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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 **CONSUMER WATCHDOG'S OBJECTIONS TO CDI AND STATE FARM'S TWO-WAY STIPULATION TO INTERIM RATE** **Hearing Date/Time: April 8, 2025 10:00 a.m.**

INTRODUCTION

Proposition 103 mandates that insurers obtain the Insurance Commissioner's prior approval for any rate increases through a public process that ensures fairness and transparency, and thus California law authorizes interim rate increases only in the narrow exception when existing rates are demonstrably "plainly invalid." (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824.) Applicant State Farm General Insurance Company[1] seeks the Commissioner's immediate approval of an unprecedented $921 million rate increase—endorsed in a two-way proposed "Stipulation to Interim Rate" between State Farm and the California Department of Insurance ("CDI" or "the Department") (hereinafter, "Stipulation")—without demonstrating that it meets this narrow exception. An allegedly "concerning financial condition" is not a sufficient basis for finding that an insurer's current rates are "plainly invalid," and the Stipulation does not provide any other basis under any legal standard to support such a finding of invalidity. The Stipulation does not claim that State Farm's current rates are excessive or inadequate under Insurance Code section 1861.05 and the standard ratemaking formula establishing those boundaries, and in fact, State Farm's own calculations establish they are not. Indeed, State Farm itself concedes its ability to pay existing claims in the wake of the Los Angeles fires is "not in question."[2] Thus, there is no legal basis to grant emergency interim rate relief, and the Stipulation should be rejected on this ground alone.

The proposed two-party Stipulation is not only inconsistent with Proposition 103's prior approval requirements and narrow interim rate exception, it also plainly fails procedurally, because neither party has provided declarations demonstrating the Stipulation is "fundamentally fair, adequate, reasonable and in the interests of justice" as required by California Code of Regulations, title 10 ("10 CCR") section 2656.1, subdivision (c). While the Stipulation states that the Department believes that "[the] Stipulation is in the public interest, in order to maintain maximum availability of homeowners insurance options in California," there are no provisions in

[1] All subsequent references to "State Farm" are to "State Farm General Insurance Company" unless otherwise indicated.

[2] Notice of Hearing, March 17, 2025 [hereinafter "Notice of Hearing"], Exh. O, Feb. 26, 2025 Transcript, pp. 15:20-16:9

the Stipulation requiring State Farm to "maintain availability" of its homeowners policies such as by agreeing to halt non-renewals or to write new business if its requested rate increases are granted.

Moreover, State Farm's claimed financial distress is entirely self-inflicted. For years, the insurer deliberately sold policies at unsustainably low premiums to aggressively grow its market share, ignoring repeated internal warnings about severe financial risks. According to a recent investigation by the Wall Street Journal, State Farm intentionally "sold policies at premiums it knew were unsustainably low" in a strategy aimed at dominating the California market.[3] Its internal actuaries and external consultants repeatedly warned that premiums were insufficient, yet the company pursued market dominance over prudent financial management.[4] Additionally, Consumer Watchdog has submitted an analysis establishing that State Farm entered into reinsurance arrangements with its Illinois-based parent company that siphoned approximately $3 billion from its California operations directly to the parent's benefit. (Declaration of Benjamin A. Armstrong [hereinafter, "Armstrong Decl."], ¶ 7; Consumer Watchdog's Appendix of Exhibits ["Appendix"], Exh. 4.) Thus, the insurer's current financial dissatisfaction arises not from regulatory burdens but from potentially unlawful pricing strategies and internal self-dealing. State Farm's financial condition does not justify a policyholder-funded bailout, especially one that provides no tangible consumer protections or even assurances that its policyholders will not face immediate cancellation notices days after their rate-hike checks are cashed.

Consumer Watchdog thus submits these objections to the two-way Stipulation between State Farm and CDI pursuant to 10 CCR section 2656.1, subdivision (g).

PROCEDURAL BACKGROUND

In June and July 2024, State Farm submitted applications requesting significant rate increases across homeowners, renters/condo, and rental dwelling insurance lines, citing the insolvency variance criteria under 10 CCR section 2644.27, subdivision (f)(6), also known as

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[3] Jean Eaglesham & Susan Pulliam, *State Farm Was All In on California—Until It Pulled the Plug Before the Fires*, Wall Street Journal, Feb. 6, 2025. Ms. Pulliam is a Pulitzer Prize winning journalist. (See https://www.wsj.com/news/author/susan-pulliam.)

[4] *Ibid.*

Variance 6.[5] Consumer Watchdog promptly "initiated" these "proceeding[s]" by submitting a Petition to Intervene, Petition for Hearing, and Notice of Intent to Seek Compensation in each of the three applications pursuant to Insurance Code sections 1861.05(a) and 1861.10(a).[6] Consumer Watchdog also promptly sought discovery on July 26, 2024 and August 23, 2024 (Appendix, Exhs. 9 and 10), as authorized by 10 CCR section 2655.1, subdivision (a), to assess State Farm's claims under Variance 6. Despite Consumer Watchdog's attempts (to date, at least 14) to encourage State Farm to actively engage in the process and respond to its discovery requests on its homeowners rate application, State Farm still has not responded to those requests.

Following the Los Angeles Wildfires, State Farm changed its position and—abandoning its Variance 6 insolvency-based claims— submitted a letter directly to the Commissioner on February 3, 2025, requesting the Commissioner's approval of immediate "emergency" interim rate increases of 22% for homeowners, 15% for renters/condo, and 38% for rental dwelling, prior to the public hearing required by Proposition 103 and bypassing the requirements of 10 CCR § 2656.1.[7] State Farm claimed that its unprecedented request for interim rates would be supportable without any variance based on an updated effective date and new loss estimates purportedly incorporating the 2025 Los Angeles wildfires. The Department and State Farm subsequently proposed a two-party stipulation supporting these interim increases. Consumer Watchdog declined to join the stipulation, noting that the company had failed its meet its obligation under California law to prove that it required the increase and citing the lack of

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[5] On or about June 27, 2024 for CDI File Nos. 24-1271 (homeowners) and 24-1273 (renters/condo) and on July 5, 2024 for File No. 24-1330 (rental dwelling), State Farm filed three rate applications requesting overall rate increases of 30% for homeowners, 41.8% for renters/condo, and 38% for rental dwelling. Public notice of the applications was given on July 5, 2024 for the homeowners and renters/condo applications, and July 12, 2024 for the rental dwelling application.

[6] Consumer Watchdog's Petitions were timely submitted on July 26, 2024 for homeowners, August 19, 2024 for renters/condo, and August 26, 2024 for rental dwelling. (Notice of Hearing, Exhs. A–C.) Consumer Watchdog's Petitions to Intervene were each granted: on August 24, 2024 for homeowners, September 3, 2024 for renters/condo, and September 10, 2024 for rental dwelling. (Notice of Hearing, Exhs. G–I.)

[7] On February 5, 2025, State Farm submitted rate templates in support of its interim rate requests, which confirmed its non-reliance on Variance 6. (Armstrong Decl., Exh. A.)

fairness to its policyholders and California consumers. (Appendix, Exh. 2.) On February 7, 2025, State Farm and the Department entered into the two-way Stipulation requesting the Commissioner's approval of the interim rate requests, which was transmitted to the Commissioner that same day. (Notice of Hearing, Exh. L.)

In response, Commissioner Lara scheduled two "informal" meetings with the Parties to discuss the interim rate requests (both closed to the public and the news media in violation of Proposition 103's public transparency and public participation policies). He first held an in-person meeting with all three parties on February 26, 2025, and then a subsequent virtual meeting on March 11, 2025. (Notice of Hearing, Exhs. O and Q.) At the second meeting, Commissioner Lara proposed two conditions precedent to his approval of State Farm's interim rate requests. First, he asked State Farm to obtain a $500 million "loan or capital infusion" from its parent company.[8] Second, he asked State Farm to "pause any pending non-renewals and cancellations for all of its policyholders throughout California through the end of 2025."[9] State Farm and the Commissioner's office exchanged communications regarding those conditions over the following days, but failed to reached agreement. (See Appendix, Exh. 8, March 12 and 13, 2025 emails between State Farm and Lucy Wang.) Thus, the terms of the Stipulation remain unchanged. On March 14, 2025, the Commissioner issued an "Order" calling for: (1) an April 8, 2025 hearing concerning whether the Stipulation for interim rates should be approved; and (2) a formal Notice of Hearing to be issued on State Farm's full applications to be commenced no later than June 1, 2025. (Notice of Hearing, Exh. R.) The April 8 hearing aims to determine whether the Stipulation meets legal and regulatory standards for interim rate approval and should be approved over Consumer Watchdog's objections. The Notice of Hearing was subsequently issued on March 17, 2025 by the CDI, and the Stipulation was transmitted to the Administrative Hearing Bureau that same day as Exhibit L to the Notice of Hearing.

[8] Notice of Hearing, Exh. Q, Mar. 11, 2025 Transcript, 6:00–6:34.
[9] *Ibid.*

OBJECTIONS

I. The Commissioner Lacks Authority to Approve Interim Rates Unless Current Rates Are "Plainly Invalid."

California law clearly limits the Commissioner's authority to approve interim rate increases, permitting such relief only in exceptional circumstances where a company's existing rates are shown to be "plainly invalid." (*Calfarm*, *supra*, 48 Cal.3d at p. 824.) Such "interim" rate requests cannot be approved absent concrete evidence demonstrating that the current rates violate the statutory requirements of Proposition 103 because they are "excessive, inadequate, or unfairly discriminatory." The burden is on State Farm to make this showing. (Ins. Code § 1861.05, subd. (b).) But neither State Farm nor the Department have provided such evidence. Instead, they rely on speculative financial distress and generalized claims that are unsupported by documentation or declarations required by 10 CCR section 2656.1, subdivision (c). State Farm's inability to substantiate that its current rates are plainly invalid precludes interim rate approval, making the proposed stipulation legally insufficient.

A. Interim Rate Relief Is Permitted Only Where Current Rates Are "Plainly Invalid."

Proposition 103 does not expressly provide the Commissioner the authority to issue an order allowing an insurer to implement "interim" rates subject to a later determination of their legality—unsurprising for an initiative instituting a *prior approval* system predicated on a fulsome public review of rate applications with the burden placed squarely on insurers to prove their requested rates are justified before they take effect. (Ins. Code § 1861.05, subd. (a)–(c).) However, in evaluating the initial constitutional challenge to Proposition 103 brought by insurance companies, the California Supreme Court held that "the commissioner has the power to grant interim relief from plainly invalid rates." (*Calfarm*, *supra*, 48 Cal.3d at p. 824.) The court determined the Commissioner had the "implied authority" to grant such relief pursuant to case law holding that "[administrative] officials may exercise such additional powers as are necessary for the due and efficient administration of powers expressly granted by statute, or as *may fairly be implied* from the statute granting the powers." (*Ibid.*, citations omitted, italics in original.) *Calfarm* held that the "power to grant interim relief…may fairly be implied from

[Proposition 103's] command that '[n]o rate shall ... *remain in effect* which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter.'" (*Id.* at p. 825, quoting Ins. Code § 1861.05, subd. (a), italics in original; see also *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 245 [same].)

Both the Department and the Commissioner have relied on *Calfarm* and *20th Century* as the authority for the Commissioner's power to grant interim rate relief. (See, e.g., Notice of Hearing, Exh. L, Stipulation, p. 2:7–10; Notice of Hearing, Exh. M, Feb. 14, 2025 Letter from Commissioner Lara to State Farm, p. 2.) As stated in the Commissioner's February 14 letter, "the burden is on State Farm to demonstrate that interim relief is warranted under the circumstances" and at that time, he stated that State Farm had not met its burden. (Notice of Hearing, Exh. M, Feb. 14, 2025 Letter from Commissioner Lara to State Farm, pp. 1, 4.) Neither the Department nor the Commissioner have identified any other legal authority for approving interim rates on grounds other than the "in effect" rates being "plainly invalid."[10] While the Stipulation also claims that an interim rate increase "would be lawfully issued" … "in furtherance of the Governor's Executive Order N-13-23" and also cites the Governor's Proclamation of a State of Emergency and the Commissioner's Declaration of Emergency Situation in the wake of the recent Los Angeles area fires (Notice of Hearing, Exh. L, Stipulation, pp.; 3:27–4:4, 4:10–12; 7:14–19), there is no statute, regulation, or caselaw that provides an "emergency" grounds for interim rate relief and none of the cited documents purport to authorize interim rate increases in these circumstances or otherwise alter the prior approval system under Proposition 103, nor could they.

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[10] While State Farm has opined in a letter to Commissioner Lara that "'plainly invalid rates' *under the regulations* is not the only legally recognized basis for an interim rate approval, as shown by past court decisions recognizing such authority to remedy unconstitutionally confiscatory rates" (Appendix, Exh. 6, Mar. 11, 2025 State Farm Letter to Lara, p. 1), that is a distinction without a difference—an "unconstitutionally confiscatory rate," which is a ground for a variance under the regulations (10 CCR § 2644.27, subd. (f)(10)), is by definition "inadequate" and therefore "invalid." (*20th Century*, *supra*, 8 Cal.4th at pp. 245, 292.) In any event, neither the Stipulation nor State Farm's interim rate request claim that State Farm's current rates are confiscatory under the well-established constitutional standard set forth in *20th Century*.

Thus, under *Calfarm*, the Commissioner's authority to grant interim rate relief is impliedly derived from, and limited to, enforcing the "remain in effect" language of Insurance Code section 1861.05, subdivision (a). That means that to justify the approval of an interim rate, the "in effect" rate must be "excessive, inadequate, unfairly discriminatory, or otherwise in violation of [Proposition 103]." Or as stated in *Calfarm*—the "in effect" rate must be "plainly invalid."

State Farm's contention that "nothing in that law forbids [the Commissioner] from taking emergency action to protect consumers from an approaching insolvency by granting the insurer an interim rate increase"[11] (Appendix, Exh. 6, Mar. 11, 2025 State Farm Letter to Lara, p. 1) has got it backwards. State Farm ignores that the California Supreme Court found only an implied, limited authority allowing the Commissioner to grant interim rate relief only when necessary to prevent "plainly invalid" rates from "remain[ing] in effect." Administrative agencies act pursuant to the powers granted to them by statute or as may fairly be implied from the statute, and such powers extend no further. The question is not whether anything in the law forbids the Commissioner from taking action; it is whether anything in the law expressly or impliedly authorizes the Commissioner to act, where any "reasonable doubt" about his implied authority must be resolved against the agency's ability to act. (See generally *California Chamber of Commerce v. State Air Resources Bd.* (2017) 10 Cal.App.5th 604, 620 ["Any reasonable doubt concerning the existence of [an implied administrative] power is to be resolved against the agency"].) State Farm has presented no basis on which the Commissioner is authorized to approve its interim rates or the Stipulation given the circumstances here.

B. Neither State Farm nor the Department Claim that State Farm's Current Rates Are Inadequate Under the Ratemaking Formula.

Under Proposition 103, insurance companies must comply with the prior approval rate regulations designed to ensure that their rates are neither excessive nor inadequate. (Ins. Code § 1861.05; 10 CCR §§ 2644.1–2644.27.) However, State Farm has not provided evidence

[11] As detailed further *post*, State Farm's interim rate request is not predicated on the insolvency variance (10 CCR § 2644.27, subd. (f)(6)), so "approaching insolvency" would not be a basis for approving its interim rates here were that claim adequately supported.

demonstrating that its current approved rates are inadequate under these established regulatory standards. The Department also does not claim that State Farm's current rates are inadequate.

Indeed, State Farm's own "interim" rate calculations in the rate templates filed in its rate applications on February 5 show that its current rates are appropriate: they fall in between the "maximum permitted earned premium" (10 CCR § 2644.2) and the "minimum permitted earned premium" (10 CCR § 2644.3). (Armstrong Decl., ¶ 6.) For example, in State Farm's "interim" Prior Approval Rate Template for its homeowners line of insurance, its own analysis demonstrates that its "in effect" rate could be *decreased* by 11.5% without the rate becoming "inadequate." (*Id.*, Exh. A [Non-Tenant Rate Template, p. 7.1].) Therefore, according to the Department's prior approval rate regulations, State Farm's interim rate calculations do not show that its current rates are inadequate[12] (10 CCR § 2644.1), and thus they are not "plainly invalid." (*Calfarm*, *supra*, 48 Cal.3d at p. 824.) The analysis that the Administrative Hearing Bureau must perform ends here; there can be no interim rate.

Moreover, State Farm's interim rate calculations from February 5 rely on an unsupported weighting scheme used in its catastrophe load calculation, improperly giving excess weight to 2025 data. (Armstrong Decl., ¶ 5.) State Farm also uses inconsistent time frames for its catastrophe and non-catastrophe loss data, selectively choosing data that serves its interests without accounting for potential distortions such as offsets between those two data sets, an approach which is actuarially unsound. (*Ibid.*) Further, State Farm's requested interim rate calculations use an unsupported AIY[13] trend factor that is significantly higher than justified. (*Ibid.*) Taken together, State Farm's revised catastrophe adjustment factors, combined with its original excessive selected trends and development factors, result in inflated rate indications in all three rate applications. (*Ibid.*) While State Farm's interim rate requests would not be legally

[12] While State Farm made general claims that it is not "rate adequate" throughout the February 26 meeting (see, e.g., Notice of Hearing, Exh. O, Feb. 26, 2025 Transcript, pp. 35:20–36:6), such claims are entirely disconnected from the regulatory definition of inadequacy and the formula for determining whether a rate is inadequate, as evidenced through State Farm's own interim rate templates.

[13] Amount of Insurance Year.

justified even if the rates it requested were actuarially supported, that the requested rates are unsupported only further militates a denial of the Stipulation so that State Farm's requested rates can be fully evaluated in a public hearing.

Given the inconsistent time periods in the data in the February 5 rate templates, Consumer Watchdog's actuary has concluded that a properly calculated rate indication requires State Farm to update all data to a uniform period. (Armstrong Decl., ¶¶ 4–5.) However, a preliminary analysis of the limited data provided by State Farm indicates that its proposed "interim" rates are excessive. (Armstrong Decl., ¶ 6.) Specifically, Consumer Watchdog's preliminary calculations show that the *maximum* permitted rate changes under the regulations, excluding any solvency variance,[14] are +8.1% for renters and condo and +30.6% for rental dwelling. Most notably, the maximum permitted rate change for homeowners is -0.1%—meaning that State Farm's current rate is not only adequate, it is *excessive* (if just so). If anything, an interim rate *decrease*—not an increase—is required here.

C. State Farm's Financial Condition Does Not Support an Interim Rate.

There is also no legal basis for approving the Stipulation for interim rate relief based on State Farm's claims of its concerning financial condition. As discussed above, as held in *Calfarm*, the "power to grant interim relief" is impliedly derived from the "remain in effect" language in Insurance Code section 1861.05, subdivision (a). Whether an insurer's "in effect" rates are "excessive, inadequate, unfairly discriminatory, or otherwise in violation of" Proposition 103 (that is, "plainly invalid") is demonstrated pursuant to the promulgated rate regulations. While State Farm *could* have based its interim rate request on a variance related to its financial condition, it explicitly abandoned that claim. Thus, this court should not consider any arguments related to State Farm's purported financial condition.

Moreover, only two variances explicitly address an insurer's financial condition: Variance 6, the "insurer-insolvency variance" (10 CCR § 2644.27, subd. (f)(6); *20th Century*,

[14] State Farm's proposed interim rates are based on its calculations under the standard regulatory ratemaking formula with no variance, and therefore must be justified without reference to any variance, as discussed *post*. (Armstrong Decl., Exh. A.)

supra, 8 Cal.4th at p. 255), and Variance 10, the "confiscation" variance (10 CCR § 2644.27, subd. (f)(10)). Neither variance, however, can be invoked based solely on generalized assertions of a "concerning financial condition." (Notice of Hearing, Exh. L, Stipulation, pp. 5:23, 7:6.)

Variance 6 specifically requires an insurer to demonstrate that without a rate increase exceeding the regulatory maximum permitted earned rate as defined in 10 CCR section 2644.2, its solvency would be directly threatened. Further, under Variance 6, the insurer must submit 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." (10 CCR § 2644.27, subd. (f)(6).) It must also demonstrate that it "has reduced or foregone dividends to stockholders or policyholders." (*Ibid.*)

Variance 10 operates as "an end result test applied to the enterprise as a whole." (10 CCR § 2644.27, subd. (f)(10).). To qualify for this variance, the insurer must show that its current rates "do[] not allow it to operate successfully." (*20th Century*, *supra*, 8 Cal.4th at p. 296.) "Use of this variance requires a hearing pursuant to Section 2646.4." (10 CCR § 2644.27(f)(10).)

The Stipulation does not invoke either variance in support of State Farm's proposed interim rates, nor has State Farm provided the information to demonstrate it meets the standards required by those variances before the Commissioner can order such relief.

In *20th Century*, the California Supreme Court emphasized the stringent standards required to satisfy either variance. Concerning the "insurer-insolvency" variance, the Court noted its requirements were "demanding." (*Id.* at p. 313.) Regarding the confiscation variance, the Court adopted the standard announced by the U.S. Supreme Court in *Federal Power Commission v. Hope Natural Gas Co.* (1944) 320 U.S. 591, which established that a company "may complain of confiscation only if the rate in question does not allow it to operate successfully." (*20th Century*, *supra*, 8 Cal.4th at p. 295.) In other words, the company must be "experiencing 'deep financial hardship' *as a result of the rate*." (*Id.* at p. 296, emphasis added.) The Court favorably quoted Harvard Law professor Laurence Tribe's conclusion that "*Hope* [established] a 'standard that only the most egregiously confiscatory rate structure would have difficulty meeting.'" (*20th Century*, *supra*, 8 Cal.4th at pp. 295–96.)

Originally, State Farm's three pending rate applications explicitly invoked Variance 6,[15] requiring it to provide evidence showing a risk of insolvency, along with detailed plans to restore its financial condition, and eventually to return capital that policyholders were required to provide as compensation for its excessive charges. State Farm's current interim rate requests, however, do not invoke either Variance 6 or Variance 10, nor does the Stipulation allege that State Farm has made even a preliminary showing that its current rates are "plainly invalid" by being either confiscatory or threatening it with insolvency.

Thus, neither Variance 6 nor 10 are relevant in considering whether the Stipulation should be approved. State Farm's generalized claims about its "concerning" financial condition fall woefully short of the degree of support necessary to meet either the "demanding" or "difficult[]" standards required to qualify for one of the variances. If State Farm intends to invoke its financial condition as a ground for qualifying for either of these variances, it must be required to prove it meets the required exacting standards for these variances in an evidentiary hearing.

D. State Farm's Lack of Transparency Undermines its Request for Interim Rate Relief.

Transparency is fundamental to California's insurance rate approval process under Proposition 103. Yet, throughout these months-long rate proceedings, in response to both Consumer Watchdog and the Department, State Farm has consistently resisted providing essential financial documentation necessary to evaluate the legitimacy of its original rate requests. (See, e.g., Appendix, Exhs. 9 and 10, Consumer Watchdog's First and Second Sets of Discovery Requests, dated July 23 and August 26, 2024;[16] Non-Tenant Homeowners Rate

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[15] State Farm has never invoked Variance 10 in any of its three pending rate applications.

[16] As stated in its February 5, 2025 letter to the Commissioner opposing State Farm's "emergency interim rate" requests (Appendix, Exh. 1), Consumer Watchdog made at least 14 attempts to encourage State Farm to respond to its requests for information on its homeowners rate application, but the company has consistently declined, either citing confidentiality grounds or objecting to the form of the requests. This includes correspondence from Consumer Watchdog to counsel for State Farm on at least the following dates: 9/13/24 (initial request for a three-way call with State Farm and CDI); 9/17/24 (follow-up on 9/13 email); 9/23/24 (follow-up on 9/17 email); 10/1/24 (follow-up email requesting a three-way call); 10/7/24 (email asking State Farm

Application, Sept. 30, 2024 Objection Responses, p. 2 [State Farm refusing to provide any of the seven specific documents requested by the Department "in order to us[e] to assist our review of State Farm's financial condition and solvency position"].) This intransigent resistance directly violates Proposition 103's clear regulatory mandate requiring insurers to disclose comprehensive data and actuarial analyses as necessary to justify any proposed rate increases. (Ins. Code § 1861.05; 10 CCR §§ 2644.1–2644.27.)

Despite multiple discovery requests from Consumer Watchdog and specific requests from the Department, State Farm has persistently withheld critical financial documents, including those related to its reinsurance agreements and its financial condition. State Farm's refusal to disclose these key documents impeded the ability of Consumer Watchdog, the Department, and ultimately the Commissioner to meaningfully evaluate the insurer's true financial condition and accurately assess the claimed necessity of is requested rate hikes under Variance 6.

Unwilling or unable to publicly prove its need for Variance 6 as required by law, State Farm quickly shifted to seizing on the January 2025 Los Angeles wildfires as its new justification for higher rates. Not even a month after the fires began, State Farm submitted its February 3 letter directly to Commissioner Lara requesting approval of "emergency interim rate" increases based on its alleged "further capital deterioration." State Farm stated its requested interim rates would be supportable without a variance based on (1) an updated effective date and (2) updated wildfire loss estimates based on the January 2025 wildfires. (Notice of Hearing, Exh. J, Feb. 3, 2025 Letter Requesting Interim Rate Approval, p. 3 fn. 6.)

Yet, the claimed underlying justification for approving State Farm's requested rates on an interim basis under the Stipulation remains State Farm's "concerning financial condition," and specifically the solvency concerns underlying its original rate applications. (See Stipulation, p.

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to respond to CDI); 10/10/24 (email confirming State Farm counsel's voicemail); 10/21/24 (follow-up on 10/10 email after no response); 11/26/24 (follow-up email stating still no response from State Farm counsel); 12/5/24 (email requesting expected response date); 12/16/24 (follow-up on 12/5 email asking for expected response date); 1/8/25 (follow-up email re responses to requests for information on its homeowners rate application); 1/21/25 (follow-up email to State Farm counsel re 12/5, 12/16, and 1/8 emails); 1/29/25 (call to CDI requesting a three-way call due to no State Farm response).

5:11–15, emphasis added ["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***"].)

In sum: (1) State Farm's original rate request was premised on a showing of its risk of insolvency, but State Farm refused to provide necessary documentation; (2) State Farm's interim rate request and the Stipulation are premised on an updated effective date and State Farm's 2025Q1 wildfire losses being sufficiently large to justify the interim rates without a variance; but (3) State Farm is still claiming that the reason it needs an interim rate increase is to protect it from insolvency but without attempting to show that it has met the requirements of Variance 6. (See Appendix, Exh. 6, Mar. 11, 2025 State Farm Letter to Commissioner Lara, pp. 1–2.)

Under Proposition 103, when an insurance company wants to change its rates, it must apply for and publicly justify the change *before* it can be approved and implemented, not after the fact. That is the difference between California's prior approval regulatory scheme and other states with a "file and use" insurance rate system. After State Farm first requested the rate increases last June and July, both Consumer Watchdog and the Department immediately sought more information but were repeatedly stonewalled. Most recently, Deputy Commissioner Lucy Wang confirmed that the Department had "asked for, and not received" sufficient documentation of its financial condition, making it "hard to distinguish between what is truth and what is fiction." (Appendix, Exh. 8, Mar. 13, 2025 7:34 AM Lucy Wang email to State Farm, p. 3.) Proceeding to a full evidentiary hearing as required by Insurance Code section 1861.05, subdivision (c), not granting unjustified "interim" rate requests, is the proper way to adjudicate the factual and legal issues to get to the truth.

E. A Potential Downgrade by a Rating Agency to State Farm's "Financial Strength Rating" Does Not Provide a Legal Basis for Adopting the Proposed Stipulation.

State Farm has repeatedly suggested that a potential downgrade of its credit rating justifies its unprecedented request for emergency interim rate increases. The Stipulation also cites to State Farm's concerns over its financial strength rating being downgraded by one rating agency and the potential that some State Farm customers "might have to find other insurance if

further downgrades were to happen, due to mortgage lender requirements." (Notice of Hearing, Exh. L, Stipulation, p. 5:4–7; see also Notice of Hearing, Exh. J, Feb. 3, 2025 Letter Requesting Interim Rate Approval, p. 3 and fn. 5.) This speculation does not make its rates "plainly invalid." To the extent this is another variant of State Farm's complaints about its financial condition, as discussed above, such complaints do not provide a legal justification for interim rate increases here.

But even this claim does not survive initial scrutiny. Specifically, during the informal conference held by the Commissioner on February 26, State Farm referenced that "S&P Global did put State Farm General's [AA] rating on credit watch negative."[17] However, closer examination of the S&P announcement reveals a different story. S&P explicitly noted that a primary reason for placing State Farm General's AA rating on "CreditWatch" was "uncertainty about the [State Farm] group's willingness to provide capital support," which "raises questions about [State Farm General's] status as a core group member."[18]

In other words, the uncertainty creating the risk of a ratings downgrade is entirely within State Farm's control. The company's own representatives—many of whom are employees of its parent company, State Farm Mutual—have implied that interim rate approval is necessary to "convince" the parent company to provide needed financial support. By withholding capital that is readily provided to policyholders in other states following disasters, State Farm itself creates the financial instability it cites as justification for emergency relief.

This strategy raises significant concerns about State Farm's fiduciary obligations to its policyholders. By intentionally placing its California operations at risk of a credit downgrade, State Farm is effectively using its California policyholders' mortgages as leverage to secure favorable regulatory treatment outside Proposition 103's rigorous review requirements. It would eviscerate Proposition 103 to reward an insurer for such gamesmanship and fundamental lack of

[17] Notice of Hearing, Exh. O, Feb. 26, 2025 Transcript, p. 15:11–12.

[18] *State Farm General Insurance Co. 'AA' Ratings Placed On CreditWatch Negative On Weakening Capital Position*, S&P Global Ratings, Feb. 25, 2025, available at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3328722.

candor with the Department and before the Commissioner—with an unsupported rate increase—simply due to manufactured negotiating pressures.

Accordingly, State Farm's use of an artificially created credit risk as leverage cannot form a legitimate basis for emergency interim rate increases under California law. State Farm should not be rewarded for playing a game of chicken with the Department in order to try to have its rate demands met outside of Proposition 103's review requirements. State Farm's policyholders should not be forced to recapitalize the company through an unprecedented and unjustified interim rate increase due to its parent's unwillingness to provide support.

II. The Department and State Farm Failed to Comply with 10 CCR Section 2656.1 and the Stipulation Is Fundamentally Unfair to Policyholders.

A. Neither State Farm nor the Department Have Complied With 10 CCR Section 2656.1 by Submitting Supporting Declarations.

The Commissioner's March 14 Order requires the April 8 hearing on State Farm's "emergency interim rate requests," "the two-way stipulation between the Department and State Farm," and "Watchdog's objections" to be held "pursuant to 10 CCR § 2656.1(g)." (Notice of Hearing, Exh. R, Order, p. 2:17–21.) Section 2656.1 establishes requirements for a proposed stipulation that neither State Farm nor the Department have complied with. On this basis alone, the proposed Stipulation should be rejected.

Most notably, section 2656.1, subdivision (c) requires "the parties supporting the stipulation or settlement [to] file and serve supporting declarations indicating the reasons that the settlement or stipulation is fundamentally fair, adequate, reasonable and in the interests of justice." Neither the Department nor State Farm have submitted any such declarations. None of the correspondence between the parties or to the Commissioner can substitute for declarations, which must be signed under penalty of perjury. Similarly, the single line in the Stipulation referring to the Department's "belie[f]" that the Stipulation "taken as a whole" is "fundamentally fair, adequate, and reasonable" is insufficient. (Notice of Hearing, Exh. L, Stipulation, p. 7:19–22.) Apart from the Stipulation not being attested to under penalty of perjury, that sentence does not indicate the reasons underlying the Department's purported "belief." Moreover, the Department's allegation in the Stipulation itself that the "Stipulation is in the public interest, in

order to maintain maximum availability of homeowners insurance options in California" (*id*., p. 7:20–21) is not supported by any declaration, facts, or any agreement on State Farm's part to maintain availability of its homeowners products by committing to halt non-renewals or otherwise avoid further disruptive behavior in the California marketplace. Similarly, State Farm has not provided any reasons why the Stipulation is "fundamentally fair, adequate, reasonable and in the interests of justice" pursuant to a declaration in compliance with section 2656.1, subdivision (c).[19]

Such declarations are essential for the presiding officer reviewing a contested proposed stipulation "prior to the taking of any testimony" to make any determination to adopt or reject it. (10 CCR §§ 2656.1, subd. (c), 2656.2.) Without the supporting declarations, the administrative law judge cannot rule on the fundamental fairness of a stipulation or make any determination why it is in the interests of justice.

B. The Stipulation's Proposed Recapitalization Through "Interim Rates" Is Fundamentally Unfair to State Farm's Policyholders.

Setting aside the absence of a valid legal or actuarial basis to approve the requested interim rates, the Stipulation remains fundamentally unfair to State Farm policyholders. It unfairly shifts the financial burden of recapitalizing State Farm from the company to its policyholders through significant rate hikes, without providing any reciprocal commitments from State Farm regarding policy availability or financial support from its parent. Even Variance 6 requires, at a minimum, detailed plans to improve finances, and an actual commitment to restore capital to policyholders when a company emerges from Variance 6. (10 CCR § 2644.27, subd. (f)(6).)

During the March 11 follow-up meeting with the parties, the Commissioner proposed two conditions that would help mitigate the inherent unfairness of the interim rate request: that State Farm would (1) suspend all non-renewals and cancellations of non-tenant homeowners policies through the end of 2025; and (2) secure a loan or capital support in the amount of $500 million

[19] Consumer Watchdog further notes that the Stipulation contains no discussion of why it is in the "interests of justice," nor does it contain the "California written premium for the prior calendar year" as required by Section 2656.1, subdivision (e).

from State Farm Mutual, its parent company, to help strengthen its surplus.[20] State Farm refused to fully agree to either condition, and neither appears in the Stipulation.

While Consumer Watchdog objects to the proposed interim rate increases because they are neither legally or actuarially justified, the Stipulation must also be rejected as fundamentally unfair because it places the entire financial burden on California policyholders without requiring protections from widespread cancellation programs and a proportional capital contribution from the financially robust parent company.

The Stipulation Does Not Include Any Non-Cancellation Commitments.

Even if there were a proper legal and actuarial basis for the proposed interim rates, the Stipulation is fundamentally unfair because State Farm does not agree to suspend all non-renewal and cancellations for *all* State Farm homeowners policyholders, including the remaining ~11,000 under its pending unapproved March 2024 rule filing. (Appendix, Exh. 8 [Vanessa Wells March 12, 2025 email to Lucy Wang, 10:09 p.m.].)

The Stipulation Requires No Capital Contribution from State Farm Mutual.

According to its 2024 annual statement, State Farm's parent, State Farm Mutual, has over $145 billion in surplus, making the $500 million capital infusion only approximately 0.34% of its total surplus—*a third of one percent*. Moreover, a $500 million capital infusion from the parent company to State Farm would appear to sufficiently improve its RBC levels to create a $150 million cushion (according to Consumer Watchdog's analysis of the limited data provided by State Farm), thereby eliminating State Farm's purported need for an immediate rate increase prior to the noticed hearing ordered to commence prior to June 1. (See Appendix, Exh. 7.) This approach also aligns with industry precedent, where parent companies support affiliates in times of financial stress without burdening policyholders with unsubstantiated rate hikes—and State Farm's parent company has undertaken similar financial interventions in other states.[21] Given the substantial rate increases State Farm has already received (most recently, a 20% increase to its

[20] Notice of Hearing, Exh. Q, Mar. 11, 2025 Transcript, 6:00–6:34.

[21] Appendix, Exh. 2. SFMAIC provided more than $1 billion to its Texas affiliate—State Farm Lloyds. (State Farm Lloyds 2002 Annual Statement, Page 3, Line 31 "Surplus Notes".)

homeowners line effective in March 2024), the negative rate indication for homeowners based on State Farm's limited provided information, and the significant capital support available from its parent company, there is no need to burden State Farm's policyholders with the unjustified "interim" rate increases pending a full transparent, public rate hearing. As it stands, imposing unjustified rate hikes without any commitments for aid from State Farm's parent or promise to suspend all cancellations and non-renewals, the Stipulation is not in the interests of justice and is fundamentally unfair to State Farm policyholders.

III. State Farm's Financial Mismanagement Should Be Redressed by Its Parent, Not Its Policyholders.

A. State Farm's Reinsurance Program Benefitted Its Parent at the Expense of Both Itself and Its California Policyholders.

State Farm insists that inadequate rates are the primary cause of its financial struggles, but this claim does not withstand scrutiny. A thorough review of the limited information State Farm has produced to date in association with its rate applications, as well as publicly available financial statements and information, reveals that its supposed financial distress is largely self-inflicted. State Farm's reinsurance arrangements—structured to benefit its parent company at the expense of itself and its California policyholders— resulted in unfavorable financial outcomes during previous high-loss years, such as during the 2017 and 2018 wildfires.

In fact, in each of the ten years from 2015–2024, reinsurance was disadvantageous to State Farm but beneficial to its parent—resulting in a total de-capitalization of State Farm to its multistate parent to the tune of nearly $3 billion. (Armstrong Decl., ¶ 7.) Moreover, at the February 26 informal conference, State Farm acknowledged in response to a question from Consumer Watchdog that all of the $5 billion the company claims that State Farm has benefitted from its reinsurance program with its parent State Farm Mutual comes from one single event—the 2025 Los Angeles wildfires.[22] It is actuarially unsound to base an argument for the robustness of a reinsurance program—or any analysis, for that matter—on a single data point. (*Ibid.*)

[22] Notice of Hearing, Exh. O, Feb. 26, 2025 Transcript, p. 58:10-23.

Apart from the 2025 fires, State Farm has lost money on its reinsurance agreements every year for the past decade—including during the severe wildfire years of 2017 and 2018, when it paid nearly $5 billion in direct claims. Even in those years, while all other major homeowners insurers in California received substantial net recoveries from reinsurance, State Farm paid out more in reinsurance premiums than it received in recoveries. (Armstrong Decl., ¶ 7.)

Moreover, the majority of State Farm's reinsurance is provided by its parent company. Between 2015 and 2024, over 80% of State Farm's reinsurance premiums were paid to affiliates, with 85% of that amount going directly to the parent.[23] As a result, the parent has consistently profited from its reinsurance agreements with State Farm, while State Farm's surplus has steadily declined. (*Ibid.*)

B. The Culpability for Any Financial Distress Falls on State Farm and Its Parent.

The Commissioner confirmed at the February 26 conference that State Farm failed to seek the full rate increases it claimed it needed between 2017 and early 2023.[24] As he noted, under Proposition 103, the company could have requested higher rates to maintain financial stability.[25] Instead, according to a *Wall Street Journal* analysis, State Farm engaged in an anticompetitive strategy under which "it sold policies at premiums it knew were unsustainably low" in order to underprice its competition and "allow[] it to dominate market share."[26]

Moreover, recent statements made by former Vice President of Innovation and Venture Capital Haden Kirkpatrick highlighted in multiple news reports indicate that State Farm used threats of cancellations and non-renewals as a strategic bargaining tool to pressure the

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[23] Armstrong Decl., ¶ 7.

[24] Notice of Hearing, Exh. O, Feb. 26, 2025 Transcript, p. 19:5–15.

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

[26] Jean Eaglesham & Susan Pulliam, *State Farm Was All In on California—Until It Pulled the Plug Before the Fires*, Wall Street Journal, Feb. 6, 2025. Ms. Pulliam is a Pulitzer Prize winning journalist. (See https://www.wsj.com/news/author/susan-pulliam.)

Department to approve the rate hikes State Farm wants. As highlighted by Deputy Commissioner Lucy Wang in quoting from an ABC news article[27]: "[Kirkpatrick] appears to describe a bargaining situation with the department of insurance. He describes a final bargaining chip of threatening to cancel policies." (Appendix, Exh. 8, [Mar. 13, 2025 7:34 AM Lucy Wang Email to State Farm] at p. 2.) This is consistent, as argued above, with State Farm's negotiating tactic of imperiling its policyholders' mortgages by manufacturing credit rating issues entirely within State Farm's control.

State Farm's conduct raises core antitrust concerns, particularly with respect to allegations of predatory pricing in the California homeowners insurance market. As noted *ante*, State Farm appears to have deliberately underpriced homeowners insurance—especially in high-risk wildfire zones—in an effort to aggressively expand its market share as more cautious competitors withdrew. After securing a dominant market position, State Farm obtained a 20% rate increase to its homeowners rates in early 2024,[28] followed by its request for the currently-pending 22% interim increase—shifting the financial consequences of its growth-at-any-cost strategy onto California consumers. This pattern of below-cost pricing followed by supra-competitive rate hikes designed to recoup losses reflects classic predatory pricing behavior: an exclusionary tactic condemned under antitrust law for its harmful effects on both market competition and the public. (*See Brooke Group Ltd. v. Brown & Williamson Tobacco Corp*. (1993) 509 U.S. 209, 222–224 [defining predatory pricing as below-cost pricing undertaken with a dangerous probability of recoupment through monopolistic pricing].) These anticompetitive predatory pricing allegations must be fully investigated through robust discovery in a full public rate hearing and cannot be reasonably resolved through an interim rate process.

Approving the Stipulation to grant unjustified "emergency interim rate" increases under these circumstances would set a dangerous precedent, effectively allowing insurers to circumvent

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[27] Marc Cota-Robles, *State Farm exec fired after secret recording appears to show him discussing rate hikes*, ABC News, Mar. 10, 2025, available at https://abc7.com/post/state-farm-exec-haden-kirkpatrick-fired-secret-recording-appears-show-discussing-rake-hikes-socal-wildfires/16003843/.

[28] Notice of Hearing, Exh. O, Feb. 26, 2025 Transcript, p. 19:9–10.

Proposition 103's prior approval requirements by manipulating their pricing or threatening to cancel more policies. State Farm's tactics and now-failed business strategy should not be rewarded with customer-funded bailouts.

IV. The Possibility of Refunds Does Not Mitigate Concerns Over Improper Interim Rate Approval.

State Farm and the Department have effectively taken the position that there is no real risk to policyholders in approving an unjustified interim rate because of the possibility of refunds. There are several key problems with this position.

First, as detailed above, there is no legal basis for approving an interim rate here; putative refunds do nothing to cure the legal deficiencies. Even if State Farm is ultimately required to refund excess premiums after a full evidentiary hearing, State Farm will still have been rewarded with months of premium payments that it was not legally entitled to collect until after it satisfied its burden of proof. This is unfair to its policyholders, but also to State Farm's competitors, other insurance companies that have not sought to evade Proposition 103's prior approval system with demands for immediate unjustified "emergency interim rate" increases.

Second, the proposed protection of refunds is likely illusory under these circumstances. The Stipulation describes the refund calculation as 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." (Notice of Hearing, Exh. L, Stipulation, p. 6:15–19.) However, this approach poses inherent problems. The final approved rate will almost certainly depend on data not considered (or made available by State Farm) here, including updated data that does not exist now. The final rate will also reflect a later effective date than applied to the interim rate, which, especially in an inflationary environment, increases rate indications.[29] Vague promises of uncertain refunds thus represent significantly less protection for consumers compared to the explicit financial plans required under Variance 6, further underscoring the unfairness of allowing State Farm to evade those specific regulatory requirements in citing financial distress while sidestepping the applicable regulatory variances.

[29] Later effective dates always result in some increase in the overall rate indication.

Third, the March 17, 2025 Notice of Hearing acknowledges that State Farm's final rate might be calculated under new regulations implemented after State Farm's original applications were received. (Notice of Hearing, p. 6:12–13.) As Consumer Watchdog detailed in public comments regarding these new regulations, the inclusion of reinsurance costs and reliance on catastrophe modeling rather than historical loss data almost certainly ensures higher rate outcomes for consumers. While State Farm is free to seek future higher rates through proper filings, it cannot be allowed to charge an unjustified "interim" rate now pending a determination of its legality under a different set of rules later.

CONCLUSION

Under California law, interim rate increases are permissible only when current rates are demonstrably "plainly invalid." State Farm fails entirely to meet this legal standard. Indeed, State Farm's own calculations show that its current rates are not inadequate under the standard regulatory rate making formula, and the company concedes that its ability to pay current claims is "not in question." Further, State Farm's purported financial difficulties are not caused by regulatory actions but result instead from its own management decisions—decisions that drained nearly $3 billion from its California operations and significantly benefited its parent company. Because the Department and State Farm's proposed Stipulation seeks to impose unjustified "emergency interim rates" on State Farm policyholders prior to an evidentiary hearing without any showing that State Farm's current rates are "plainly invalid," the Administrative Law Judge should reject it as legally and actuarially unjustified.

Additionally, the proposed two-party Stipulation violates regulatory standards because neither the CDI or State Farm has provided declarations demonstrating the Stipulation is "fundamentally fair, reasonable, adequate, or in the interests of justice" as required by 10 CCR § 2656.1(c). Indeed, the proposed Stipulation lacks any commitment by State Farm to maintain the availability of homeowners policies for its existing customers or secure financial assistance from its parent company, and is thus fundamentally *unfair* and *not* in the public interest.

For these reasons, the Stipulation for proposed interim rate increases should be rejected. The law requires a thorough and transparent hearing where State Farm's claims can be properly evaluated before policyholders bear the costs.

DATED: March 24, 2025

Respectfully submitted,

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PROOF OF SERVICE
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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 March 24, 2025, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S OBJECTIONS TO CDI AND STATE FARM'S TWO-WAY STIPULATION TO INTERIM RATE

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 March 24, 2025 at Los Angeles, California.

Kaitlyn Gentile

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