance documents. As part of that process, we have archived "Guidance: Group Rating Methodology," July 1, 2019, and included its content--without any substantive changes--in a new appendix of this article, and we updated the paragraph numbers. We also updated the "Related Publications" section and the article references.
- On Dec. 17, 2024, we republished this criteria article to make nonmaterial changes to clarify the criteria intent in paragraph 64 with respect to insulation of group members that are the only cash flow resource for the repayment of debt issued by other group members above. We also updated the Related Criteria section.

RELATED PUBLICATIONS

Superseded Criteria

- Group Rating Methodology, Nov. 19, 2013.

Related Criteria

- Corporate Methodology, Jan. 7, 2024
- Financial Institutions Rating Methodology, Dec. 9, 2021
- Insurers Rating Methodology, July 1, 2019
- Guarantee Criteria, Oct. 21, 2016
- The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Methodology: Investment Holding Companies, Dec. 1, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- S&P Global Ratings Definitions, updated from time to time
- Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Report, Oct. 1, 2021

This report does not constitute a rating action.

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28-Jun-2024 | 11:55 EDT

State Farm Mutual Automobile Insurance 'AA' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Implementing the revised capital model criteria has not affected our view of the financial strength of State Farm Mutual Automobile Insurance Co.
- We affirmed our 'AA' insurer financial strength and issuer credit ratings on State Farm and its core subsidiaries.
- The 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.

PRINCETON (S&P Global Ratings) June 28, 2024--S&P Global Ratings said today it affirmed the 'AA' insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core

subsidiaries. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- Applying the revised capital model criteria did not materially affect our view of State Farm's creditworthiness.
- Under the revised criteria, the non-deduction of the non-life deferred acquisition cost and a higher non-life reserve discount benefit improved State Farm's total adjusted capital.
- The recalibration of our capital charges to higher confidence levels leads to a higher capital requirement. However, this was offset by the higher diversification benefit because we now capture diversification more explicitly, leading to a reduction in the required capital charges.
- We expect State Farm's consolidated capital adequacy will remain above the 99.99% confidence level during 2024 and 2025, supported by improving property/casualty (P/C) operating performance.

The stable outlook reflects our view that State Farm will maintain its position as the largest U.S. personal-lines insurance carrier, complimented by its diversified business that includes life, annuity, health, and investment planning services. Its considerable capital redundancy supports the ratings, and we anticipate its diverse revenue sources will help it maintain excellent capital adequacy commensurate with the ratings.

We could lower our ratings if State Farm's capital position deteriorates below the 99.99% level and we think the group will not be able to improve its financial condition, or if the group's competitive position weakens.

We are unlikely to raise our ratings in the next two years because State Farm's operating performance has historically underperformed its peers, and we do not expect a material change in its pricing strategy, which is

generally priced above a 100% combined ratio in its auto insurance line.

State Farm's formidable market presence, combined with its multiline product offerings, provides the group with a considerable competitive advantage. It is the largest writer of private-passenger auto and homeowners' multiperil insurance in the U.S. and a major provider of commercial multiperil, along with individual life and health insurance. The company has wide brand-name recognition, a loyal customer base, and a cost-efficient exclusive agent network.

We expect the overall combined ratio, which has been improving recently, to reach 105%-107% in 2024 and 101%-103% in 2025 (under 100% indicates an underwriting profit), with the natural catastrophe loss of around 8%.

In 2023, the combined ratio improved slightly to 116.6% from 117.2% in 2022 owing to management's efforts on profitable underwriting and increases in pricing for the personal lines. However, the higher loss severity, along with the total catastrophe loss of $9.5 billion in 2023, compared with $5.1 billion in 2022, affected operating performance

The company's underwriting performance continued to improve in first-quarter 2024, with a combined ratio of 105.6%, compared with 115.4% in the same period of 2023. This mainly was a result of continued rate increases and lower catastrophe losses in the first three months of 2024.

We believe the company's plan to not write some P/C policies, including new homeowners' policies in California, will have a minimal effect on underwriting performance in the short term. The exposure to this business in California will remain at the current level from the renewal of existing policies. Any performance improvement on this business, therefore, would result from rate increases and possibly policy modifications.

The life operations comprise life, health, and annuity products and are supported by its vast distribution network of exclusive agents. State Farm maintains one of the highest cross-selling rates between its P/C and life customers. The health business consists of disability insurance, supplemental hospital-related coverage, Medicare supplement, and long-term care (closed book).

We view State Farm's capital and earnings as excellent and expect they will remain so. In particular, the company has a significant capital cushion at the 99.99% level based on our capital adequacy analysis. Capital redundancy is key to counterbalance vulnerabilities to material capital impairment amid natural catastrophe losses or capital markets dislocation.

The company's capital position benefits from sound risk management processes. These encompass stress testing to assess capital strength designed to absorb two back-to-back years of extraordinary events.

We regard State Farm's liquidity as exceptional. The company generally holds enough liquid assets in the form of cash and other liquid investments to meet ongoing obligations.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

February 7, 2025

VIA ELECTRONIC MAIL

The Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
300 Capitol Mall, 16th Floor
Sacramento, CA 95814

SUBJECT: **Request for Interim Rate Order in *In the Matter of the Rate Applications of State Farm General Insurance Company* (CDI Rate Application File Nos. 24-1271, 24-1273, and 24-1330) (PA-2024-00011, PA-2024-00012, and PA-2024-00013)**

To the Honorable Ricardo Lara, Insurance Commissioner of the State of California:

Enclosed please find a Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Rate (Stipulation) and a [Proposed] Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate (Interim Rate Order), in the above matters. Also, enclosed for your convenience is a Word version of the Interim Rate Order.

The Stipulation responds to the letter you received on February 3, 2025, from Applicant State Farm General Insurance Company (State Farm), requesting that you grant its request for an immediate interim rate increase subject to refunds with interest following a full rate hearing on the above rate applications (the Interim Rate Increase Request). The Stipulation has been executed by State Farm and your staff in the Rate Enforcement Bureau (REB) of the California Department of Insurance. Intervenor Consumer Watchdog has declined to stipulate.

Based upon the Stipulation, the Interim Rate Increase Request, and the updated information that State Farm has publicly provided in support of its request, REB respectfully recommends that you review and approve the Stipulation and execute the enclosed Order, thereby granting State Farm an interim rate increase subject to refunds with interest following a full rate hearing on the rate applications, and that you do so as expeditiously as possible in response to State Farm's urgent situation.

Please copy all parties when responding to this communication, including by issuing the Order or other response to the Interim Rate Increase Request.

Thank you for your attention to this matter.

Very truly yours,

Nikki McKennedy

Nikki McKennedy

#1494546

CALIFORNIA DEPARTMENT OF INSURANCE
PROTECT • PREVENT • PRESERVE
1901 Harrison St., 6th Floor
Oakland, CA 94612
Tel: 415-538-4162
Nikki.McKennedy@insurance.ca.gov

cc: Michael Martinez, Chief Deputy Commissioner
Lucy Wang, Deputy Commissioner and Special Counsel to the Commissioner
Teresa Campbell, Deputy Commissioner and General Counsel
Heather Hoesterey, Assistant General Counsel of the Legal Division
Margaret Hosel, Public Advisor
All parties listed on attached Proof of Service

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **[PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGAILITY OF THE RATE**

INTERIM RATE ORDER ADOPTING STIPULATION

Having reviewed the Applications, Applicant's Request for an Interim Rate, and the Parties' Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, and evidence submitted in support, and good cause appearing, IT IS ORDERED THAT the request of Applicant State Farm General Insurance Company ("Applicant) for an interim rate increase subject to refunds with interest pending a final determination of its legality is GRANTED as set forth herein.

IT IS FURTHER ORDERED THAT Applicant shall implement an interim rate as follows, for new and renewal business with an effective date of _____ , 2025:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+_____%
24-1273	Overall Renter/Condo Tenant	+_____%
24-1330	Rental Dwelling	+_____%

IT IS FURTHER ORDERED THAT this Interim Rate Order is not and shall not be considered a final order or decision by the Commissioner and that the interim rate shall be implemented subject to potential refunds with interest pending a final determination by the

Commissioner of its legality, following a full rate hearing in this matter on the Applications.

IT IS FURTHER ORDERED THAT Applicant will maintain appropriate records of all policyholders charged these interim rates through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds subject to interest if necessary. If the Commissioner ultimately determines that Applicant shall issue any refunds with interest, Applicant will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, and Applicant will report in writing to the Department once any and all such refunds with interest have been paid, and such report shall be publicly available. This Order is without prejudice to any application for a stay under California Insurance Code § 1858.6.

IT IS FURTHER ORDERED THAT Applicant will not withdraw the currently pending Applications before a full rate hearing has been completed and a final rate order issued, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn for any reason after the interim rates have been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant will issue refunds with interest of the entirety of the premiums collected pursuant to the Commissioner's Interim Rate Order.

IT IS FURTHER ORDERED THAT for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.

IT IS SO ORDERED.

Dated: _____

RICARDO LARA
Insurance Commissioner

By: _____

NOTICE OF HEARING
EXHIBIT M

RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

February 14, 2025

VIA EMAIL
Dan Krause
Mark Schwamberger
Keesha-Lu Mitra
State Farm Insurance Companies
1201 K Street, Suite 1200
Sacramento, CA 95814

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Dear Mr. Krause, Mr. Schwamberger and Ms. Mitra:

On February 3, 2025, State Farm General Insurance Company (State Farm) submitted a letter request to the Insurance Commissioner (Commissioner) seeking approval for an Emergency Interim Rate on four lines of business based on the concern over their "swift capital depletion." In the request, State Farm seeks an increase for the following, effective May 1, 2025: 22% for Non-Tenant homeowners, 15% for Tenants (Renters), 15% for Tenants (Condominium Unitowners), and 38% for Rental Dwelling. Under the strict review laid out by Proposition 103, the burden is on State Farm to show why this is needed now. State Farm has not met its burden, as I discuss below.

Brief Overview of California Rate Approval Process

In November 1988, California voters passed the Insurance Rate Reduction and Reform Act, better known as Proposition 103, which provides the Commissioner with broad authority over insurance rates, guarantees public rate hearings, and expressly precludes the Commissioner from approving rates that are "excessive, inadequate, unfairly discriminatory or otherwise in violation" of the Insurance Code. Proposition 103 also instituted a system of prior rate approval that requires every property and casualty insurer seeking to change its rates in California to obtain the Commissioner's prior approval. (Ins. Code, § 1861.01, subd. (d).)

The burden is on the insurer to demonstrate and support its rate requests. In the rate change application, insurers must provide the Commissioner with the technical and analytical information necessary to obtain prior approval of an insurer's rate request. Consumer groups

may also participate in a rate change application by intervening under Proposition 103. When an insurer requests a rate increase that exceeds 7% and there is an intervenor, the Commissioner must notice a public rate hearing except when the parties have agreed to a settlement. The Insurance Code and its accompanying regulations permit the settlement of rate proceedings without a rate hearing. In addition to the aforementioned procedure, the Commissioner has the authority to grant interim relief from plainly invalid rates. (*20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, 245; *Calfarm Insurance Company v. Deukmejian* (1989) 48 Cal.3d 805, 824-25.)

Factual Background

In late 2023, I announced my Sustainable Insurance Strategy which included an ambitious package of regulatory reforms focused on streamlining and improving the Department of Insurance (Department) rate review process in order to strengthen the resiliency and sustainability of California's insurance market. To that end, my Department implemented regulations to improve the rate application process with faster rate filing approval times to create more certainty in the insurance market; implemented regulations that introduce climate risk management tools in rate making such as the use of catastrophe models and incorporating the net cost of reinsurance; and enacted intervenor reforms to ensure transparency and accountability for groups that intervene in insurer rate filings. These reforms were completed in 2024.

During this time frame, State Farm alerted the Department to concerns regarding its financial condition. On March 20, 2024, State Farm informed the Department that its capital position had severely deteriorated in 2022 and 2023, despite the fact that it had paid no significant wildfire claims for several years. State Farm acknowledged it had limited writings for California consumers in areas at higher risk of wildfires for many years. In fact, State Farm ceased writing new policies in California in May 2023. And State Farm non-renewed 30,000 homeowners policies in March 2024 – many in areas of high risk including communities affected by Southern California wildfires. Finally, State Farm acknowledged in a letter to the Department in March 2024 announcing those non-renewals that "rate increases alone would likely be insufficient to restore SFG's financial strength." Throughout the above period, the Department approved multiple rate increases for State Farm, including 6.9% in November 2021 (effective January 2022), 6.9% in January 2023 (effective June 2023), and 20% for homeowners and condominiums in December 2023 (effective March 2024). This 20% increase was intervened by Consumer Watchdog (Watchdog), who participated in and approved the settlement of this rate increase and requested compensation for such participation.

State Farm currently has three rate applications filed with the Department since June 27, 2024, seeking increases in the four lines of business noted in the present request for an emergency rate increase, as follows: 30% for Non-Tenant homeowners, 41.8% for Tenants (Renters/Condominium Unitowners) and 38% for Rental Dwelling. These applications included a variance rarely utilized unless an insurer's solvency is at issue, and Watchdog has filed a

petition to intervene in these applications. These applications raise serious questions about State Farm's financial condition, and are still pending before the Department.

Present Request for Emergency Interim Rate

Now, State Farm has requested an emergency interim rate approval. When insurers request a rate change, only the Commissioner has the authority to approve it. However, the Commissioner may receive recommendations from the Department and from public participants such as intervenors, regarding the rate application. Therefore, on February 5, 2025, Watchdog submitted a preliminary response to State Farm's letter disapproving of State Farm's request for an emergency interim rate. On February 7, 2025, the Department submitted to the Commissioner a stipulation and proposed order to provide State Farm with interim rates subject to refunds with interest pending a final decision of the legality of the rate in a rate hearing. Watchdog then submitted a second letter on February 7, 2025, seeking a full rate hearing regarding State Farm's pending applications in lieu of approving an interim rate.

As the elected head of the Department, my primary responsibility is to the people of California. This situation highlights the voters' wisdom in having an independent, elected Insurance Commissioner making decisions to uphold market integrity in response to evolving threats, which today include climate change, rising global reinsurance costs, and a tightening national property insurance market. My commitment to the sustainability of California's insurance market is evident through the implementation of crucial reforms. My strategy addresses years of inaction and neglect, including the long-overdue adoption of catastrophe modeling and reinsurance in ratemaking. Californians suffer when insurance is not widely available, facing fewer options and higher costs. To balance availability, market strength, and sustainability challenges, I have mandated that insurance companies offer policies in high-risk wildfire areas, thereby supporting some of our most climate-vulnerable consumers. I also need to ensure that the affordability of insurance does not come at the price of solvency. In my tenure as Commissioner, I have introduced and implemented unprecedented policy changes aimed at better protecting consumers during the recovery and rebuilding process after catastrophic events.

This leads to State Farm's present emergency request. In examining the information before me, I have additional questions and request the following information:

- What, if anything, has changed for State Farm between June 2024 and now that necessitates emergency relief?
- In the absence of non-wildfire catastrophic losses in 2022 and 2023, how does State Farm explain the significant decrease in its policyholder surplus?
- What has State Farm done to prevent its surplus from further deterioration between May 2023 to present besides shed policyholders through ceased writings and non-renewals?

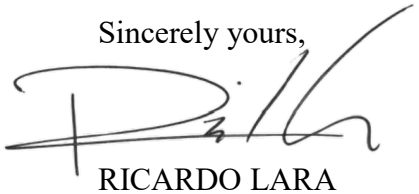
- Has State Farm provided adequate documentation to the Department to support the current rate increase request for each line of business?
- Other than rate increases, what other plans does State Farm have to address its financial challenges? For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm as it has in other similar situations?
- What is State Farm doing to manage and restore its financial position given its statement that rate increases alone will not be sufficient?
- How would granting an emergency rate impact State Farm's business decisions to pause writing of new residential coverage and non-renew policies?

The Commissioner has the authority to approve an interim rate increase, as well as discretion in administering the process. However, the burden is on State Farm to demonstrate that interim relief is warranted under the circumstances. State Farm contends that the recent Los Angeles wildfires have put "tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rate agency) measures of financial strength and claims-paying ability." State Farm's financial condition is of utmost concern for its California customers, and a rate hearing on State Farm's pending applications may be necessary to answer serious questions about its financial condition.

My goal is to make sure policyholders do not have to pay more than is required. In light of the recent Los Angeles wildfires, State Farm's customers need real answers about why they are being asked to pay more and what responsibility the company's leadership is taking to get its financial house in order. State Farm customers who are already paying higher premiums or experiencing policy non-renewals should not be further impacted without these questions being answered. All Californians know from the past 10 years that the risks of wildfire are real and growing. We have experienced first-hand the ravages of a changing climate. We are clear-eyed about the work needed to protect our communities. Our decisions must be guided by transparent data and an honest reckoning with the challenges we all face together.

Based on the foregoing, I request that State Farm, the Department and intervenor Watchdog appear in person before me at an informal conference on February 26, 2025 in the Department's Oakland office at 10:30 a.m. State Farm should be prepared to address the issues raised above. I look forward to our meeting.

Sincerely yours,



RICARDO LARA
California Insurance Commissioner

cc: Michael Martinez, Chief Deputy Commissioner
Teresa Campbell, Deputy Commissioner, Legal Branch
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Branch
William Pletcher, Consumer Watchdog
Pamela Pressley, Consumer Watchdog
David Grow, State Farm
Diane Bauer, State Farm
Vanessa Wells, Hogan Lovells

NOTICE OF HEARING
EXHIBIT N

February 25, 2025

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

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

We look forward to meeting with you tomorrow to answer your questions about our emergency rate request. Financial strength is a prerequisite for State Farm General's ability to support the 2.8 million policies currently remaining on its books. Our rate applications last summer were based on a critical need to shore up that financial strength. As the company's surplus continued to decline in 2024, the need had only become more urgent. Then the Los Angeles fires hit. We have paid $1.75 billion so far on around 9,500 claims filed and expect to ultimately issue approximately $7.6 billion in total claim payments.

While State Farm General remains solvent in the face of these fires thanks to robust reinsurance (with billions of dollars of reinsurance recoveries coming from its parent, State Farm Mutual Automobile Insurance Company), and we will continue to assist our impacted customers with their claims, we urgently need your help going forward. Our initial estimate of the net reduction in State Farm General's surplus, which stood at $1.04 billion at the end of 2024, is approximately $400 million due to the impact of these fires. And the other trends that led to declining surplus *before* the fires – by over $300 million during 2024 – have not gone away. In fact, some will only become more severe because of the company's heightened financial distress.

State Farm General's prospects for returning to financial health and continuing to insure so many California households depend on concrete evidence it can generate ***and sustain*** sufficient capital to support its risk profile. Once fully implemented, we anticipate your Sustainable Insurance Strategy will enhance those prospects into the future, but State Farm General is at an inflection point now. Emergency rate approval at this pivotal moment is the strongest indication you can provide that California is committed to supporting State Farm General's ongoing need to match the prices it charges to the financial risks it covers.

In your February 14 letter to us, you noted that "the burden is on State Farm to show why [this emergency rate increase] is needed now" and that "insurers must provide the Commissioner with the technical and analytical information necessary to obtain prior approval of an insurer's rate request." You have also emphasized the need for "full transparency from all parties in the rate-making process – including insurance companies and intervenors." We agree. We also agree with your Department that –

> [SFG] *has made a **preliminary showing** that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. Accordingly, the Department believes … that **based upon information currently available**, an interim rate increase, subject to refunds with interest pending a final determination by the Commissioner of its legality, is appropriate in this instance and would be*

> *lawfully issued … . The Department further believes* [that an Interim Rate Order] *is* ***in the public interest, in order to maintain maximum availability of homeowners insurance*** *options in California, and that taken as a whole it is fundamentally fair, adequate, and reasonable.* [1] (emphasis added)

We understand you have additional questions, and in light of expected time constraints during tomorrow's meeting we have provided (below our signatures) written responses to each of the questions in your February 14 letter. And we're prepared to participate in the full hearing when that time comes, absent an alternative resolution. We also urge you to act on your staff's recommendation, based on the information we've provided to them throughout the rate application process, to issue an interim rate order now.

Insurance rate increases can of course be a challenge for policyholders. But as more and more Californians would attest, paying much higher premiums with the FAIR Plan – for less coverage – isn't a welcome alternative. As you have pointed out, California residents are best served by a fair and well-functioning insurance market, a key component of which is that consumers understand and bear the economic reality of the true costs to insure their property. These fundamental economic truths must be confronted. For many years now, average homeowners insurance premiums in California have not only been much lower than other high-risk states, but lower even than the national average. The reality is insurance will cost more for customers in California going forward because the risk is greater in California. Without the prospect of rates sufficient to rebuild and maintain capital over the long term, the only meaningful measure remaining for State Farm General is continuing but more drastic reduction in overall exposure.

You have stated: "I … have the authority to grant the interim relief State Farm seeks. My primary responsibility is to maintain a stable insurance market in California and protect State Farm policyholders. Insurance companies are not legally obligated to provide coverage to everyone, and many Californians are currently facing challenges with insurance availability. State Farm's serious financial situation raises concerns for California's insurance market and its consumers."[2] We wish to emphasize that emergency interim rate approval is in the public interest, as it can help stabilize State Farm General's financial condition and the broader insurance market, not least because of what it signals to providers of capital about the state's commitment to solving the insurance crisis. Conversely, further delay sends the opposite signal. At a certain point, emergency approval delayed becomes emergency approval denied, and that point is rapidly approaching.

After your full review of the information we are providing in response to your questions, we urge you to seriously consider and adopt the recommendation of your Department to "grant[] State Farm an interim rate increase subject to refunds with interest[3] following a full rate hearing on the rate applications, and [to] do so as expeditiously as possible in response to State Farm's urgent situation."[4]

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[1] See page 6, stipulation paragraph 5, of attached *Stipulation to Interim Rate*, entered into and fully executed by your Department on February 7, 2025.

[2] See attached February 20, 2025 letter to Consumer Watchdog from the Commissioner.

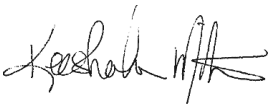
[3] I.e., if the interim rates were to exceed the final rates approved after hearing.

[4] See attached February 7, 2025 letter to the Commissioner from CDI's Rate Enforcement Bureau.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- February 7, 2025 letter to the Commissioner from CDI's Rate Enforcement Bureau
- February 7, 2025 executed Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate and accompanying [PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE.
- February 20, 2025 letter to Consumer Watchdog from the Commissioner

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WRITTEN RESPONSES TO THE COMMISSIONER'S QUESTIONS FROM FEBRUARY 14

What, if anything, has changed for State Farm between June 2024 and now that necessitates emergency relief?

In short, State Farm General's (SFG) policyholder surplus and financial strength has further deteriorated from an already weakened position, its regulatory based financial solvency metrics have worsened, including its failure to meet the NAIC Risk-Based Capital (RBC) requirements as of year-end 2024, and SFG is currently managing the impact of the devasting and historical fires from January. In our March 2024 letter, we noted that "the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action" – it is now an urgent crisis.

The current estimate of direct losses for State Farm General from the Los Angeles fires stands at approximately $7.9 billion, including loss adjustment expenses, and taking into account both reported and not reported claims. Estimates for SFG's retained losses after reinsurance, and for SFG's share of total FAIR Plan losses, are approximately $212 million and $400 million, respectively. Based on these estimates, and after accounting for reinsurance recoveries, tax impacts and partial recoupment of SFG's allocation of the FAIR Plan's recent $1 billion assessment, the January fires will reduce SFG's surplus, which stood at $1.04 billion at the end of 2024 after a decline of over $300 million from year-end 2023, by approximately $400 million. These initial estimates will continue to be reviewed and updated, if needed, as we continue through the claim adjudication process and more information becomes available.

This is an unfortunate circumstance for our customers and all Californians, and only worsens SFG's financial position and related internal and external measures of financial strength and forward-looking claims-paying ability from what they were last June.

Our February 3, 2025 letter included an illustration of SFG's continuing financial deterioration and, most critically to the issue at hand, its current financial position necessitating emergency relief. SFG will again be required to file a plan with the Illinois Department of Insurance, SFG's domestic financial solvency regulator, due to its failure to meet NAIC Risk-Based Capital (RBC) requirements as of year-end 2024 – a situation that as described above is only worse due to the impact of the January fires. The purpose of RBC requirements is to identify weakly capitalized companies, which facilitates regulatory actions to ensure policyholders will receive benefits promised. Under the RBC system, regulators have the legal authority to take preventive and corrective measures. These preventive and corrective measures are designed to provide for early regulatory intervention to correct problems before insolvencies become inevitable, thereby minimizing the number and adverse impact of insolvencies.

In addition, the year-end 2024 policyholders' surplus to net premiums written ratio of 0.330 translates to an unusual value of 303% according to the NAIC Insurance Regulatory Information Systems (IRIS) manual (Ratio 2 – Net Premiums Written to Policyholder's Surplus). With the first quarter 2025 surplus deterioration from the Los Angeles wildfires, this IRIS ratio will move further beyond the usual range (or threshold) for the ratio.

If no rate increase is allowed until a final rate is approved after a hearing or settlement, which can take months or sometimes even years, SFG risks further downgrades of its financial strength rating because of its severe capital depletion from years of insufficient rates followed by the impact of these wildfires, as well as growing exposure due to inflationary loss trends (both catastrophe and non-catastrophe, including liability losses). As explained in our February 3 letter, "[i]f that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage" and hundreds of thousands of them could be at risk of having to secure insurance from another carrier or the FAIR Plan, without any action on SFG's part. It's very important to here point out that this could not only be very damaging to current SFG policyholders, who may have difficulty finding a policy outside the FAIR Plan – which usually costs considerably more for considerably less coverage – but it could also be very damaging to non-SFG policyholders. To the extent that large numbers of former SFG customers are forced onto the FAIR Plan, this will likely increase the frequency or size of FAIR Plan losses shared by admitted carriers and their policyholders, which could further dampen carriers' willingness to write new business or renew

existing business since FAIR Plan losses are allocated according to market share. In addition, and as stated in our February 3 letter, you as the Insurance Commissioner can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Without rate, SFG must consider much more significant and necessary actions to manage its exposure and attempt to assuage solvency regulators, along with independent rating agencies whose necessary actions may create a much more disorderly impact on SFG and its customers.

If, on the other hand, interim rates *are* approved, there is little harm to SFG's policyholders even if they were to exceed the final rates approved after hearing because policyholders would in that case receive refunds, with interest. Nor is there any harm to the broader public.

The Department posed a similar question in its July 9, 2024 objection, asking "What has changed since the last rate increase (Non-Tenant and Condo rate approval of 20% effective March 2024) that is contributing to the deterioration of capital in 2024?"

SFG's August 27, 2024 response provided significant detail and explanation regarding the main contributors to the deterioration of capital since, and prior to the rate increase:

- The March 2024 20% rate increase (approved in December 2023) was originally filed in February 2023 (requesting 28%), and from there approved rate increases take a period of 2 years to be fully earned (i.e. not until March 2026 in this case).
- Material surplus growth during the years following the 2017/2018 wildfires has not been possible due to insufficient rates.
- The primary driver of capital deterioration, specifically in 2023, was an unexpected surge in high liability losses across multiple lines of business and the cost of rapidly increasing exposure as evidenced by a significant increase in reinsurance premium with no ability to fully reflect this cost of the increased risk in our rates.

SFG has also provided an updated rate indication using the Department's standard rate templates which included a new catastrophe provision that included estimates up through the most recent fires. Based upon the Department's rate template, the revised Non-Tenant Homeowners indication was +21.8%. For the Renters and Condominium Unitowners lines the revised indication was +16.6% and +20% respectively, and for the Rental Dwelling line, +42% was the revised indication. We expect first quarter 2025 loss data (once available) to support the interim rates even without any solvency-based adjustments to the rating template, due to the impact of the recent wildfires.

In the absence of [wildfire] catastrophic losses in 2022 and 2023 how does State Farm explain the significant decrease in its policyholder surplus?

The Department requested similar information in its November 22, 2024 objection, asking SFG to "Please explain what lines of business and perils were impacted [by "worse-than-average non-wildfire catastrophe loss amounts.]" SFG's response of December 13, 2024 reiterated information submitted in previous

objection responses that showed the non-wildfire catastrophe experience over time. Wind and rain events, especially in early 2023, as well as increased liability claim costs in core product lines, including PLUP and commercial lines, were all referenced as drivers of surplus reduction in 2023.

In addition, as we noted in our March 2024 letter, due to SFG's continuing "[deterioration] in surplus and increase in exposure, the company necessarily has to rely increasingly on reinsurance cover, the cost of which puts further downward pressure on surplus without the needed additional premium to support this cost." This dynamic will only accelerate with the further massive decline in surplus from the impact of the Los Angles fires. These additional reinsurance costs are significant, amounting to hundreds of millions of dollars annually, but SFG has not been permitted to fully factor these costs into its rates through either an appropriate rate of return or as a direct cost component. Of course, as noted below, these very reinsurance costs are what give SFG the chance to remain solvent in the face of catastrophic events on the scale of the Los Angeles fires and allow SFG to insure significantly more property than would otherwise be possible.

What has State Farm done to prevent its surplus from further deterioration between May 2023 to present besides shed policyholders through ceased writings and non-renewals?

In addition to the June 2024 rate filings which are the subject of this interim rate request, State Farm has also requested and CDI has approved several rate increases across multiple lines of business, though the approved rate was often below SFG's requested change and some with significant delays. We are also filing later today for a PLUP rate increase of 39.0%. (Although a PLUP rate increase of 24.9% was approved for SFG on 11/27/2024, the company had requested 53.6% on 7/12/2024 due to increasing frequency and severity of liability losses.)

In addition, and as highlighted earlier, SFG did maintain its appropriate and critically important reinsurance program despite the fact that reinsurance costs were not permitted to be considered in the filed rates either through an appropriate rate of return or as a direct cost component. At present (i.e. considering the January fires), SFG would be insolvent without the benefit of its reinsurance recoveries. However, due to the existence of SFG's reinsurance program, most of these losses will be absorbed by State Farm Mutual as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover – providing it at a fair price that is well below what is available from external reinsurers and at an amount of coverage that external reinsurers wouldn't provide. In fact, SFG's reinsurance broker confirmed that external reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not currently exist. This reinforces the significant support already provided by State Farm Mutual via this reinsurance program. Over the last 10 years and including the reinsurance recoveries projected based on current estimates for the January 2025 fires, SFG has benefited significantly from the totality of its reinsurance program. This financial benefit is in addition to the fact that this reinsurance program has allowed SFG to serve more Californians by insuring significantly more property in areas with significant risk such as wildfires than would otherwise be possible. As noted in our letter of February 3, this situation reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – again, that is an irresponsible assertion and simply not true.

Has State Farm provided adequate documentation to the Department to support the current rate increase request for each line of business?

SFG's initial rate filings in June and July of 2024 included hundreds of pages of support for the requested rate. Further, every set of objections raised by the Department has been responded to with dozens of additional exhibits and pages of narrative. All questions by the Department have been responded to, including the Department's inquiry of September 30, 2024 which asked whether numerous financial documents would be "made publicly available in a complete and unredacted form." As seen in SFG's October 21, 2024 response, for those documents that SFG advised were confidential and trade secret, SFG attempted to provide relevant information and invited the Department to identify any specific items of additional needed information so that SFG could attempt to provide that information in a manner that maintained the confidentiality of the document but was still responsive to the Department's request. There has been no further correspondence from the Department on that issue since that response.

In that same September 30, 2024 objection, the Department clearly stated that while State Farm had "provided a substantial amount of filing support relating to its Variance 6 request," it had not, in the Department's view, satisfied a showing of financial condition or its plan to restore the financial condition.

SFG's October 21, 2024 response reminded the Department that the initial filing from June 2024 included a plan to restore the company's financial condition through a combination of reductions in exposure and increasing rate levels. Further, SFG's March 2024 letter explained the drastic drop in surplus and pointed to the tremendous growth in risk exposures in the last few years, with construction cost inflation being a major driver, along with unanticipated growth due to the rapidly tightening California market.

In addition to information about the Los Angeles fires, SFG's February 3 letter also provided an updated rate indication using the Department's standard rate templates which included a new catastrophe provision that included estimates up through the most recent fires. Using the Department's rate template, the revised Non-Tenant Homeowners indication was +21.8%. For the Renters and Condominium Unitowners lines the revised indication was +16.6% and +20% respectively, and for the Rental Dwelling line, +42% was the revised indication. SFG subsequently provided those templates and updated Exhibit 9 in all three filings in SERFF on February 5, 2025.

In that same February 3 letter, we also provided information regarding credit rating agency downgrades (including AM Best's March 2024 downgrade of SFG to B (fair) https://news.ambest.com/pr/PressContent.aspx?refnum=34559&altsrc=2) and the potential market impacts of further or other agency downgrades.

Other than rate increases, what other plans does State Farm have to address its financial challenges? For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm [General] as it has in other similar situations?

As it relates to the first question, we would reinforce the point that matching price to risk (i.e. securing adequate rates for the exposure) is a core fundamental SFG must adhere to in order to ensure it has the

financial strength to stand behind its promises. Claim-related costs and growth in underlying exposures are the core challenges SFG faces. We cannot escape those economic realities because they are what led us to where we are today. As we shared in our last letter, SFG's financial distress results from macroeconomic changes and market trends, including construction cost inflation and litigation, and the fact that "SFG's attempts … to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success." And "[t]his was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties."

Beyond rate, other plans or actions alone would simply not suffice to restore SFG's financial condition. Without rate, SFG is prevented from maintaining a capital position sufficient to support its current book of business. Therefore, without the necessary financial strength or the demonstrated capacity to improve it, the only meaningful measure remaining is continuing but more drastic reduction in overall exposure. Consequently, the most effective remedy – and the surest path to the eventual restoration of general availability in the market – is to allow SFG to collect sufficient premiums to rebuild its capital.

In addition, and as we previously noted, a lack of approval for needed rate sends a strong message to SFG about the support it will receive to collect sufficient premiums in the future to protect Californians against the risk of loss to their homes, property, and other claims. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile. Without this concrete evidence, it creates a situation and an insurance market where insurers, reinsurers and other capital providers, including State Farm Mutual, are reluctant to invest. However, when insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market. We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. SFG is committed to continued engagement on these issues. Having said that, SFG remains acutely focused on the immediate need to rebuild its financial strength to ensure it remains viable. Your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

What is State Farm doing to manage and restore its financial position given its statement that rate increases alone will not be sufficient?

The statement that rate increases alone would likely be insufficient to restore SFG's financial strength was included in our March 2024 letter. We noted the critical need for rapid review and approval of currently pending and future rate filings given SFG's financial position, which also necessitated our then current need to take action to reduce our overall exposure to be more commensurate with the capital on hand to cover

such exposure, as most insurers in California have already done. In taking that March 2024 action, we recognized how difficult it will be for impacted policyholders, in addition to our independent contractor agents who are small business owners and employers in their local California communities. However, we also recognized that rebuilding capital, even with higher rates, will take time and we were striving to minimize the impact of the necessary actions that must be taken. SFG's financial position has worsened since that time, and we continue to be faced with very difficult decisions.

The Department posed several related questions in its July 10, 2024 objection, asking "what is SFG's capital shortfall remediation plan other than rate and underwriting" as well as a request for SFG to "list any other capital generation initiatives." SFG's August 27, 2024 response explained that there were no plans to seek financial support from State Farm Mutual based on the previously stated and communicated position of the State Farm Mutual Board as well as the tenet that SFG is an independent and self-sustaining legal entity within the State Farm group and is managed to meet solvency requirements on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity. Just as the Department is acting to ensure that no California customer would pay for out-of-state reinsurance costs under its new Net Cost of Reinsurance regulation, SFG recognizes that State Farm Mutual must ensure that out-of-state customers do not subsidize California customers.

More specifically, SFG must have a reasonable opportunity to timely collect sufficient premiums to protect Californians against the risk of loss to their homes, property, and other claims. This allows SFG to prospectively demonstrate its ability to generate sufficient capital to support its risk profile. Without this concrete evidence, it creates a situation and an insurance market where insurers and other capital providers, including State Farm Mutual, are reluctant to invest.

Finally, SFG's February 3 letter further discussed the difficult decisions in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused.

How would granting an emergency rate impact State Farm's business decisions to pause writing of new residential coverage and non-renew policies?

The Department posed a similar question in its September 30, 2024 objection, asking "Is State Farm able to support its rate need using the assumption that they would open up to new business?" SFG's October 21, 2024 response explained that, based on current assumptions, the projected surplus growth would not adequately support the larger book of business (including new business) and that the rate needed to support adequate surplus growth would be even higher than what is contemplated in the current rate filing, were SFG to open up to new business. On the other side of that question, it is worth noting that granting our requested emergency rate increase may preserve coverage for many more existing policies than any accommodation or agreement to write new business would allow.

NOTICE OF HEARING
EXHIBIT O

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

RICARDO LARA

CERTIFIED COPY

TRANSCRIPTION OF PROCEEDINGS

State Farm Emergency Interim Rate Approval

Wednesday, February 26, 2025

Reported by:

CHRISTINA L. RODRIGUEZ
Hearing Reporter

Job No.:
53795 INS

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA
RICARDO LARA

TRANSCRIPTION OF PROCEEDINGS, taken at 1901 Harrison Street, 3rd Floor, Oakland, California, commencing at 10:30 a.m. and concluding at 11:52 p.m. on Wednesday, February 26, 2025, reported by Christina L. Rodriguez, Hearing Reporter.

APPEARANCES:

CALIFORNIA DEPARTMENT OF INSURANCE:	RICARDO LARA Insurance Commissioner
	LUCY F. WANG Deputy Commissioner and Special Counsel
	NIKKI MCKENNEDY Senior Staff Attorney
	MICHAEL R. O. MARTINEZ Chief Deputy Commissioner
	KEN ALLEN Deputy Commissioner
STATE FARM INSURANCE:	KEESHA-LU M. MITRA SVP and General Counsel
	DAN KRAUSE CEO and President
	MARK SCHWAMBERGER Treasurer and Chief Financial Officer
	VANESSA WELLS Attorney
	DAVID GROW Associate General Counsel
CONSUMER WATCHDOG:	PAMELA PRESSLEY Senior Staff Attorney
	WILLIAM PLETCHER Litigation Director
	BEN ARMSTRONG Staff Actuary

Live Proceedings, Wednesday, February 26, 2025
10:30 a.m.

THE COMMISSIONER: Thank you, and good morning. I want to be respectful of everyone's time. Thank you for coming. We are going to begin with our meeting. Again, thank you for joining me to discuss State Farm's General Insurance Company's request for approval of an emergency interim rate.

Today's meeting differs from the informal conferences that you all randomly and routinely participate in that typically occurred during the rate filings which are closed to the public. Unlike those discussions, everything shared here will remain public.

We have a court reporter to my left present to transcribe our meeting, and this transcript will be accessible to everyone. We have requested an expedited transcript, but it may take up to two days to receive it.

I ask that everyone please state their names and company affiliation for the court reporter. I am Insurance Commissioner Ricardo Lara, and to my right is Commissioner -- Deputy Commissioner Lucy Wang. Several employees from the Department will also be present in

the back of the room to observe.

Can State Farm please state their appearances for the court reporter this morning. Thank you.

MS. MITRA: Certainly. Good morning, Commissioner. Keesha-Lu Mitra, State Farm.

MR. KRAUSE: I'm Dan Krause, CEO and President of State Farm General.

MR. SCHWAMBERGER: Mark Schwamberger, State Farm General.

MR. GROW: David Grow. State Farm.

MS. WELLS: I am Vanessa Wells. I am outside counsel representing State Farm, as I've done rate hearings for the last three years.

THE COMMISSIONER: Thank you.

From the Department of Insurance.

MS. McKENNEDY: Good morning, Commissioner. Nikki McKennedy of the Rate Enforcement Bureau.

MR. MARTINEZ: Michael Martinez, Chief Deputy Commissioner.

MR. ALLEN: Ken Allen, Deputy Commissioner of the Rate Regulation Branch.

THE COMMISSIONER: Thank you.

And Consumer Watchdog.

MS. PRESSLEY: Good morning. My name is Pamela Pressley. I'm Senior Staff Attorney for Consumer

Watchdog.

MR. PLETCHER: Good morning. William Pletcher, Litigation Director for Consumer Watchdog.

MR. ARMSTRONG: Hi. Ben Armstrong, Staff Actuary with Consumer Watchdog.

THE COMMISSIONER: Great. Thank you everybody, again, for being here.

This type of meeting is truly unprecedented, and it's rare for an insurer to reach out directly to the commissioner to request this rate approval. This process typically occurs between the insurer, my department, and, often, with the interveners.

However, as the elected head of this department, I am responsible for overseeing the nation's largest insurance market during these challenging times, and I recognize the importance of this direct communication.

California's insurance market is currently facing the effects of climate change, rising global insurance cost, and a tightening national property insurance market. My department has managed over 100 disaster responses in the past six years, with the most recent events being 14 wildfires in Los Angeles and San Diego County in this month alone -- or January, I should say.

We've held two weekend workshops where we helped over thousands of wildfire survivors understand their insurance benefits, with two more planned this March. I attended both workshops and saw firsthand the critical need to assist consumers understanding their insurance options during these difficult times of loss.

Since the fire started, my department has supported more than 5,000 wildfire survivors through workshops, disaster recovery centers, and our hotline. My priorities remain to protect consumers; my priorities also are to hold insurance companies accountable and ensure stability in our California insurance market.

Throughout this process, I adhere to Proposition 103's mandate that approved rate -- insurance rates and must not be excessive, inadequate, or unfairly discriminatory.

Also, Prop 103 grants me, the Insurance Commissioner, the authority to approve insurance rates, including interim rates. In addition to the challenges mentioned, I face the task of regulating an insurance market operating under outdated regulations that have not been significantly reformed since the passage of Prop 103 in 1988.

This outdated regulatory structure has hindered insurers from actively reflecting the true cost

of doing business in California. As a result, many insurers have paused writing new business and increase annual renewals in recent years.

Over the past year, my department has implemented my sustainable insurance strategy, which updates regulations to allow insurers to use risk management tools such as catastrophe models and re-insurance in rate making; something that all other states permit except California.

We implemented these reforms by requiring insurers to operate in California's high-risk areas where consumers have faced significant challenges due to limited insurance availability. Additionally, we have mandated that insurers depopulate the fair plan. Both of the requirements are unique to our state.

This difficult decisions -- decisions are essentially essential for addressing the ongoing availability issues. Achieving affordable rates is impossible without tackling these challenges, which include preventing insurers from withdrawing from riskier areas and encouraging them to expand their coverage.

So today's meeting focuses on State Farm's request for an emergency interim rate increase due to the alarming capital deterioration. State Farm is seeking a 22% increase for a homeowner policies, a 15%

increase for tenant policies, and a 38 increase for rental dwelling policies.

Additionally, State Farm has three pending rate applications with the Department filed this past June. This request follows a 20% rate increase granted to State Farm in December of 2023, resulting from a stipulation agreement involving State Farm, Watchdog, and the Department which took effect in March 2024.

Given that State Farm is one of the largest insurers in California and holds the most homeowners' insurance policies, I take this emergency rate request very seriously. State Farm's financial concern are (sic) significant not for the company, but for the entire California insurance market.

I have reviewed the recent correspondence from State Farm, the Department, and Consumer Watchdog, as well as State Farm's rate application from June and the latest updates. After reviewing this information, I have some questions for State Farm; questions that I've previously posted or posed in my letter dated February 24th.

Although I call this meeting for my benefit, I want to ensure that the Department and Watchdog have the chance to speak at the end, and only if they've learned anything new from this dialogue. You have all been in

communications with State Farm's June filing for several months now. Today is not a debate. It is not opportunity.

It is an opportunity, however, for State Farm to clarify the need for emergency interim rate on behalf of consumers. I'm really seeking today the facts and answers, so this is not to relitigate anything. I've read all the correspondence. This is only an opportunity to speak if you have any new concerns from what you've learned today from our discussion.

So, State Farm, is there anything you would like to say before we begin with our questions?

MR. KRAUSE: Thank you, Commissioner. Appreciate the opportunity to be here today. You asked us to come here today ready to answer the questions that you put forth in your letter, as you mentioned, and why State Farm General needs more rate and why we need it on an emergency basis, and we're prepared to do that.

At the outset, though, I did want to take a moment just to say thank you and appreciate the work of your staff and reviewing everything we've provided to them that support our interim rate request, and we agree with their assessment that should be granted for all the reasons they noted in their recommendations.

We plan to reiterate information we've shared

with the Department that supported their recommendation and also some new information today that we expect you'll find helpful in line with what we shared in our letter yesterday. State Farm General is at a crucial point, and timing is of the essence. Its ability to continue to provide coverage to customers in the future first depends on sufficient capital to stabilize its financial condition, which this interim rate approval will certainly help to do.

Mark Schwamberger, our Treasurer, is going to address the questions that you've asked.

And without further ado, Mark, we'll allow you to start.

THE COMMISSIONER: Go ahead.

MS. MITRA: Okay. Thank you, Commissioner. And, Mark, just before I turn it over, I just wanted to also ground us, Commissioner, in the fact that since we're discussing the financial solvency of State Farm General, as an Illinois domestic, while Illinois is the financial solvency regulator, I wanted to acknowledge the fact that there have been multiple conversations between the CDI's Financial Analysis Division and Illinois. And just ensure that those -- assure you that those important conversations continue.

THE COMMISSIONER: Thank you. Appreciate

that.

Mark, you'll be answering the questions that we posed in the letter?

MR. SCHWAMBERGER: Most of them, sir.

THE COMMISSIONER: Perfect. Okay. Well, why don't we begin. Let's get to these questions. I want to be mindful of peoples' times.

So what, if anything, has changed for State Farm between your pending rate application filed in June 2024 and now that necessitates this emergency relief.

MR. SCHWAMBERGER: Yup. And thank you, again, for allowing this.

I would say two things: You mentioned in your opening the fact that you're focused on insurance -- insurers' stability and viability, and that's why we're here today. That's why we filed under the Variant 6 back in June, and that's why we're here to reinforce it again.

I would also just very much agree with you on the seriousness of this. We are at a crucial point in terms of the financial stability and viability of State Farm General.

So, now, let me get to your question and give you some information that is new since June of 2024. So first, State Farm General's policyholders' surplus has

continued to decline. It's declined 300 million during 2024, which is a 23% decrease from year-end 2023, and it currently stands just over a billion dollars.

That billion dollars, when you think about our risk-based capital formula -- so this is the NAIC risk based capital formula -- based on that year-end surplus, we will now be at the regulatory action level within -- within -- right at the company action level and right short of the regulatory action level for risk-based capital.

As you think about the fires and the impact of the fires, and we foreshadow into 2025. On a net basis, State Farm General will take on 212 million related to the fires, and then when you bring in the fair plan assessment as well as our share of the fair plan losses, our overall aftertax impact due to the fires is roughly $400,000,000.

So when we think about our year-end surplus, when you think about that $400,000,000 impact from the fires, that puts us very near -- or in -- authorized control level risk-based capital according to your departments and the Illinois departments and the NAIC risk-based capital. In addition, the ratio of our premium to surplus is also considered an unusual value based on the Insurance Regulatory Information Service,

which is an early warning indicator, and that's also at an unusual value at year-end, and that will only further to deteriorate based on the January fires.

So that is the most significant change, and we still sit in a position where we don't have the prospective ability to generate capital. And we obviously have to be there should there be another event, another fire; State Farm General has to be able to be there, so we're operating a much weaker condition.

THE COMMISSIONER: So, Mark, just to clarify. You said -- and my understanding is that you dropped the Variant 6 since -- from June 2024; is that the case or no?

MR. SCHWAMBERGER: So when we filed the new rate for the 22% you mentioned, based on the fires and including those, we would feel that that rate is justifying without Variant 6.

MS. WELLS: And I can add for that as State Farm's Counsel. We anticipate that filing an amended rate application once we get the data from first quarter of 2025. Once we have that data, we don't believe that we will continue to require Variant 6 to get (inaudible).

THE REPORTER: I'm sorry, what was that last part? What was the last thing you said?

MS. WELLS: We anticipate that we will no longer require Variant 6 to get our rate view.

THE REPORTER: Thank you.

THE COMMISSIONER: And just for the court reporter, do you want them to repeat their -- state their name before? Or are you okay with them just --

THE REPORTER: They're okay. Thank you.

THE COMMISSIONER: Okay. Perfect.

MR. SCHWAMBERGER: Commissioner Lara, and one other thing that I would emphasize that's new and since the last filing is yesterday, S&P Global did put State Farm General's rating on credit watch negative.

So that's not a letter downgrade, but it does indicate that as they adjudicate and look at State Farm General's rating and they consider its financial position, they may have a downgrade, and they noted in their release that that downgrade could be multiple notches, so our credit watch indicates near term; it's not a long term. It's near term.

THE COMMISSIONER: So let me ask you this, too: So your decreased surplus doesn't affect the ability to pay claims?

MR. SCHWAMBERGER: Our ability to handle the fires is not in question, and that's due in large part to the very robust re-insurance program we have. So

State Farm General, our estimate -- our current estimate -- for the fires is 7.9 billion. State Farm General will retain 212 million of that, external reinsurers will assume a billion, and State Farm Mutual and one of its affiliates will assume the 6.7 billion of that total loss.

So State Farm General, the legal entity, it has the ability to pay its claims and move forward with the fires. However, it's in a dramatically different and weakened position. So the ability, prospectively, to continue to stay behind our policies --

THE COMMISSIONER: As we enter fire season.

MR. SCHWAMBERGER: -- as we enter fire season, it's in jeopardy sir, and it's a very serious situation. And when you think about risk-based capital, we are just falling into further and further regulatory action levels that also might require action from Illinois and others. And the rating downgrade, that's a situation where a multi-notch downgrade, depending on S&P and how they file and what they do, that could have immediate ratifications as well.

THE COMMISSIONER: Okay. Let's move on to the other question. I appreciate your answers.

In the absence of, you know -- I'm trying to get a grasp here of the answer -- in the absence of the

non-wildfire catastrophic losses in 2022 and 2023, how does State Farm explain the significant decrease in its policyholder surplus?

You can see what we're trying to look at. We're trying to understand that you have a decrease surplus, but, yet -- you know. Go ahead.

MR. SCHWAMBERGER: Yes, sir. And I think that's a critical point, too, as we look at the last couple years, and we think about our rate adequacy and the ability to generate capital going forward, those couple years are indicative. So let me give you information that helps you understand what drove that policy over surplus.

So first of all, first and foremost, it's just the surplus was driven by underwriting losses. It's not investment losses or others, it's underwriting losses as our premium just didn't keep pace with the escalating loss cost along with the impact of catastrophes. We had the mountain fire and other things, so there was an impact there.

So here's how I would kind of break it down. We experienced a rapid increase of inflation which drove increases in construction and other costs. We had a ligation trends contributing to significant increases in the severity of liability claims. Particularly with our

personal liability and policies and our commercial policies. We had a changing -- and you noted this -- we had changing views of wildfire risk, which was influenced by actual experience, as well as model updates and looking at it prospectively.

And then we had an increase need for re-insurance coverage given the increases in exposure -- that was driven by inflation, changes in view of risk, and, also, a decrease in surplus. So we adjusted our re-insurance program to provide protection for State Farm General. If we had not made those changes, State Farm General could be insolvent right now, and we wouldn't necessarily be sitting here.

So in the face of all of those trends, and you mentioned this in your opening, the outdated regulatory structure just was not able to keep up with these escalating trends. So the structure, you know, in terms of our trying to raise rates restrict growth. In order to keep our risk profile in line with available surplus, those were constrained by the regulatory considerations, and we were met with limited success.

And I think about it this way in terms of the structure: It doesn't necessarily facilitate speed. It's not as responsive to short-term trends, and that's what we saw with inflation and litigation and liability

trends. It doesn't allow, in the past, for the model catastrophe exposure, and it didn't allow us to take that escalating re-insurance cost and fully factor that re-insurance cost into our rates.

THE COMMISSIONER: So then -- okay. I understand that, and even with the current structure, you know, State Farm received a steady rate increase of 6.9 in November of 2021; that was effective January 2022, another 6.9 in in January 2023, and a 20% increase in December 2023 which is effective March 2024.

And this is my question, though, which as even with this current structure, State Farm surplus has been declining since 2016, I believe you said, yet it continues to aggressively write in 2020 in high-risk areas such as Pacific Palisades.

Why was that the case?

MR. SCHWAMBERGER: We have had a -- and we put it in the letter -- we've been robust in managing our risk exposure in the high wildfire risk areas. And I also mentioned there, as we were trying to control growth, control exposure, again, we were met with resistance in terms of nonwithdrawal -- or nonrenewals -- and also the impact on rate, which puts us back into the rate cycle to the degree we tried to do, um, significant nonrenewals, again, to manage our

risk in line with our exposure.

THE COMMISSIONER: Okay. So what was -- what have you all done -- or State Farm, I should say for the record -- to prevent a surplus from further deteriorating, specifically between May 2023 to the present, besides shed policyholders through ceased writings and nonrenewals? I keep going back to a conversation around, you know, and reports and letters that say, you know, rate increases are not enough to deal with what's happening at State Farm.

So what has been going on?

MR. SCHWAMBERGER: Yeah. So I would say two things: In terms of that comment about rate increases, about not being enough, that was a comment we made in our March 2024 filing. We had to make that unfortunate decision because we want to be in the State of California, we want to serve our customers, but we're at a point where our capital and our exposure were out of line, and we had to announce nonrenewals.

So that's why we made that comment that rates weren't enough, and it really kind of reinforces your prior question which is we knew rates weren't enough. We knew our financial strength was being impaired, so we had to reduce our exposure because at the end of the day, our financial strength is the amount of capital we

have to stay behind exposures, so that was the comment.

Now -- go ahead, sir.

THE COMMISSIONER: No, go ahead.

MR. SCHWAMBERGER: So now in terms of what we've been doing is we have been actively, as you know, and there's been rate increases approved -- not always at the amount we ask for and not always as timely as we may be needed -- but we have been actively pursuing rate including taking the proactive position of doing this Variant 6 filing in June of last year to get this moving given the financial condition of State Farm General, and so that's one aspect of what we were doing.

And I think the other aspect of what we have done is we have, in the face of comments about our re-insurance program, which are false and inappropriate and the fact that we weren't able to bring the re-insurance cost in, we still maintain that valuable re-insurance program for State Farm General.

THE COMMISSIONER: I don't mean to interrupt you. You're still just talking about rate.

MR. SCHWAMBERGER: Well, I'm talking about re-insurance. In this case, I'm talking about re-insurance. So we --

THE COMMISSIONER: But your previous comments -- I'm sorry -- was just referring to the rate.

MR. SCHWAMBERGER: Yeah, yeah, yeah. And but -- I agree, but you're asking what we were doing to maintain. Rate has to be part of it, sir. We -- we can't avoid the economic realities of things that you mentioned in the beginning in terms of catastrophe risk, climate change, and the impact on the state. You can see it in the results.

You can see it in the escalating trends that I've talked about in terms of frequency and severity of wildfire. You can see it in liability trends. You can see it in construction costs. We can't escape those economic realities. So at the end of the day, we either have to be able to generate capital in line with our exposures, or we have to significantly rein- -- reduce exposures.

Now, while we continue to work with you in order to secure rate and manage our exposures, we have this -- and this is what I'm saying, is we have this very effective rate insurance program in place that allows us, for the time being, to handle those exposures and handle events like the January -- January fires. Again, without that, we would be in a much different position.

MR. LARA: And, Mark, as you're talking about -- this is a -- a personal pet peeve of mine, not the Department, is when we say, you know, "You're getting the rate" --

"You are getting significantly less of the rate you were asked for," but you have every right to come in with the rate that you need, yet we still saw a 69 -- a 69 (sic) when you clearly needed more.

And so again, 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 and -- and have that dialogue and conversation as opposed to simply, you know, death by 1,000 cuts here with constant 6.9's; right?

And so again, it's -- it's -- as -- as we have these conversations, not only -- nothing in Prop 103 impedes you from asking for the actual rate that you need. Now, that is whatever you all decide to ask for, that's -- that's -- that's on you, but just to clarify that, in the existing process, you have every right to come for the rate that you, you know, that -- that you want.

MR. GROW: If I could, Commissioner, just point out that, being responsive to that message from you and your staff, we began to work towards those larger rating paces that led to the last rate increase with you, so I acknowledge what you're saying.

MR. LARA: Fair enough. And has State Farm provided adequate documentation to the Department to support the current rate increase request for each of the line of

business? I know this is a point of contention for the intervener and -- and for the Department.

And so we would like to -- given that I haven't been part of these conversations, I want to be able to get some clarity around what has been given and why is there still such, you know, misinformation around "Did you provide information? Have you not? Is it enough?" So if you can please help me understand and answer those questions.

MR. GROW: And if I can speak to that as well, I just want to point out that we have responded to every request or objection that's come through, sir, from the Department, and to acknowledge that, because these applications were based on Variant 6 --

MR. LARA: Can you sit close to the --

MR. GROW: Yeah.

MR. LARA: -- microphone, please? I just want to hear.

MR. GROW: Yeah. I have a soft voice. Because these applications were based on Variant 6, there were a lot of novel issues to work through. And to our knowledge, Variant 6 hasn't been used or approved by the Department in the past, so we worked with your staff trying to work through those -- those questions and issues.

And also wanted to acknowledge that at one point,

we were asked if State Farm General would provide full and un-redacted copies of a long list of documents, many of which we considered trade secret and confidential. We did pull out the portions of information from those documents that we felt were responsive to the Department -- to the issues at play in this application and provided those.

And we invited the Department to identify if there were other points of information that could be shared that would help meet the need. We haven't -- there hasn't been a response to that specific invitation, but we're still open to have that conversation. And then I guess I'll turn it to Vanessa for this next thing.

MS. WELLS: Yes, Commissioner. I am here to respond to the portion of your question that goes to Consumer Watchdog's request. And just for the record, since this is not well-known, I'll identify that there are two types of requests that could come from Consumer Watchdog.

Consumer Watchdog has started sending out what they're calling Requests For Information, or RFI's, in the course of the informal proceedings that proceed a notice of hearing. And while insurers don't have to respond to those, they generally do. They voluntarily respond to those in order to reach an efficient and amicable solution.

So insurers generally will respond to all of the

RFI's except those that request confidential information. In this proceeding, Consumer Watchdog came out of the box prior to there being any notice of hearing, sending out discovery requests, and Deputy Commissioner Wang sent out a letter saying, "There is no right to discovery until there has been a notice of hearing."

She also indicated that the parties could treat these as those informal RFI's if they wish to. I sent a letter to Consumer Watchdog pointing out that those requests are not in the form that we normally see RFI's. There is a difference, that Consumer Watchdog discovery requests asked for a lot of confidential documents.

MR. LARA: Vanessa, give me --

MS. WELLS: Yes.

MR. LARA: Give me -- give me a quick second. I just want to make sure we're not here to continue with the disagreement --

MS. WELLS: Right.

MR. LARA: -- and so -- and -- and we're here to try to get these questions answered. And I've read the correspondence and understand --

MS. WELLS: Right.

MR. LARA: -- the points of contention, so I just want to make sure that, you know -- and we'll have a chance to -- you all will have a chance to continue around that as

well --

MS. WELLS: Yes.

MR. LARA: -- so I just want to make sure we don't -- I'm not here to open up, you know, the discussions that already have been had.

MS. WELLS: Right. And I -- I don't want to do that, either. My concern was the press releases that we've seen from Consumer Watchdog. Short answer is, we've responded to everything from the Insurance Department, which is the regulator.

We have responded to all RFI's that have been sent to us by Consumer Watchdog on the two additional rate applications concerning the lines, other than the non-tenant homeowners, and we plan to respond any requests, any RFI's from Consumer Watchdog that would go to our new situation. Not the Variant 6, the new situation with -- after the fires.

MR. LARA: Okay. Thank you. I -- I know there's a -- you have a comment from the Department?

MS. MCKENNEDY: Yes, Commissioner. If we could just be heard for one moment, I -- I don't want to take up too much time, but I do want to address --

MR. LARA: Let me make sure we just have your microphone --

MS. MCKENNEDY: I don't have control -- there we

go. You asked whether State Farm had satisfactorily responded to all of the Department's questions, and I think the answer is actually, no, 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 in their rate applications.

But what we have determined is that they made a preliminary showing that they can get the interim rates subject to refunds with interest, if necessary. So I would also let you know that there are two types of information requests that have been floating out there.

One relates to the Variant 6, and the other kind relates to sort of the general, usual actuarial issues. And we've tried to get both sets of information. One of the things that is impeding the Department's ability to get that information is State Farm's confidentiality concerns.

And so at this point, your staff feels like if we go into a rate hearing, we can come to some sort of confidentiality arrangement in order to fully investigate and determine what information actually needs to be made public in order to support the rate.

So that's why we feel confident that we can go ahead and approve the interim rate, subject to refunds with interest, while we then dig in to a full rate hearing

and fully investigate.

MR. LARA: Thank you. Just cause we gave the Department a chance, why don't you respond?

MR. PLETCHER: Yes. Thank you. If we could just briefly respond to a -- a couple -- We -- we don't want to get into a back-and-forth on -- on the record, but just a couple points.

MS. PRESSLEY: Yeah, I just responded briefly to a couple points made by Ms. Wells. We did serve discovery requests back in July and August, and that was because in the past, we've been told, "Don't wait," right, "Don't wait until the Department calls us for a three-way call. Get your requests out very quickly."

So we thought, okay, this time, Variant 6, we want to ask all of our financial-related questions right upfront; understand, you know, in Ms. Wang's order, she said, "Treat those formal request" -- you know, because we did serve them as formal, and the order said, "Treat them as informal requests for discovery."

So my goal was, since September, let's get on a call. Let's -- let's have, you know, a discussion about which things can be responded to. And it did take, like, four months.

Because I said right up front to both Ms. McKennedy and Ms. Wells, "We need to hash this out.

Like, how -- this is different from other rate proceedings. We're not going to be able to get the financial information that State Farm was claiming was confidential."

And a lot of the issues that they're talking about today, which they say are not now related to Variant 6 but they're using to support, like, the urgency and the emergency, are things that we did ask about: Reports on their risk-based capital issues, all of -- things related to the reinsurance, underlying actuarial reserve reports, and everything, we were told, was confidential.

But I then asked for, "Okay. Let's just get a list of what you can provide, and I -- you're free to make the objections on confidentiality, but you need to tell us, like, which ones you're not going to and which ones you are."

And then Mis- -- Mr. Armstrong, who's their actuary, went through everything that they produced to the Department and made a determination that still none of the documents that we had asked for -- and there's 35 requests, which I can give you copies of, have still not been --

MR. LARA: Okay.

MS. PRESSLEY: -- responded to.

MR. LARA: Thank you.

MS. PRESSLEY: That's all I wanted to say.

MR. LARA: Okay.

MS. PRESSLEY: Yeah.

MR. LARA: And quickly, just so that we can get to the -- to the questions. Go ahead.

MS. WELLS: So, Commissioner Lara, what I am going to do is refrain from responding to those allegations, even though we disagree with all of that, because Your Honor has asked -- I called you "Your Honor" -- because you have asked us not to rehash the past, so I will not rehash the past, but, please, for the record, take it that there's more than one side to that discussion.

MR. LARA: Thank you. I appreciate that.

MS. WELLS: Thank you.

MR. SCHWAMBERGER: Commissioner?

MR. LARA: Go ahead.

MR. SCHWAMBERGER: Can I -- maybe -- maybe let me reiterate something. There's been a lot of discussion and a comment right there about, you know, Variant 6 or not. I think I want to be clear, and I think the team would support this, we're not divorced from the Variant 6.

It's the reason we're sitting here today asking for this interim break under our prior filling, which is under Variant 6, which is why the opening statement, which is: What has changed since June 2024, it's the

significant and continued depletion of State Farm's capital, putting it in an even more precarious position relative to risk-based capital, relative to the ability to stand another event.

So I don't want there to be any confusion about why we're sitting here today. It's because the viability of State Farm General is in question, and it needs rate in order to be able to shore up its financial strength and start moving forward in a way that it has the ability to prospectively generate capital in support of its risk.

Because without this emergency order, without this emergency rate, unfortunately, that subpoena (phonetic) may take actions that were out of both of our control, but yet we may have to take actions that we otherwise don't want to do, either --

MR. LARA: Understood.

MR. SCHWAMBERGER: -- like we said in our March letter. So I just wanted to be clear about that comment; about Variant 6 or not, we're here because of our financial distress, and that's what our letter said, and tat's why we need this emergency order, and that's we need it as fast as possible, sir.

It's -- it is -- it is a precarious situation. When you said this was serious, I could not agree with you more about how serious the financial condition is.

MR. LARA: It's understood.

MR. SCHWAMBERGER: So anyway --

MS. LARA: Understood.

MR. SCHWAMBERGER: And I -- I appreciate that. I know you do, but I just don't believe that --

MR. LARA: No, I understand.

MR. SCHWAMBERGER: -- you made that clear about the --

MR. LARA: Thank you. And just -- and in the spirit of trying to move fast --

MR. SCHWAMBERGER: Yes.

MR. LARA: -- I want to be able to get to these questions. So other than -- other than the rate interest -- the -- the rate increases, you know, I -- I think this is what we -- we are really curious about. What are -- what are the other plans for State Farm to address its financial challenges?

For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm, as it has in similar situations? I know this -- you know, this happened in other states, for example.

MR. SCHWAMBERGER: Yeah. Go ahead, Keesha.

MS. MITRA: So -- yeah, let -- let me just jump in here really quickly. So just for fundamental

understanding in terms of the governance structure from State Farm General to State Mutual, the State Farm Mutual Board is comprised of all external, independent directors except for the State Farm Mutual CEO.

So it's a com- -- almost completely external, independent board, and so their fiduciary duties require them to exercise reasonable care, judgment, and diligence of what is in State Farm Mutual's best interest as an entity and its policyholder group as a whole.

So what we would expect, and this is why I wanted to preface Mark's comments with this, is what we would expect is robust consideration by this State Farm Mutual independent board of any request that may be presented to them for potential assistance on behalf of State Farm General.

MR. KRAUSE: Yeah, I think, Commissioner, that's -- it would be up to me to request that type of assistance. I think, you know, there has to be some sort of positive sign that State Farm General would be able to sustain itself from a capital position to support its risk profile.

I think that's the purpose of the interim rate request. That would give us that type of a positive sign, both to the rating agencies and to any potential investors including State Farm Mutual, and so that's -- that's the

emergency basis of this, because it would help, at least me building a case to go to the Mutual board to ask for consideration.

MR. LARA: So just for the record, it is a possible request?

MR. KRAUSE: It is a possible request, yes.

MR. LARA: Okay. Thank you. Mark, any further --

MR. SCHWAMBERGER: No. That's perfect, sir.

MR. LARA: Thank you. So what is State Farm doing to manage and restore its financial position, given its statement that -- again, I know we've talked about the rate increases were sufficient, so I want delve deeper a little bit in terms of, you know, an interim rate would then just be -- some would say an interim rate would just be a bailout for their own financial problem without any personal benefit for consumers.

What are your thoughts, and what else is being done to be able to -- to get your financial house in order?

MR. SCHWAMBERGER: Well, let me -- let me start by, you know, kind of getting to your first point. I think, again, the reason we're here for this emergency order is because we don't feel State Farm General is rate adequate. So without rate adequacy, we're unable to demonstrate our ability to be self-sustaining.

So when you're in that position where you don't have rate adequacy, you don't believe you can be self-sustaining, that is the emergency need, because any other actions are not going to be sufficient to restore the profit ability and the financial strength that an interim can.

So when you have a situation where your capital is a certain level and your exposure is another level, if you can't grow this capital -- and rate is the most significant and immediate need.

Any other actions, Commissioner Lara, simply aren't going to be enough in order to prevent the unfortunate situation that could arise should we not have positive signs about the prospective ability to be self-sustaining that may allow other considerations.

So, therefore, the only other thing that we could do without rate and without the ability to increase capital, is to substantially reduce exposure. I'm not saying -- I'm not saying that's a decision; I'm just giving you -- you know, putting forward the equation we can't grow capital; we have to reduce exposure significantly in line with that --

MR. LARA: Meaning, you would continue to non-renew or have to cancel policies?

MR. SCHWAMBERGER: At the end of the day, yes, sir.

To the degree you cannot be self-sustaining and you don't have viability and the capital to stand behind promises, there's -- we're left with no other alternative.

MR. LARA: So let me -- let me get to this other question that -- that I think is my final question and one of the most important ones. So how would granting an Emergency Rate Impact impact State Farm's business decision to pause arriving new residential coverage or non-renew policies?

And -- and, for the record, let me -- let me just be clear on what that means and what I'm asking. If I approve an emergency rate, will you rent more business in California?

MR. SCHWAMBERGER: I think the short-term answer to that is: No, in a short-term. Again, the ability to get rate and grow capital takes time, and given our current exposure and where we are, we would not be in a position to fiscally and responsibly starting to re- -- regrow within the California market just because of this rate in the very near term.

It's ju- -- it just wouldn't be fiscally responsible because we could potentially put ourselves in the situation of being back here in front of you, given the continued change in exposure relative to capital. These things take time. And we do look forward -- we're

here in large part because we want to be in the California market.

We look forward to some of the reforms. We literally just want to survive to be able to see that day when the reforms are there and we continue to serve the -- the millions of customers in the State of California. That is absolutely our objective, but we have to be able to get to the other side.

MR. KRAUSE: Commissioner, we have over one million homeowners' policies, so almost 2.8 million policies in total at State Farm General. It is very important to us to take care of our onboard customers. That's why it's very difficult when we have to make those decisions to non-renew current customers. Very difficult.

And we want to put ourselves in a financial position where we would have to minimize that moving forward, and that's what this interim rate would help us do, and I think, you know, obviously we -- we want to support the California market. We've been here for almost 100 years. We want to be here for 100 more, but we've got to be able to have this -- our State Farm General survive this financial piece in order for that to happen.

MR. LARA: So, Don, let me -- let me follow up with that and maybe ask my question differently, as I -- I appreciate your honesty because -- so if I were to approve

this interim rate increase, would you commit to non-renewing your existing customers?

MR. SCHWAMBERGER: To not -- not renew?

MR. LARA: Yeah. English language (indiscernible.)

MR. SCHWAMBERGER: I think that's -- I think that's an appropriate way to think about it. The ability to have that prospective ability to generate capital and be self-sustaining, that is the positive sign that John -- or Dan talked about earlier, which is what we need to see, you know, from the market.

And our ability to be self-sustaining, that ability and that signal allows for other decisions and actions which could prevent significant -- I want to say that -- significant non-renewals or -- and, again, this is -- this is not something we desire, but to the degree that we don't have the ability to grow capital in the future and have rate adequacy to be self-sustaining, we simply can't handle this much exposure.

Because even in a situation -- if you have a situation where you're not rate adequate and you're not self-sustaining, capital support just then becomes a subsidy for the risk, and that just doesn't work over time because other states, right, don't want to subsidize the risk of California, just like, and you've appropriately said, you don't want Californians to subsidize the

catastrophe risk of other states.

So that's why this ability for State Farm General to be rate adequate, to have the ability to be self-sustaining is just so critical looking forward to send that positive signal to allow us to have a bridge to the future.

MR. LARA: As -- as you can imagine, the -- the -- the anxiety that your current customers are facing and those that have been non-renewed or are, you know -- were in the cancellation process is the fact that, you know, here we are, asking for this emergency rate, yet, you know -- and again, they will be faced with higher rates but without any guarantee of keeping their coverage during this difficult climate year that we've already had in 2025.

And, as we pointed out, we haven't even got into the summer fire season, and so that just elevates the level of anxiety from your customers that are currently potentially facing a higher rate but no guarantee that they're going to, you know, maintain their coverage.

And -- and I'll tell you that is -- as somebody who has traveled to every county in this state, and I've met with over hundred of thousand -- hundreds of thousands of consumers, that is their ongoing fear.

Many of them understand the risk of where they live and understand what is happening. They see it and

read the papers, but it's the anxiety of losing their coverage, yet having to pay more without the certainty of being able to keep their coverage puts their entire family budget in turmoil because, you know, people need time to budget this out.

And so I say that as, you know, we've -- we've ad- -- we'll be trying to address this -- these -- these catastrophic wildfires for several years now, and that is the number one question I get from consumers is, you know, "We will figure this out and try to make sure" -- "we don't want to lose our coverage. We don't want to end up in the FAIR Plan."

But the constant fear of being dropped is what really is consternating so many consumers across the country, that many of them are in fear to actually submit a claim because they -- that -- that -- they feel that that's going to trigger some sort of non-renewal or put them on or give them a black mark or red mark that keeps them from, you know, potentially being dropped.

So the last thing I want is somebody who has a legitimate claim, that needs some redress, not obtain it because of the fear of being non-renewed or dropped. Then it becomes -- it goes into a horrific cycle of this fear of not being able to access what you're contractually obligated by their insurer and addressing an issue because

of this -- this fear.

This is why I keep asking the question if, you know, we -- if I am to grant this rate and emergency rate increase, what certainty can I give the consumers -- more importantly, your customers -- of what the future's going to hold, or are they going to have certainty as State Farm customers?

MR. SCHWAMBERGER: Let me -- a couple things that I heard there that I think are important, especially if we have shared agreement that residents understand their risk and we collectively confront the reality of the risk, and, therefore, the premium that has to be paid for that risk.

If we can -- if we can collectively agree on that, that is a huge starting point, because that's what will drive the appropriate rate for the risk that State Farm General has. So confronting that economic reality and having, you know, the collective might, courage to allow that rate, even though I understand the burden's on folks.

But at the end of the day, we have to confront those realities. So if we can start there, and we have a market that is disciplined, it is reactive, it does approve rates and move, and it does allow catastrophe modeling reinsurance costs to be included, I think all of those things will absolutely generate greater stability in

the California market.

And greater stability in the California market creates greater stability for the companies operating in it because they can have degrees of certainty as to what the future holds, how they'll be dealt with from the -- from the regulator, how all those processes would work. That gives us confidence, which allows us to stay in the market, at a 20% market share, as you indicated.

So at the end of the day, and I know it's not lost on anybody in this room, we absolutely insure more Californians than anybody else. We desire to remain within the state and to continue that coverage, but this certainty that we're talking about is confronting the economic realities of the risk that's present.

And allowing the rate that allows us to be self-sufficient over time, I think that's what drives confidence; and, therefore, will drive confidence in the market, and, potentially -- I think this is what you're driving for -- drive more writings from others, other than State Farm in the market, to drive competition, to drive innovation, to drive people competing for customers so there is valuable coverage, and the FAIR Plan can be depopulated over time.

So I think we absolutely share those interests; it's probably the mechanism by which you get there is

maybe what there's been disagreement in this room collectively in the past.

MR. LARA: So I'm curious to see -- I appreciate those comments, but, you know, why can't State Farm, then, just wait to file an application under the sustainable insurance strategy that, as you said, uses catastrophic models and reinsurance, under those regulations that have been just been implemented under the strategy?

MR. SCHWAMBERGER: Yeah, it goes back to time. It goes back to our letter where we sent in March of '24 where we talked about this being our financial condition; at that time, being alarmed, signaling the grave need for action -- for immediate, fast action.

And as we stated, that -- that signal and that alarm has turned into a crisis. So, sir, bottom line, it's time. It's -- we're in a position where post the fires, we are right within the cusp and likely in the -- in the area of being in the authorized control level risk-based capital.

We are faced with a downgrade from S&P, which could make State Farm General's paper not accepted, and that will create disorderly. We -- we want -- the last we want is anything to be disorderly, but there's certain things that are just, unfortunately, outside of our control.

So this immediate rate allows us to start restoring, and it sends a really important -- you send a very important signal to the market about the consideration, the thinking about -- you mentioned insurer viability, and those signals can, therefore, be sent to others in terms of how we're thinking about the California market and our ability to operate in it.

And those signals are not unimportant to capital providers, rating agencies, and the like. We have to be able to get this rate, start restoring, and be able to project it in the future, the ability to be self-sustaining.

MR. KRAUSE: Commissioner, we're excited about sustainable insurance, too. I think it includes a lot of the provisions that we've been asking for for a long time. I think it's about time to get to that place where we can start to operate under that -- you know, have that operational.

We don't have that time. I mean, we're -- we're at a point where we're in a critical state, and we -- you know, I hear from the same -- I hear from customers. I hear from our agents. We have almost 1,900 agents, almost 7,000 of their employees in this state.

And we don't like to part with our customers. We share that concern. We want to take care of our

customers. Our ability to put State Farm General in -- into financial stability allows us to do that, and that's why this interim rate is so important.

MR. LARA: Thank you. In addition, just to further clarify and highlight, in terms of the fact that this would also help you potentially make a successful request to the parent company for additional support.

MR. KRAUSE: It would -- it would allow a positive sign that would show that this is a market that we can compete, generate a return in, and stay in, and give us a chance for consideration for the parent company, yes.

MR. LARA: Thank you. So those were all the questions that we had posed. I -- I want to -- I would like to give the Department and Watchdog a chance to ask just some focus -- focused follow-up questions about, again, anything new that you heard here today.

And please keep in mind, again, I want to reiterate that you have all been discussing these matters amongst yourselves for months without my involvement. So I know this is not any of -- many of these points are not going to be new to you.

So, please, I ask that you avoid reiterating points you've already shared, including any objections submitted and served. We've read those already, and I've seen those, and -- or anything mentioned in previous

communications to me, as I've also received all the letters from all of the parties involved.

I'd like to start with the Department, if there's any additional questions or comments.

MS. MCKENNEDY: Thank you, Commissioner. I don't think we have any additional questions right now. The Department is very interested in seeing that first quarter of 2025 data come in, and we think that will be very instructive.

One additional comment I wanted to make for your assistance, Commissioner, is that as one of the few people who was actually here during the prior State Farm rate hearing during 2015 and '16, I can tell you that at that time, we didn't have the interim rate procedure that's being contemplated here, and so our solution was to try to run that rate hearing as fast as humanly possible.

And it was really hard, and it didn't ultimately end up being that fast, you know, and so that is one of the reasons why your staff is invested in the interim rate, subject to refunds with interest, as a possible solution to combining our ability to fully investigate State Farm's position during a full rate hearing, but at the same time, providing the company with financial protection.

So that's where your staff is coming from, if

that helps you. Is there anything you wanted to add, Michael?

MR. MARTINEZ: I just wanted to add that I've been on this side of the wall, prosecutorial side of the wall, working with the hardworking staff of the Department, your regulation experts and lawyers, and I'd say that we have been in a very aggressive and -- and -- and negotiating with State Farm and providing this recommendation, which the Department, the Department staff, fully support and has continued to stand by here today.

And this is not a final order. This is a provisional order that is subject to a full rate hearing, in which we will be able to get the additional requests for information, including the quarter 1 data of this year and including the more financial -- the more granularity of financial information that we need, again, during a rate hearing that we'll be able to determine whether the immediate emergency -- immediate interim rate increase is valid, or if it's subject to potential refunds to consumers with interest after, again, that full rate hearing.

And so it's something where, you know, I -- I know that we, under -- under your leadership, under all the transformational action that we have done with the sustained strategies these last several years.

We have really, I believe, moved mountains in reforming a lot of the work and -- and regular -- regulatory work and oversight here in the Department of Insurance, and so we just want to thank you for taking the time and due diligence here today for today's informal conference.

MR. LARA: Thank you. Ken, do you have anything you'd like to add? Okay. Thank you. Watchdog, is there anything --

MR. PLETCHER: Yeah. Just -- just -- just want to take a brief moment to thank you for this informal hearing and having us here today. I certainly appreciate this opportunity to hear from everyone.

I just want to take a quick step back, Commissioner, to a point you -- you raised earlier that, you know, there's nothing in Proposition 103 that prevents an insurer from -- from requesting the rate and getting the rate that they want, backing it up with data and justifying it.

And I think what I'm hearing is a significant issue that's arisen here is because this went through the informal process, that the informal process is just really not set up to deal with the sort of confidentiality concerns that arise in a Variant 6 context or concerns about the financial strength of a company.

Our position is, you know, this -- this interim process, we don't think is justified at -- at this time, because when you look at the regulatory framework of when you can go into an interim process, the rate is not inadequate under those formulas, but there's nothing that prevents a new rate application with updated data from being submitted very rapidly.

I appreciate the experiences that folks had in 2015 and 2016 -- I wasn't part of that process -- and the difficulty in doing a rate process on an expedited basis, but I'll also say I've done plenty of complicated federal court litigation in the country on expedited basis when the court sets aggressive deadlines.

And it is possible to do things, you know. It takes long nights. It takes lots of pots of coffee, but it is possible to do it when you have parties that are willing to work cooperatively, to work rapidly through discovery issues and come to reasonable resolutions, and we're certainly prepared and ready to work on that basis.

We think that would, you know, best protect the interests of consumers and comply with Proposition 103. You know, this is -- you've talked, you know, as you've indicated, thousands and thousands of consumers.

Our -- our calculation is that with this -- just the interim rate, we're looking at $600 per household.

This is going to be a huge impact on consumers that are already, as you've noted, struggling with lots of challenges regarding inflation and other issues, and the economy now.

So we see this as a significant issue, but if we're under the Proposition 103 framework of a full rate hearing on a expedited basis, then that will best protect the interests of those consumers with transparency and the ability of participation through that, and, you know, we certainly aren't looking to do anything other than to meet the urgency of the situation, to -- address this in a rapid way. And I'll just turn this over quickly to --

MR. LARA: Yeah, and just to also respond to you, and I hear you. We can still have a rate hearing --

MR. PLETCHER: Yeah.

MR. LARA: I mean, so it's, you know -- we're not shutting the door there. Again, we're here informally to gather that -- to gather the information that we need, but I -- I hear you.

MS. PRESSLEY: I mean, I was going to turn to -- I was going to turn it over to Ben because I know there was some follow-up questions.

MR. PLETCHER: I believe we had a couple follow-up questions that are -- Ben just had to step out for just a moment, so if we could, you know, perhaps continue the

meeting and then return to him as soon as he -- I assume he will return quickly.

MR. LARA: I hope so, because we -- we are at -- at the end of the meeting.

MR. PLETCHER: Okay.

MS. PRESSLEY: I mean, while we're waiting, I would just reiterate that a lot of the information that we're hearing today and that was in the letter that we were provided yesterday, we've been asking for a lot of this, like, the underlying documentation for a long time.

And, you know, I -- I think we would be a lot sooner -- we would be a lot further along in the process if we had gotten some of this information earlier, and I know there were discussions back in November, even if it --

MR. LARA: Sorry. I -- yeah, I get it. I know we've -- we've -- we've said that, and I know you were stalling for Ben. So Ben, you're --

MR. ARMSTRONG: Yeah.

MR. LARA: You're on.

MR. ARMSTRONG: Thanks. I knew I was going to have a coughing fit at some point during when I'm going to talk, so my apologies for having to step out there for a second.

Yeah, I had a couple of numerical questions for State Farm, if you don't mind. One has to do with the

$400 million share of the FAIR Plan assessment, but they have a 20 percent market share. Just curious if you guys have a little more color around of why that is presented as a lineup?

MR. SCHWAMBERGER: Yeah, so what did was, we used publicly available information from the FAIR Plan based on its estimates of its -- of its losses related to the fires, which ultimately led to the assessment, but the assessment, obviously, is not the full impact of the fires.

So the full impact of the fires times our market share, which I know we have a 20 percent market share in homeowners, but effectively, it ended up being 16 percent, is what we took of the FAIR Plan's estimated losses for the fires, which is what generated that $400 million estimate of our share.

MR. ARMSTRONG: Got it. So it's -- it's State Farm share of the FAIR Plan and then also the assessment --

MR. LARA: Ben, you could just -- so I can hear, you can direct your questions to Mister --

MR. ARMSTRONG: Oh, sorry. Yeah, you're right.

MR. LARA: (Indiscernible) microphone. Thank you.

MR. ARMSTRONG: Yeah, yeah. So it's -- it's the combination of State Farm's share of the FAIR Plan losses,

and then also the assessment?

MR. SCHWAMBERGER: So it would be the share of the FAIR Plan losses. The assessment is really just cash flow, so the $400 million, and then we did offset that --

MR. ARMSTRONG: Right.

MR. SCHWAMBERGER: For the impact of getting the recoupment on the 50 percent of $165 million assessment.

MR. ARMSTRONG: Okay. Cool. Thank you. Another one is about the RBC requirements. Is there numerical support for that that you can provide? I mean, obviously that's this new data, 2024.

MR. SCHWAMBERGER: Yeah. And I think that's important, too, to respond to the prior accounting about new data. This is not from lack of sharing in the past. This is data that is just going to be published tomorrow, so you've always had the ability to look at our annual statement, which is publicly available, look at the five-year historical. And you know what our RBC ratio is. You don't need to report, so I think that's the same thing here is, our -- our file will be available tomorrow.

MR. ARMSTRONG: Okay. Is that, like, going to be available through the website?

(Simultaneous cross-talk.)

MR. SCHWAMBERGER: Yeah, yeah. We'll -- yeah, we'll file because -- I apologize. Friday. Today is Wednesday.

It'll be up by Friday morning.

MR. ARMSTRONG: That's great. Okay. So I'll make a note of that. And then so other than reinsurance, are there any agreements between State Farm General and its affiliates, primarily State Farm Mutual, and any evaluations for reasonable -- reasonableness on those?

MR. SCHWAMBERGER: There are many other agreements, you know, cautionary agreements, is -- is probably the primary one. That would probably be the primary one.

MS. WELLS: Just to add -- add to the question of reasonableness, I believe everybody in this room knows that those affiliate agreements have to be submitted to the Domestic Regulator, and I think many of them are also submitted to California as well as commercially domiciled.

MR. LARA: Correct. Thank you for that clarification.

MR. ARMSTRONG: Thanks, Vanessa. And then I think I had a couple more. Yeah, so there's a statement in your letter from yesterday saying that over the last ten years, and including reinsurance recoveries projected for the recent wildfires, that State Farm General has benefitted significantly from the totality of its reinsurance program.

We haven't seen that based on data pulled from ten plus years of annual statements. It really looks like

the reinsurance -- reinsurance agreements with State Farm Mutual has been structured to benefit the parent company and didn't see much, if any, recoveries to State Farm General. So I'm curious if you could provide some context around that and discuss this significant benefit from the totality of the reinsurance program.

MR. SCHWAMBERGER: So the first thing I would say is, just to be clear, I would -- just me, I disagree that this reinsurance program is not arm's length fair and reasonable, and the charges that State Farm Mutual charges for the rate of insurance provided for State Farm General simply aren't available in the external market.

So the price that State Farm General pays for the coverage provided is less than we can otherwise get in the external market, and the amount of coverage provided is also simply not available. So with that said, I know that you guys have in the past looked at Schedule P Part 1(a) to do your analysis.

I think you choose to do it on a pay-basis versus an incur basis, which doesn't necessarily paint the whole picture. I think the other thing, based on your analysis of paid, some of the -- some of those numbers you've chosen to use, you know, they don't really reflect the fact that subrogation recoveries take time.

So back in the 2017 fires, if you would look at

our 2019 Schedule P Part 1(a), you would definitely see the significant reinsurance recoveries from the program that allowed State Farm General to stay viable, so to speak, until that subrogation recovery from PG&E could come into play.

So I would just say that Use and Incurred would probably be more appropriate, which leads me into my -- to my point. So you're correct, over -- over a period of time from 2000 -- by the way, let me be clear here. You're correct in terms of up until 2017, State Farm General did pay more reinsurance premiums than the recoveries it had from 2017.

But obviously reinsurance is there not to be working capital but to be there for, you know, less frequent severe events. So when you bring into account the 2000 -- or the January 2025 fires, State Farm General will have recovered $5.5 billion more in recoveries than they paid in premium. So that --

MR. ARMSTRONG: What about the 2017 and 2018 results? Because I believe that the numbers that we cited were pulled from the 2023 annual statement, which would have included the subrogation recoveries and still the reinsurance agreement benefits State Farm Mutual to the detriment of State Farm General, and those would qualify as a high severity low frequency event with the wildfires

in those years.

MR. LARA: Again, we don't want to get into these repeat arguments, but just be clear for your questions on the microphone so we can capture it, please. Go ahead.

MR. SCHWAMBERGER: You know, my -- my reference to '17 and '18 was really more about the significant subrogation coverage which came later, so the rate insurance projection definitely provided support to State Farm Mutual in '17 and '18, ultimately subrogation.

But let me come back and be very clear. When you go from 2017 through January fires -- and, again, these are based on our initial estimates, our current estimates that we will put in our statements -- State Farm General has benefited to the tune of $5 billion from this reinsurance program.

MR. PLETCHER: But how much of that is from the 2025 fires?

MR. SCHWAMBERGER: All of it.

MR. ARMSTRONG: So -- so we're just talking about the one event?

MR. SCHWAMBERGER: Correct, yeah. Low frequency, high severity event is what the catastrophe reinsurance is meant to cover.

MR. ARMSTRONG: Okay. Thank you.

MR. LARA: Great. Do you want any further

clarification or --

MS. WELLS: No. I was just going to point out that the discussion had gotten into prior issues known, that we know we have to sit down and we're going to have to address them. That was all.

MR. LARA: Correct. Duly noted. Understand. Okay.

MR. PLETCHER: Just one more final thing that we wanted to bring up just in terms of the discussion of other state subsidies to California. If there were to be some sort of assistance from the parent company, State Farm Mutual, since that would be coming out of surplus, that's not a current policyholder premium transaction.

In other words, it isn't like policyholders in other states that are currently paying premiums that would go directly to State Farm General as part of this assistance. It would be the -- the surplus position that the parent company has built up to the tune of $134 billion over a period of multiple years, so I just think it's an unfair characterization to say that it's a multistate subsidization when really it's -- it's just the parent company as -- as a legal entity.

MR. LARA: Got it. Thank you. Would you like to -- okay. Great. Thank you. Again, I want to appreciate your time. I want to keep you all to the hour that we posted, and thank you for participating.

I found this very, very truthful discussion enlightening for me. Just -- I wanted just want to close out with some reflections from, you know -- and to make sure you leave this room understanding that I recognize that my decision will impact millions of Californians, including current State Farm customers and -- and those seeking insurance around the state.

In -- in my roll, I'm going to prioritize the consumer needs to ensure a stable and sustainable insurance market. And therein lies the difficult, often, balance that insurance commissioners across the country deal with on a daily basis, balancing a robust market with effective oversight, holding insurance companies accountable while ensuring that Californians have access to the insurance options that they need and that they deserve.

This approach really defines my work, and I will not -- I'm not going to be rushed into a decision, especially -- and be very clear for all the parties here, this decision is not going to be rushed and -- by insurance interest, misinformation, or any political attacks or pressures.

As you know, my decision I will make will face intense scrutiny. I'm going to be criticized for both acting, and I'm going to be criticized by not acting, and

my decision will always be based on the facts and my obligation to protect consumers in our market.

And I will carefully review the information discussed today before reaching a conclusion or a path forward. I understood, again, and I'll reiterate that a hearing is still an option, and so we're not putting anything off the table.

We just want to make sure that I get all the information first from all of you. And thank you for your correspondence, and thank you for taking the time to enlighten me on the ongoing situation with State Farm and the need for emergency rate. I appreciate everybody who came today and made an effort to have this conversation. So this concludes the meeting, and thank you so much.

MR. PLETCHER: Thank you very much. Just real quickly, among the things that you consider, we sent in a memo this morning around 8:00 a.m. I just wanted to make sure that that would be something that you would consider as well. We sent it all the parties, not -- not just to you.

MR. LARA: I have not seen it myself, but I will definitely take into consideration all the correspondence from all the parties. Thank you. Appreciate your time. Thank you. This concludes the meeting.

(Concluded at 11:52 a.m.)

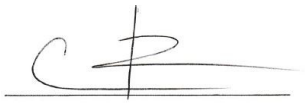
HEARING REPORTER'S CERTIFICATE

I, Christina L. Rodriguez, Hearing Reporter in and for the State of California, do hereby certify:

That the foregoing transcript of proceedings was taken before me at the time and place set forth, that the testimony and proceedings were reported stenographically by me and later transcribed by computer-aided transcription under my direction and supervision, that the foregoing is a true record of the testimony and proceedings taken at that time.

I further certify that I am in no way interested in the outcome of said action.

I have hereunto subscribed my name this 26th day of February.



Hearing Reporter

CHRISTINA L. RODRIGUEZ

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NOTICE OF HEARING
EXHIBIT P

Date: February 26, 2025

To: Insurance Commissioner Ricardo Lara
All Parties

From: William Pletcher, Litigation Director
Pam Pressley, Senior Attorney
Ben Armstrong, Staff Actuary, FCAS, MAAA
CONSUMER WATCHDOG

Re: Consumer Watchdog's Review of Proposed 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

INTRODUCTION

Consumer Watchdog submits this memorandum, which is based on the limited information State Farm has produced in this matter to date and its publicly available financial statements, to help identify the flawed justification behind State Farm General's (SFG) "emergency interim rate" approval request for homeowners, renters, and rental dwelling policies.

Consumer Watchdog has previously outlined its objections to State Farm's so-called "emergency interim rate" increase request in its February 5 and 19 letters to the Commissioner and in its February 7 letter to the parties (also provided to the Commissioner) with its accompanying actuarial analysis and rate templates indicating 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. As detailed in those letters, which this memorandum supplements, State Farm's proposed process, including this closed-door, non-public informal conference, violates Proposition 103's prior approval and public rate transparency requirements. California law does not allow an insurer to obtain a rate increase above 7% on its personal lines without a hearing upon a timely request, as here, absent a stipulation of all parties. While the "the commissioner has the power to grant interim relief from plainly invalid rates," (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824–825), as we stated in our February 5 and 19 letters, there has been no showing that State Farm's current rates are "plainly invalid" or 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 "plainly invalid" or inadequate (10 CCR § 2644.1). Any "emergency interim rate" increase granted through this improper process would thus be unlawful.

That said, Consumer Watchdog, as an intervenor, stands ready to work with all parties on an urgent basis to evaluate SFG's rate applications, including any updated Rate Templates and Supporting Exhibits, which would need to be fully updated with data through at least year-end 2024 to be generally consistent with the data through early 2025 used in SFG's calculation of the revised catastrophe provision. This process must follow the law, requiring a properly noticed, expedited rate hearing and full cooperation and participation from SFG in both informal and formal discovery—something it has failed to demonstrate thus far. Even if conducted on an accelerated timeline, this approach would comply with Proposition 103, ensuring both due process and transparency for California consumers.

ACTUARIAL ANALYSIS

A thorough review of SFG's limited information produced to date in association with these rate applications and publicly available financial statements reveals that its supposed financial distress is largely self-inflicted. The company's reinsurance arrangements—structured to benefit its parent company at the expense of the California affiliate and California policyholders—resulted in unfavorable financial outcomes during high-loss years, such as the 2017 and 2018 wildfires. Instead of ensuring that policyholders' premiums were used to protect them, SFG funneled nearly $1 billion of subrogation recoveries to its parent company, State Farm Mutual Auto Insurance Company, rather than using those funds to offset California losses. There is no explanation why this $1 billion payment cannot be returned to SFG from among the parent company's over $134 billion in reserves – as State Farm has done for other catastrophes in other states – rather than require a sudden emergency bailout now.

Moreover, SFG insists that inadequate rates are the primary cause of its financial struggles, yet this claim does not withstand scrutiny. Despite receiving multiple rate increases in recent years—amounting to a cumulative 52.1% hike since 2014—SFG's surplus has continued to decline. This raises serious concerns about whether the company is mismanaging its reserves, engaging in financial manipulation to justify excessive rate hikes, returning excessive returns to its parent company through above-market rate reinsurance policies, or all of the above. Either way, there is absolutely no justification for treating this as an "emergency" when these rate filings have been pending since June of last year. If SFG were truly facing a financial crisis, it had ample opportunity to act with urgency. Instead, the company delayed, failing to diligently pursue its requested increases—including ignoring Consumer Watchdog's requests for information in the homeowners rate proceeding for over six months—and now seeks emergency relief with limited and inadequate scrutiny of its request to make up for its own inaction. The lack of timely action on its part undermines any claim that immediate rate hikes are necessary.

Granting an "emergency interm rate" increase under these circumstances would set a dangerous precedent, effectively allowing insurers to circumvent Proposition 103's prior approval requirements. It would encourage companies to strategically delay rate filings—or worse, transfer funds to parent companies to manufacture a financial crisis—only to later declare an "emergency" when their balance sheets show a disadvantageous condition. Regulators must not reward this kind of regulatory gamesmanship at the expense of California consumers.

Consumer Watchdog urges regulators to reject SFG's attempt to shift the burden of its financial mismanagement onto California policyholders. Before any further rate increases are considered, State Farm must provide full transparency regarding its reinsurance arrangements, subrogation recoveries, and surplus depletion. Anything less would amount to an unjustified bailout at the expense of consumers.

REINSURANCE

Historical reinsurance is addressed by SFG in their responses to CDI Objection D.3.d in the document NT 7-10-24 Objection Response part 2. Exhibit Q has the 2015-2024 reinsurance data for SFG. Note that "[f]or the occurrence reinsurance program, there is one prepaid reinstatement included in the coverage terms and premium." Also for Exhibit Q, "…Losses Recovered reflect any subrogation recoveries received. Considerable losses were recovered from the occurrence program following the 2017 and 2018 wildfires which were later subrogated with recoveries starting in 2020."

SFG's financial statements indicate that approximately $1.4B in subrogation was received by the company during calendar year 2020 for accident years 2017 and 2018. But almost $1B of that went to the parent company to reimburse them for reinsurance coverage paid out to SFG—only $400M reduced SFG's retained loss position.

Further, it is unclear how SFG is showing $126M of reinsurance recoveries for the 2018 treaty year on Exhibit Q, while their 2023 Schedule P shows only $54M in ceded loss & LAE for accident year 2018. Presumably treaty year 2018 includes some accidents occurring in 2019, but Schedule P has only $20M of ceded loss & LAE for accident year 2019 in total. If it were a risks-attaching treaty spanning a full year beginning sometime in 2018, theoretically some losses from the 2020 accident year could be included in that $126M figure, but it still seems suspicious.

Prospective reinsurance (i.e. for the period during which the proposed rates would be in effect, and beyond) is addressed by SFG in their responses to CDI Objection C.3 in the document NT 7-10-24 Objection Response part 2.

The following table summarizes ceded loss results (reinsurance) for several major CA homeowners insurers. Note that for the bolded, high wildfire loss years of 2017 & 2018, SFG showed a positive value for net minus direct & assumed in the rightmost column, indicating that their reinsurance arrangement was unfavorable to them (and thus favorable to their main reinsurer, the parent company State Farm Mutual Auto Insurance Company). In other words, SFG would have been better off financially in 2017 & 2018 had they not purchased reinsurance. This is in contrast to the other insurers shown, who have negative values for 2017 & 2018, indicating that their reinsurance arrangements operated as expected, i.e. resulting in a favorable financial outcome for them.

Countrywide Data for All Lines of Business from 2023 Annual Statements, Schedule P, Part 1

			Incurred Loss & Loss Expense Ratio			
Company	State of Domicile	Calendar/ Accident Year	Direct & Assumed	Ceded	Net	Net minus Direct & Assumed
State Farm General	CA	2014	59.2%	6.9%	63.5%	4.3%
State Farm General	CA	2015	69.7%	5.3%	74.9%	5.2%
State Farm General	CA	2016	67.3%	8.0%	71.7%	4.4%
State Farm General	**CA**	**2017**	**138.2%**	**99.1%**	**141.4%**	**3.2%**
State Farm General	**CA**	**2018**	**105.4%**	**32.3%**	**112.1%**	**6.7%**
State Farm General	CA	2019	76.4%	10.1%	83.3%	6.9%
State Farm General	CA	2020	115.4%	49.6%	123.5%	8.1%
State Farm General	CA	2021	76.0%	10.6%	86.6%	10.6%
State Farm General	CA	2022	71.0%	15.7%	81.0%	10.0%
State Farm General	CA	2023	76.5%	4.7%	94.9%	18.4%
CSAA Insurance Exchange	CA	2014	71.2%	32.2%	72.3%	1.1%
CSAA Insurance Exchange	CA	2015	79.3%	2.3%	80.2%	0.9%
CSAA Insurance Exchange	CA	2016	74.8%	21.9%	76.0%	1.2%
CSAA Insurance Exchange	**CA**	**2017**	**94.3%**	**423.3%**	**82.8%**	**-11.5%**
CSAA Insurance Exchange	**CA**	**2018**	**93.0%**	**434.3%**	**80.2%**	**-12.8%**
CSAA Insurance Exchange	CA	2019	72.0%	27.5%	73.1%	1.1%
CSAA Insurance Exchange	CA	2020	63.5%	15.7%	65.1%	1.6%
CSAA Insurance Exchange	CA	2021	71.7%	0.1%	73.1%	1.4%
CSAA Insurance Exchange	CA	2022	74.5%	0.0%	76.1%	1.6%
CSAA Insurance Exchange	CA	2023	87.5%	4.1%	89.2%	1.7%
California Automobile Insurance Company	CA	2014	81.5%	996.8%	81.1%	-0.4%
California Automobile Insurance Company	CA	2015	81.0%	145.7%	80.7%	-0.3%
California Automobile Insurance Company	CA	2016	77.4%	81.5%	75.9%	-1.5%
California Automobile Insurance Company	**CA**	**2017**	**83.6%**	**96.3%**	**79.0%**	**-4.6%**
California Automobile Insurance Company	**CA**	**2018**	**88.8%**	**107.6%**	**77.7%**	**-11.1%**
California Automobile Insurance Company	CA	2019	76.5%	67.1%	84.2%	7.7%
California Automobile Insurance Company	CA	2020	67.7%	49.2%	79.5%	11.8%
California Automobile Insurance Company	CA	2021	73.1%	69.5%	76.6%	3.5%
California Automobile Insurance Company	CA	2022	72.3%	72.0%	72.5%	0.2%
California Automobile Insurance Company	CA	2023	76.1%	68.3%	81.5%	5.4%
Fire Insurance Exchange (Farmers)	CA	2014	64.4%	61.2%	65.5%	1.1%

Fire Insurance Exchange (Farmers)	CA	2015	67.5%	63.3%	68.5%	1.0%
Fire Insurance Exchange (Farmers)	CA	2016	70.2%	68.6%	70.7%	0.5%
Fire Insurance Exchange (Farmers)	**CA**	**2017**	**78.7%**	**103.1%**	**69.7%**	**-9.0%**
Fire Insurance Exchange (Farmers)	**CA**	**2018**	**71.7%**	**80.2%**	**67.7%**	**-4.0%**
Fire Insurance Exchange (Farmers)	CA	2019	68.1%	67.8%	68.2%	0.1%
Fire Insurance Exchange (Farmers)	CA	2020	67.2%	71.3%	65.5%	-1.7%
Fire Insurance Exchange (Farmers)	CA	2021	73.8%	75.3%	73.0%	-0.8%
Fire Insurance Exchange (Farmers)	CA	2022	76.0%	72.3%	78.1%	2.1%
Fire Insurance Exchange (Farmers)	CA	2023	73.6%	68.2%	76.5%	2.9%

SURPLUS/RESERVES

SFG stated the following in NT 7-10-24 Objection Response part 2: “The surplus of State Farm General after the 2017/2018 wildfires was in a tenuous position. The subsequent years following the wildfires was a critical time for State Farm General to replenish the surplus drain of these events. Despite relatively light catastrophe loss amounts in 2019-2022 (including subrogation recoveries), surplus decreased an additional $225 million from year-end 2018 to year-end 2022. Rate levels have been insufficient to result in any material surplus growth (see D.2 response for additional details).” The reference “D.2 response” points to Exhibit M, which shows 10 years of rate history. For the Homeowners line in total, the following is given:

Effective Date	Requested Rate	Approved Rate
5/15/2014	+6.9%	-1.2%
12/8/2016	+6.9%	-7.0%
7/15/2018	+6.7%	+6.7%
10/15/2020	+6.7%	+6.7%
4/1/2021	+6.0%	+6.0%
2/1/2022	+6.9%	+6.9%
6/1/2023	+6.9%	+6.9%
3/15/2024	+28.1%	+20.0%

Even with the decreases shown in the first two rows, SFG’s rates have increased 52.1% since 5/15/2014. Despite SFG’s claim that “rate levels have been insufficient to result in any material surplus growth”, it must be taken into account that rate levels are not the only (and arguably not the primary) means of generating surplus. SFG should have received positive net gains from their reinsurance contracts in accident years 2017 and 2018, and subrogation amounts corresponding to those accident years should have primarily benefited SFG, not their main reinsurer SFMAIC.

Further, surplus is not the first line of defense for an insurer’s claims payments—it’s the amount left over after liabilities (including reserves) are subtracted from assets. Surplus acts as a backstop in the event that reserves, reinsurance, and subrogation recoveries are not sufficient to pay the entirety of claim amounts. If SFG’s surplus position is tenuous, it is imperative to fully understand why the company’s loss reserves, reinsurance arrangements, and subrogation

recoveries were insufficient to the point that surplus was continually depleted over a period of years.

NOTICE OF HEARING
EXHIBIT Q

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE

Closed Meeting Transcript | Zoom

Follow-up Meeting re. State Farm General Insurance Company Request for Emergency Interim Rate

March 11, 2025

Commissioner Ricardo Lara | 0:17 - 0:20

Lucy, is everybody on, that we know that's supposed to be?

Lucy Wang | 0:21 - 0:23

Is Mr. Krause going to be joining us?

Keesha-Lu Mitra | 0:25 - 0:25

Yes.

Commissioner Ricardo Lara | 0:27 - 0:27

Oh, he's here.

Lucy Wang | 0:28 - 0:30

He's here. Okay.

Dan Krause | 0:28 - 0:30

I'm here. Yep. Thank you.

Lucy Wang | 0:31 - 0:33

Okay, Commissioner, I think everyone is here.

Commissioner Ricardo Lara | 0:35 - 1:12

Perfect. Thank you. Thank you. Good afternoon everyone. Thank you for joining me in this call regarding the State Farm Insurance Company's request for approval of an emergency interim rate. We're going to be recording. I know we're going to be recording this meeting and I have a couple folks from the department that are running the Zoom, which I do not know how to do. So, I hope you don't mind. And again, today I've asked all the parties involved - State Farm, the Department, and Watchdog - to join me because I want to share some additional thoughts and a proposal moving forward.

Commissioner Ricardo Lara | 1:13 - 1:36

And of course, just to remind everybody, we are on a video conference call. The call is being recorded and can be transcribed if needed. So since, and I don't want to take too much of your time because I know we all have a busy calendar. So, since our last meeting, State Farm Mutual and State Farm General released their 2024 year-end annual statements.

Commissioner Ricardo Lara | 1:37 - 2:19

And based on my review of the State Farm's year-end annual statements from 2023 to 2024, there is, in my opinion, indeed a concern regarding its surplus and a need to strengthen, especially, its Risk-Based Capital ratio. And I do note, that this is only one of the indicators that regulators use to evaluate a company. However, State Farm is seeking the interim rate, as we all know. And it goes without saying that State Farm's assertions regarding its financial situation will be fully reviewed and investigated in a full and transparent rate hearing.

Commissioner Ricardo Lara | 2:19 - 2:55

I know this is something that was brought up in our last meeting and something that we all want. And so, I want to reiterate that the situation will be fully reviewed and investigated in a full and transparent rate hearing. You'll hear me say that often because I want to reiterate that point. Because we, I do feel it's important that we have this discussion and based on State Farm's RBC ratio at the end of 2024, as well as its CAT load factors due to the LA wildfires, I believe there is support for an issuance of an interim rate to State Farm.

Commissioner Ricardo Lara | 2:56 - 3:37

Again, pending a full rate hearing. And you know, we know that the CAT load doubled from January, from June 2024 to February 2025. However, you know, this type of request, again is unprecedented. I want to make that very clear. I'm making it more complex than a straightforward request for an interim rate. As I mentioned in our last meeting, California's

insurance crisis, California's insurance market, I should say, I keep saying crisis, is currently facing significant challenges due to the climate catastrophes, rising global reinsurance cost, and a tightening national property insurance market.

Commissioner Ricardo Lara | 3:38 - 4:08

And now, further underscoring these potential trade and tariff wars that we are going to potentially enter into, which are only going to exacerbate the cost to rebuild and the cost for critical materials. As I mentioned in our last meeting, one of the biggest challenges I face as the commissioner is balancing a stable and sustainable insurance market with effective oversight while ensuring that Californians have access to a variety of insurance options.

Commissioner Ricardo Lara | 4:09 - 4:43

So, a significant concern of many consumers is the fear of non-renewal, which often leads to them to forgo filing legitimate claims due to worries that, you know, doing it might result in losing their insurance coverage. This, to me, is completely unacceptable, especially in the largest market in the country. Additionally, this fear continues to fuel misinformation and discourages consumers from accessing the benefits that they're entitled to.

Commissioner Ricardo Lara | 4:43 - 5:26

And many are already anxious about losing their coverage and being forced onto the Fair Plan. And this is why I continue to raise this issue. And in terms of what certainty can consumers expect from State Farm if granted an interim rate, I do appreciate State Farm was the first insurer to voluntarily suspend pending non-renewals and cancellations in areas affected by the Palisades-Eaton fires. Additionally, State Farm paused the notification process for homeowner non-renewals across all of LA County, but I believe that State Farm can and must take further action.

Commissioner Ricardo Lara | 5:27 - 5:59

Therefore, I am proposing granting State Farm's request for an emergency interim rate and I accept my department's recommendation of a 22% interim rate increase, while all parties also prepare for a full rate hearing. Again, let me say that again, while we all prepare for a full rate hearing. This approval would be provisional and will require State Farm to issue full refunds with interest if it fails to substantiate the validity of this rate.

Commissioner Ricardo Lara | 6:00 - 6:34

Additionally, along with the interim rate, I would like State Farm to undertake two specific actions. First, I would like State Farm to agree to pause any pending non-renewals and cancellations for all of its policyholders throughout California through the end of 2025. And second, I would like State Farm to obtain a loan or capital infusion from State Farm Mutual in the amount of $500 million to help strengthen its surplus and improve its RBC ratio.

Commissioner Ricardo Lara | 6:35 - 7:19

And you know, again as made clear from the State Farm documents and comments from last meeting, it needs to shore up its financial strength. Raising rates alone is not going to do it. The Department granted State Farm a 20% increase last year and its surplus continued to decrease to throughout 2024. And this is despite the fact that State Farm ceased writing new business in 2023. So even if I grant State Farm a preliminary interim rate increase of 22%, that is not going to bring your RBC ratio to where it needs to be without additional help in 2025.

Commissioner Ricardo Lara | 7:20 - 7:34

And so, you know, we don't have your financials from the first quarter of 2025. This is why I propose State Farm Mutual provide you with additional capital support and demonstrate that you are also putting some skin in the game.

Commissioner Ricardo Lara | 7:34 - 8:10

And it's not just on the backs of the rate payers in California. This type of support is not without precedent. Between 2000 and 2010, State Farm Mutual made loans to State Farm Lloyd's, its Texas subsidiary, in the amounts of $1.2 billion and $642 million. In the past five years, State Farm Mutual has helped out other subsidiaries such as HiRoad Assurance Company, Dover Bay Specialty Insurance Company and State Farm Classic Insurance Company.

Commissioner Ricardo Lara | 8:11 - 8:41

So, you know, one of State Farm's focus is the ability to be self-sustaining and should be their main focus. Continuing to rate, continuing rate increases alone without capital support is not going to be sufficient. And now I know that Mr. Schwamberger spoke at great length about State Farm's desire to continue serving millions of customers in the state of California and how that cannot happen without a rate increase in order to achieve greater financial stability.

Commissioner Ricardo Lara | 8:42 - 9:20

And then Mr. Krause also stated that granting a rate increase is a positive sign needed in order to be able to continue to non-renew customers and a signal to the State Farm Mutual that California's investing and ensuring that State Farm General is on the path to being self-sustaining. But as you know, as the California regulator, my responsibility is to ensure, yes, a sustainable insurance market. I also acknowledge that State Farm insures more, you know, more Californians, State Farm insures, more Californians than any other insurer that everyone on this call is already aware of.

Commissioner Ricardo Lara | 9:20 - 9:48

It's important to also recognize that other insurers in California cannot absorb State Farm's customers, which raises concerns that these customers may end up on the Fair Plan. Something that we all need to avoid. The situation would undermine one of my main, this situation, if it were to happen would undermine one of my main objectives of the Sustainable Insurance Strategy, which is to reduce reliance on the Fair Plan.

Commissioner Ricardo Lara | 9:49 - 10:20

So, my priority is the welfare of California consumers, including your current consumers who should not face higher rates or uncertainty of losing their coverage. So, for this reason, I fear I'm being fair and asking State Farm to demonstrate its commitment to California by providing a capital infusion from its parent company, State Farm Mutual, and by agreeing to suspend non-renewals for all of Californian through 2025.

Commissioner Ricardo Lara | 10:20 - 10:50

Look, I understand this is a significant request, one that I don't make lightly either because you know, again, our consumers are going to have another rate increase and we need to demonstrate, we need to see, that State Farm is willing to also put some skin in the game. And look, you don't have to respond immediately. I would like to give you at least a day to consider it and have all the parties involved consider the proposal.

Commissioner Ricardo Lara | 10:50 - 11:25

And if you require more time, please let Lucy know. Ideally, I would like to issue my order by the end of the week, but you know, I know I've been talking the entire time, but wanted to kind of put out our proposal and give some justification for that. And if you have any questions, I would entertain those now, but also understand that everybody's just got this information and we could allow for other questions that could be sent to Lucy throughout the next couple hours or the next day.

Commissioner Ricardo Lara | 11:25 - 11:55

Again, I'm committed to getting this done within two weeks. We are down to the last week and want to see if people have any initial reactions or thoughts. Again, this action is going to go hand in hand with the full rate hearing. I feel it's important so that we can have some transparency and really get down to looking at these financials to how do we get State Farm's financial house in order? And I know it's something that the department wanted, something that Watchdog wanted.

Commissioner Ricardo Lara | 11:55 - 12:01

It's something that I feel is very important. So, I'll stop talking now, Lucy, and see if there's any questions.

Dan Krause | 12:07 - 12:43

Thank you, sir. Appreciate the opportunity to think about what you've just proposed. I do think we had talked about, with that rate, we believe we could refrain from any additional non-tenant homeowner block renewals for at least one year. That's something that we would be willing to offer, at least initially. And then I think, what else I would say is our State Farm Mutual board did just conclude their meeting. We did receive confirmation that the State Farm Mutual board is willing to consider capital support if our interim rate request is approved.

Dan Krause | 12:44 - 13:05

While the State Farm Mutual board of directors must approve that support inform and amount, it is our informed belief that State Farm Mutual will approve a SERFF surplus note of at least $250 million. This would position State Farm General well for the short term and creates the opportunity to seek additional capital as the full rate review is completed and risk exposure is being managed.

Commissioner Ricardo Lara | 13:08 - 13:12

Okay, we'll take note of that. I think Pamela, you raised your hand.

Pamela Pressley | 13:21 - 13:47

Sorry about that. Yeah, just a couple questions. You mentioned that you had a concern about surplus and then also, I think you mentioned the CAT load doubled. I, one question was, are you

referring to the CAT load that State Farm calculated in its proposed interim rate or something different?

Commissioner Ricardo Lara | 13:47 - 13:48

Yeah, Lucy, if you can.

Lucy Wang | 13:49 - 14:07

Yeah, we're talking about the CAT load that State Farm put in SERFF. I mean we reviewed what State Farm submitted in SERFF for their June 2024 application and then the updated information is provided after its request on February 3rd.

Pamela Pressley | 14:08 - 14:29

Okay. So that was based on their methodology for doing CAT load. Okay. And then the other question was, is this including the other two policy forms? You mentioned the 22% for homeowners, but is this also including the rental dwelling and the renter's condo request?

Lucy Wang | 14:30 - 14:44

I believe that is the recommendation the department provided. I mean, I think primarily we've always talked about the homeowners. Is it the 22% the department recommendation? I see Nikki nodding her head.

Nikki McKennedy | 14:50 - 15:16

Good afternoon. There were different rates requested for the different lines and it is 22% for the non-tenant homeowners. I think it's 15% for the renters, Vanessa, stop me if I'm wrong. And then was it 11% or 12% for the renters or for the condo rental building?

Commissioner Ricardo Lara | 15:17 - 15:25

My goal was to follow the department's recommendations on all the three rates. But if we can, Nikki, if you can just, for sake of certainty.

Nikki McKennedy | 15:26 - 15:29

I've got it. Okay, so sorry.

Nikki McKennedy | 15:34 - 15:55

It's exactly 21.8% for the homeowners' non-tenant. It's 15% for the overall renter condo tenant line and it's a plus 38% for the rental dwelling. And that's in line with the stipulation that State Farm and the department staff previously submitted.

Nikki McKennedy | 16:00 - 16:09

The biggest chunk of the business is with the homeowners' non-tenant line. So that is the most significant interim rate request.

Commissioner Ricardo Lara | 16:14 - 16:17

Pamela, do you still have a question or is that a legacy handout?

Pamela Pressley | 16:19 - 16:20

No, those were my questions for now.

Commissioner Ricardo Lara | 16:21 - 16:56

Okay. Okay, great. Okay. If nobody has any other questions, I'll give you all a day to circle back and see what your thoughts are. We're really looking forward to trying to close this by the end of the week, but also understand we want to give all the parties an opportunity to ask questions and get their thoughts in order. So, I just wanted to propose that today. And then any further questions or comments, if you could forward that to Lucy and then we can start the ball rolling and see what people think.

Commissioner Ricardo Lara | 16:57 - 16:58

So, I appreciate your time. Thank you.

Lucy Wang | 16:58 - 17:02

Wait, I see Will Pletcher, oh, do you have a question?

William Pletcher | 17:02 - 17:17

Just wanted to thank you for this proposal and you know, for this meeting and we'll certainly consider it and also really appreciate the opportunity to go to a full rate hearing, as well. So just wanted to thank you for that.

Commissioner Ricardo Lara | 17:17 - 17:19

I heard you loud and clear and I agree.

Lucy Wang | 17:21 - 17:22

Thank you everyone.

Commissioner Ricardo Lara | 17:22 - 17:23

Thank you.

Ben Armstrong | 17:25 - 17:25

Thanks.

Nikki McKennedy | 17:26 - 17:26

Thank you.

NOTICE OF HEARING
EXHIBIT R

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **ORDER REGARDING STATE FARM GENERAL INSURANCE COMPANY'S REQUEST FOR AN EMERGENCY INTERIM RATE PENDING RATE HEARING**

The above entitled-matter consists of three separate rate application (Applications) filed by State Farm General Insurance Company (State Farm), on or about June 27, 2024, with the Department of Insurance (Insurance). Intervenor Consumer Watchdog (Watchdog) submitted a petition to intervene in all of the Applications. Despite months of discussions, the parties could not agree upon a rate and resolve State Farm's Applications. On February 3, 2025, State Farm sent a request to the Insurance Commissioner (Commissioner) for approval of an emergency interim rate based on concern over its "swift capital depletion."

After reviewing materials submitted by State Farm, Watchdog and the Department, the Commissioner held an informal conference with the parties on February 26, 2025, where the Commissioner sought answers from State Farm to a series of questions regarding its emergency

request, and financial condition. The Insurance Commissioner then held a video conference with the parties on March 11, 2025, regarding a proposed resolution.

Having reviewed State Farm's request for an emergency interim rate, the materials submitted by State Farm, Watchdog and the Department regarding the request for an emergency interim rate, and the information received and discussed during, and associated with, both the February 26, 2025 hearing and March 11, 2025 video conference, and GOOD CAUSE appearing therefor,

IT IS ORDERED as follows:

1. The Commissioner orders the Department to issue a Notice of Hearing on State Farm's Applications pursuant to Insurance Code section 1861.05, subdivision (c)(2), and the California Code of Regulations, title 10, section 2648.3, and that the date of the hearing shall be set for no later than June 1, 2025.

2. State Farm's requests for an emergency interim rate - 21.8% for homeowners non-tenant HO-3 (File No. 24-1271); 15% for overall renter/condo tenant (File No. 24-1273) and 38% for rental dwelling (File No. 24-1330) - are provisionally granted, with an effective date of June 1, 2025, subject to the following:

   a. Pursuant to 10 CCR 2656.1, subdivision (g), an Administrative Law Judge shall hear from State Farm regarding its emergency interim rate requests based on updated rate-setting data through the end of the first quarter of 2025 in the Applications, the two-way stipulation between the Department and State Farm, Watchdog's objections to the interim rate, argument from the Commissioner's February 26, 2025, and March 11, 2025 conferences, the Commissioner's subsequent proposal to the parties along with such additional correspondence, evidence and argument provided at the hearing.

   b. This hearing shall commence on **April 8, 2025**, at **10:00 a.m.** at the Department's office in Oakland before an Administrative Law Judge.

   c. Upon conclusion of the hearing on State Farm's requests for an emergency interim rate, the Administrative Law Judge shall provide the Commissioner

with a proposed decision for acceptance, adoption, or amendment, in accordance with Insurance Code section 1861.08.

d. The Administrative Law Judge shall provide the Commissioner with a proposed decision within ten (10) days of the conclusion of the hearing.

3. The Commissioner will then issue an interim rate order if State Farm is able to meet its burden to support these interim rate requests.

4. Any interim rate order shall be implemented subject to potential refunds with interest.

IT IS SO ORDERED.

Dated: March 14, 2025

RICARDO LARA
Insurance Commissioner

PROOF OF SERVICE
In the Matter of the Rate Applications of:
STATE FARM GENERAL INSURANCE COMPANY
Case No. PA-2024-00011, PA-2024-00012, PA-2024-00013

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison St. Oakland, CA 94612. On March14, 2025, I served the following document(s):

INSURANCE COMMISSIONER'S RULING ON REQUEST FOR A FINDING OF ELIGIBILITY TO SEEK COMPENSATION

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city of Oakland and the county of Alameda, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and the county of Oakland, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

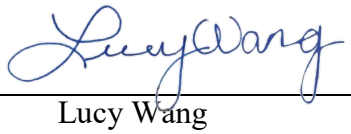
If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at Oakland, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.



Lucy Wang

PROOF OF SERVICE
SERVICE LIST
In the Matter of the Rate Applications of:
STATE FARM GENERAL INSURANCE COMPANY
Case No. PA-2024-00011, PA-2024-00012, PA-2024-00013

Name/Address	Phone/Fax Numbers	Method of Service
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David Grow Counsel STATE FARM GENERAL INSURANCE COMPANY 1201 K Street, Suite 1200 Sacramento, CA 95814l david.grow.jhns@statefarm.com	Tel: 916 321 6914 Fax: N/A	Via EMAIL
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Michael Martinez Chief Deputy Insurance Commissioner CALIFORNIA DEPARTMENT OF INSURANCE 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Michael.Martinez@insurance.ca.gov	Tel: 916 492 3573 Fax: N/A	Via EMAIL
Kenneth Allen Rate Regulation Branch CALIFORNIA DEPARTMENT OF INSURANCE 300 South Spring Street, 12th Floor Los Angeles, CA 90013 Ken.Allen@insurance.ca.gov	Tel: 213 346 6783 Fax: N/A	Via EMAIL

PROOF OF SERVICE
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On March 17, 2025, I served the following document(s):

NOTICE OF HEARING WITH EXHIBITS,
REQUEST FOR DISCOVERY (SET ONE) and
REQUEST FOR SCHEDULING CONFERENCE

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city and county of San Francisco, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Cecilia Padua
Cecilia Padua

SERVICE LIST
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

Name/Address	Phone/Fax Numbers	Method of Service
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