

HOGAN LOVELLS US LLP

Vanessa Wells (Bar No. 121279)
Victoria Brown (Bar No. 117217)
855 Main Street, Suite 200
Redwood City, CA 94063

Telephone: (650) 463-4000
Facsimile: (650) 463-4199
Email: vanessa.wells@hoganlovells.com
victoria.brown@hoganlovells.com

Jordan D. Teti (Bar No. 284714)

HOGAN LOVELLS US LLP

1999 Avenue of the Stars, Suite 1400
Los Angeles, CA 90067

Telephone: (310) 785-4600
Facsimile: (310) 785-4601
Email: jordan.teti@hoganlovells.com

Attorneys for Applicant
STATE FARM GENERAL INSURANCE
COMPANY

**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

**DECLARATION OF BRYON
EHRHART**

1 I, Bryon Ehrhart, declare as follows:

2 **Introduction and Professional Background**

3 1. I am the Global Head of Growth and Strategic Development for Aon plc. I have
4 personal knowledge of the facts stated in this declaration and would, if called as a witness,
5 competently testify to those facts. I intend to appear and testify at the April 8, 2025 interim rate
6 hearing in this matter.

7 2. Aon is a publicly traded professional services firm that offers a range of insurance and
8 reinsurance broking and other risk mitigation services. Based on a 2024 ranking by the
9 publication *Reinsurance News*, Aon is the largest reinsurance brokerage in the world.

10 3. I have worked in the insurance and reinsurance business for thirty-eight and one-half
11 (38 ½) years. For the last thirty-one (31) years, I have worked with Aon. Before joining Aon, I
12 worked for seven and one-half (7 ½) years with Coopers & Lybrand, which now is part of PwC.

13 4. I have held several leadership roles at Aon. My leadership roles have included serving
14 as CEO of Aon Re – Americas for 3.5 years. In addition to serving as CEO of Aon Re, I also
15 served as Global Chief Strategy Officer of Aon Re for 3 years, Global CEO of Aon Re Analytics
16 for 23 years, and Managing Director or President and CEO of Aon Securities for 29 years. Prior
17 to joining Aon, I practiced as a CPA and consultant for the accounting firm Coopers & Lybrand.
18 At Coopers & Lybrand, I mainly performed audits of insurance and reinsurance companies as well
19 as consulting for commodity, stock, and bond exchanges on insurance risk-transfer related matters.

20 5. In addition to my experience and leadership in the reinsurance industry and my nearly
21 four decades of expertise in reinsurance, I have personal knowledge of the facts and information
22 provided in this declaration through my work at Aon. Aon Re is the broker of record for certain
23 reinsurance placements of State Farm General Insurance Company (“State Farm General”).

24 **Background on Reinsurance and Its Important Role In Protecting Insurance**
25 **Companies and Policyholders**

26 6. It is a basic statement, but nevertheless a true and important one, to say that insurance
27 companies must have the resources they need to pay claims to their policyholders. To provide
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1 sufficient resources to do so, insurance companies principally rely on premiums, reserves,
2 policyholder surplus, and reinsurance.

3 7. Reinsurance, though perhaps not widely known outside of the insurance industry, is a
4 critical component of the insurance industry and important part of the financial health of many
5 insurance companies. Reinsurance, as the name suggests, essentially is “insurance for insurers.”
6 Through reinsurance, an insurance company obtains its own coverage for some of the risk it has
7 underwritten by providing insurance coverage to policyholders. The risk that an insurance
8 company retains that is not reinsured is sometimes called “retained risk.” The risk that a
9 reinsurance company assumes in exchange for the insurance company’s transferring (ceding) a
10 portion of its premiums to the reinsurance company is called “assumed risk.”

11 8. The amount of reinsurance an insurance company obtains is an important part of its
12 financial health and of the security of its policyholders. In particular, the amount of reinsurance an
13 insurance company obtains (i) helps ensure that the insurance company has sufficient assets
14 available to pay policyholder claims, and (ii) enables the insurance company to write additional
15 policies because it has the available reinsurance capacity to do so. A simple example using basic
16 numbers illustrates how this works. If an insurance company has assets of \$90 and has issued
17 policies to policyholders with limits of \$100, then a catastrophic event exhausting the limits of all
18 policyholders would leave the insurance company unable to pay all of its claims. If, by contrast,
19 the insurance company has the same assets of \$90, has issued policies to policyholders with the
20 same limits of \$100, but also has reinsured 90% of its risk, then the insurance company would be
21 exposed to only \$10 in losses (plus the cost of reinsurance) in the event of a catastrophic event
22 exhausting the limits of all policyholders, leaving it comfortably able to pay claims and continue
23 to renew its policies and potentially offer additional insurance to new and existing policyholders.

24 9. Although it also has the word “insurance” in its name, reinsurance differs from ordinary
25 insurance in several important ways. One important difference is that, whereas insurance
26 companies underwrite policies on an individual basis for each policyholder, reinsurers generally
27 may assume a percentage of an insurance company’s portfolio of risk (called “treaty” reinsurance)

1 for certain types or categories of policies in exchange for reinsurance premium paid by the
2 insurance company, which may be derived from the premium the insurance company receives for
3 those policies. To use a specific example, a specific reinsurer might assume 1% or 5% of an
4 insurance company's risk for property insurance policies as a whole and does not pick and choose
5 among the insurance company's individual property insurance policyholders. Thus, if an
6 insurance company wants to retain risk for 10% of its property insurance exposure and obtain
7 reinsurance for 90% of that exposure, the insurance company will have to put together a group of
8 reinsurers to assume that 90% of its risk. Each individual reinsurer often will assume only a small
9 percentage of the insurance company's risk. In other words, there might be 10 reinsurers each
10 assuming 10% of the assumed risk, or 20 reinsurers each assuming 5% of the assumed risk, or a
11 mix of reinsurers each assuming different amounts of the total assumed risk. In addition to this
12 example, there are other ways insurers may structure reinsurance coverage, but the core concept
13 underlying the various methods is similar – the insurance company is sharing its risk with
14 reinsurers that have agreed to provide the insurance company with some protection against losses.

15 10. State Farm General and other similarly situated insurers in California purchase (i)
16 property catastrophe excess of loss reinsurance and (ii) property catastrophe aggregate
17 reinsurance. Property catastrophe excess of loss reinsurance transfers to reinsurers the losses that
18 exceed a company's per-occurrence retention (for each catastrophe, the losses sustained by the
19 insurer's policyholders are added together and the total is an occurrence), up to the limit the
20 company purchased from its reinsurers. To demonstrate this type of reinsurance, assume that an
21 insurer purchased property catastrophe excess of loss reinsurance to cover its property catastrophe
22 losses (i.e., claims from its policyholders) of \$50 in excess of a \$10 reinsurance retention with one
23 reinstatement of the \$50 limit. In a catastrophe loss occurrence, the insurer's policyholders
24 submitted combined claims totaling \$45. The excess of loss reinsurance contract would reimburse
25 the insurer \$35 (\$45 of policyholder claims less the \$10 reinsurance retention) for this loss
26 occurrence. Property catastrophe aggregate reinsurance provides protection to insurers that may
27 experience multiple loss occurrences and, in turn, incur multiple reinsurance retentions over the

1 course of a year. Using the same example above, property catastrophe aggregate reinsurance
2 protects the insurer against retaining multiple \$10 reinsurance retentions due to multiple
3 occurrences. Now assume that, in addition to excess of loss reinsurance outlined above, the same
4 insurer also purchased a property catastrophe aggregate reinsurance program that limited its
5 aggregate retained losses to \$15 per year (i.e., total amount of retentions). In addition to the first
6 \$45 of policyholder claims from the first loss occurrence mentioned in the example above, further
7 assume the company's policyholders experienced two more catastrophe events that year that
8 resulted in total policyholder losses in the amounts of \$25 and \$20, respectively. The total amount
9 of the property catastrophe losses in the year within the retention of its excess of loss reinsurance
10 contract are equal to \$30 (\$10 retained from each of the three occurrences). The amount of each of
11 the three occurrences above \$10 is transferred to reinsurers in the \$50 in excess of \$10 layer
12 mentioned above. So, the losses transferred in that layer are equal to \$35, \$15, and \$10 (i.e., \$45
13 loss less \$10 retention; \$25 loss less \$10 retention; \$20 loss less \$10 retention), based on each
14 respective loss occurrence. In addition, the property catastrophe aggregate reinsurance protection
15 purchased by the company would reimburse the insurer \$15 (\$30 of total retained loss less the
16 aggregate reinsurance retention of \$15).

17 11. A second important reinsurance concept is "capacity." Capacity refers to the overall
18 ability and willingness of individual reinsurance companies and the reinsurance market as a whole
19 (all reinsurance companies combined) to make capital available for reinsurance coverage to
20 insurers. Each individual reinsurance company is limited in the amount of reinsurance it can
21 provide by its available capital and its risk appetite. For example, an individual reinsurance
22 company only will have enough capital to provide a certain amount of reinsurance and also likely
23 will want to diversify its risk by providing that reinsurance across a variety of underlying
24 exposures. Again, to use a simple example, a reinsurer with \$75 million in capacity for
25 reinsurance property damage losses, may choose to reinsure only \$25 million in California, \$25
26 million in Florida, and \$25 million in Oklahoma. Because it is unlikely that catastrophic
27 California wildfires, severe Florida hurricanes, and severe Oklahoma windstorms all will occur in
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1 the same year, by dividing the amount of reinsurance it provides to each market, the reinsurer can
2 effectively limit the losses that it will suffer from any one catastrophic event and can reduce the
3 chances that its entire reinsurance commitment will be called upon in any one year. What is true
4 for individual reinsurance companies also is true for the reinsurance market as a whole. The
5 reinsurance market has limits on its capacity to provide reinsurance for certain types of exposures,
6 such as California wildfires and that capacity is subject to reassessment of the risks assumed after
7 major events such as those of 2017 and 2018 as well as the wildfires occurring in January this
8 year. Because of this, insurance companies with large exposures to property damage from
9 California wildfires face market capacity limits on the amount of reinsurance they can obtain.

10 12. A third important reality of the reinsurance business is that it is not a business that can
11 be understood properly by taking a snapshot of any particular limited period of time. Rather, the
12 nature of the business typically involves assessing the risk of a catastrophic event over a certain
13 longer time horizon, and the reinsurance then typically is priced according to the reinsurers'
14 dynamic assessment of the price for that risk. For example, reinsurers price the risk of
15 catastrophic hurricanes over many layers of reinsurance in a reinsurance program. Lower layers
16 are more likely to sustain loss occurrences than upper layers. Over any ten-year period, hurricanes
17 may or may not occur or they may occur and only affect lower layers. If this occurs, then it can
18 look as if the reinsurers are making a lot of money on layers that have not sustained losses –
19 particularly reinsurers that are reinsuring upper layers where very few years are expected to
20 produce a loss. Reinsurers' pricing reflects the long-term likelihood of losses impacting each layer
21 and the long-term pricing studies utilized by reinsurers span 50 to 100 years, not 10 years. The
22 important point is that attempting to assess the price of the reinsurance in any particular single
23 year or years of the ten-year window may not be accurate or informative, and does not present an
24 accurate picture of the financial benefits and costs of the reinsurance to either the insurance
25 company or the reinsurance company.

26 **The Importance of Insurance Company Financial Ratings to Policyholders**

27 13. Most mortgage companies require homeowners to have homeowners' property
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1 insurance. However, not just any homeowners' insurance company will do. To the contrary, the
2 primary and secondary mortgage markets require homeowners' insurance companies to maintain
3 sufficient financial strength to ensure that they will have assets available to pay the homeowner-
4 mortgagor's claims. The financial strength of such homeowners' insurance companies is
5 measured and rated by rating agencies such as AM Best (AM Best) and Standard & Poor's Global
6 (S&P). Fannie Mae, for example, requires that the property insurance company for the property
7 securing any first mortgage have at least a "B" or better financial strength rating by AM Best or a
8 "BBB" or better financial strength rating by S&P.

9 14. An insurance company's financial strength rating therefore is important not just to the
10 company but to its policyholders. If a homeowners' insurance company were to experience a
11 reduced financial strength rating that lowered its rating below the required B rating from AM Best,
12 or the required BBB rating from S&P, that would mean that its homeowners' insurance policies
13 would no longer satisfy the requirements of Fannie Mae or most other participants in in the
14 primary and secondary mortgage markets. As a practical matter, this would likely result in the
15 equivalent of policy cancellation for all homeowners' insurance policyholders with a mortgage.
16 Those policyholders/homeowners instead would be required to obtain insurance elsewhere,
17 potentially at a substantially increased price, if it even would prove possible for them to do so. If
18 the homeowners were not able to obtain, or not able to afford, alternative insurance, then this may
19 cause them to be in default on their home mortgages.

20 **State Farm General's Reinsurance Program**

21 15. State Farm General serves over 2 million property owners in California. As described,
22 State Farm General relies on its premiums, reserves, policyholder surplus, and reinsurance to
23 provide sufficient resources to (i) pay non-catastrophic and catastrophe claims to its policyholders
24 and (ii) maintain its financial strength ratings with rating agencies. State Farm General's
25 policyholders rely on the promises it makes in its policies to pay claims, and likewise rely on its
26 financial strength ratings to satisfy the requirements of their mortgage holders.

27 16. State Farm General's direct premiums earned have risen 95% from \$2.0 billion in
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1 2015 to \$3.9 billion in 2024. Approximately 90% of State Farm General's direct premiums earned
2 are derived from writing property insurance exposed to losses in California. During this same
3 period, however, State Farm General's policyholder surplus has declined 74% from \$3.8 billion at
4 the beginning of 2015 to \$1.0 billion at the end of 2024.

5 17. The combination of declining policyholder surplus and rising exposure to non-
6 catastrophe and catastrophe property claims has required State Farm General to become more
7 reliant on reinsurance in order to meet its obligations to policyholders in California and maintain
8 its financial strength ratings. In other words, because it has had a much smaller policyholder
9 surplus, State Farm General has had substantially fewer assets available to pay policyholders'
10 claims, particularly in the case of a catastrophic loss. Therefore, it has had to purchase more
11 reinsurance in order to obtain other, additional protection against catastrophic losses, to preserve
12 its ability to pay policyholder claims, and to maintain its financial strength ratings.

13 18. For over 25 years, State Farm General Insurance Company has purchased reinsurance
14 from both affiliated and non-affiliated reinsurers.

15 19. During the period from 2015 through 2024, less than 20% of the reinsurance
16 purchased by State Farm General was placed with unaffiliated reinsurers. My study of State Farm
17 General's reinsurance limits, retentions and pricing included all material reinsurance purchases it
18 made during the period from 2015 through 2024. Therefore, my study was not limited to the
19 limits, retentions and pricing of the 20% certain reinsurance layers Aon Re placed with
20 unaffiliated reinsurers.

21 20. The remaining balance of State Farm General's reinsurance has been placed with its
22 parent company State Farm Mutual Automobile Insurance Company (SFMAIC) or with other
23 reinsurers affiliated with State Farm General and under the common control of SFMAIC.

24 21. Because of its ability to place reinsurance with affiliated reinsurers, State Farm
25 General has succeeded in reducing its risk of exposure to catastrophe losses. Specifically, State
26 Farm General's retained catastrophe losses, per occurrence, have decreased from \$1 billion in
27 2015 (26% of policyholder surplus) to \$250 million in 2024 (25% of policyholder surplus).

1 Without its ability to place additional reinsurance, State Farm General's retained catastrophe
2 losses would have risen to unacceptably high levels of policyholder surplus.

3 22. Based on my experience, companies that are similarly situated to State Farm General
4 generally cannot sustain the necessary financial strength ratings from AM Best or S&P while
5 retaining such high retained losses in proportion to their policyholder surplus. To the contrary, in
6 my experience serving insurance companies who are exposed to property catastrophes, per
7 occurrence retentions of 3% to 10% of policyholder surplus are targeted in order to maintain AM
8 Best or S&P ratings similar to those of State Farm General.

9 **Responding to Consumer Watchdog's Unfounded Allegations About State Farm**
10 **General's Reinsurance Program**

11 23. I am aware that Consumer Watchdog has opposed State Farm General's Request for
12 Emergency Interim Rate Approval, in part, because it believes that State Farm General's
13 diminishing surplus is the result of "overpaying for reinsurance purchased from its parent
14 company." Consumer Watchdog's Response to Proposed Stipulation for Emergency Interim Rate
15 Approval 2 (Feb. 7, 2025)¹; *see also* Consumer Watchdog's preliminary response in opposition to
16 State Farm General Insurance Company's Letter Request for Emergency Interim Rate Increase
17 Approvals 3 (Feb. 5, 2025).² I also have reviewed Consumer Watchdog's Objections to CDI's and
18 State Farm's Two Way Stipulation To Interim Rate, as well as the Declaration of Benjamin A.
19 Armstrong in support of those objections.

20 24. The objections submitted by Consumer Watchdog (CW) and Mr. Armstrong's
21 declaration (collectively, the "Objections") contain several allegations about State Farm General's
22 reinsurance program that I believe to be incorrect and inconsistent with both the facts of State
23 Farm General's reinsurance program and with the realities of the reinsurance market.

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26 ¹ Available at https://consumerwatchdog.org/wp-content/uploads/2025/02/2025-02-07-CWD-Response-to-Proposed-Settlements-of-SF-HO-Renters-Condos-and-Rental-Dwellings_1140.pdf.

27 ² Available at <https://consumerwatchdog.org/wp-content/uploads/2025/02/2025-02-05-Letter-to-Lara-re-SFG-Emergency-Rate-Request.pdf>.
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1 **State Farm General Did Not Buy Too Much Reinsurance**

2 25. First, the Objections contend that State Farm General purchased too much reinsurance.
3 This is not consistent with State Farm General's high catastrophe reinsurance retentions. As
4 described in paragraphs 21 and 22, State Farm General has retained catastrophe losses of 25% of
5 policyholder surplus, as opposed to other similar insurers that generally retain 3% to 10%, which
6 means State Farm General purchases less reinsurance than other similar insurers. In fact, State
7 Farm General's catastrophe retentions have led State Farm General to purchase certain additional
8 reinsurance to protect against the risk of, for example, retaining more than one and a half
9 catastrophe reinsurance retentions per year. These so-called aggregate reinsurance programs were
10 also purchased from State Farm General's parent (SFMAIC) or other of its affiliates at costs well
11 below the prices State Farm General could have negotiated in the unaffiliated reinsurance market.

12 26. The Objections suggesting that State Farm purchased too much reinsurance also
13 ignore the changing nature of catastrophe claims exposure. Every year, State Farm General
14 estimates its probable maximum loss (PML) from wildfires, fires following earthquakes, and
15 earthquake damage from shaking structures through the use of both its own historical loss
16 experience and vendor models for each of these sources of catastrophe losses. These historical and
17 modeled loss event outcomes are studied in ranges, with probabilities of occurrence assigned to
18 each event, and, when studied as a collective group of ascendingly larger events, a probability of
19 non-exceedance can be determined.

20 27. State Farm General's modeled PMLs have been increasing dramatically over the
21 years. Rising catastrophe claims exposure thus has required State Farm General to place
22 progressively larger reinsurance limits each year, rising from \$2.9 billion in 2015 to \$8.9 billion in
23 2024. These reinsurance limits are the largest in the California market exposed to wildfire risk,
24 fire following earthquake, and earthquake (risk taken by State Farm General that the California
25 Earthquake Authority is unauthorized to insure). State Farm General's increased reinsurance
26 limits do not reflect that it is purchasing too much reinsurance, as the Objections contend. Rather,
27 to the contrary, State Farm General has needed to place increasing amounts of reinsurance limits

1 because it is facing rising catastrophe exposure.

2 28. Generally, AM Best and S&P require sufficient capital and reinsurance to cover
3 multiple catastrophe stress events occurring in the same year. The stress events differ by rating
4 agency and State Farm General purchases sufficient reinsurance in the non-affiliated reinsurance
5 market and from its parent (SFMAIC) and its affiliates to meet these requirements above the
6 aforementioned, comparatively high reinsurance retentions.

7 29. After the wildfire events in 2017 and 2018, State Farm General, in order to avoid
8 certain minimum capacity charges in the non-affiliated reinsurance market and to reflect its
9 subrogation experience in severe wildfire occurrences, it began placing the upper portion of its
10 program entirely with its parent (SFMAIC) or its affiliates.

11 30. The reinsurance market does not have the capacity or appetite to assume California
12 property risk at the levels State Farm General requires in order to obtain sufficient reinsurance
13 protection. Without its parent and affiliates reinsuring over 80% of these reinsurance limits, State
14 Farm General would not be able to place the entire program. As described, placing the entire
15 program is important both (i) to ensure that sufficient assets are available to protect policyholders
16 and pay their policyholder claims in the event of a catastrophic loss and (ii) to preserve State Farm
17 General's financial strength ratings so that policyholders have insurance that complies with the
18 mortgage market's requirements.

19 **State Farm General Did Not Pay Too Much For Reinsurance**

20 31. The Objections also state that State Farm General paid too much for the reinsurance it
21 purchased from affiliated reinsurers. This criticism is unsupported. Based on my experience and
22 regular market discussions, there is very little appetite in the reinsurance market for additional
23 capacity for any California wildfire exposed limit anywhere near the prices State Farm General
24 has been able to attain from its affiliated and unaffiliated reinsurers.

25 32. State Farm General's overall reinsurance program cost, including in substantial
26 majority (i) property catastrophe excess of loss reinsurance and (ii) property catastrophe aggregate
27 reinsurance, has ranged from a 7.9% rate-on-line (price per unit of occurrence capacity), or 7.9

cents of premium per \$1 of limit in 2015 (attaching at \$1 billion per occurrence) to 9.8% rate-on-line, or 9.8 cents of premium per \$1 of limit in 2024 (attaching at \$250 million, \$750 million lower). Aggregate reinsurance retention protection has increased over the same period from \$500 million in excess of \$1.5 billion to \$600 million in excess of \$375 million. These overall catastrophe reinsurance program costs are below the rates State Farm General would have to pay to unaffiliated reinsurers, even assuming State Farm General was able to place any substantial amounts in the unaffiliated market beyond the 20% to 25% portion of the program place in the unaffiliated reinsurance market over these years. Indeed, if State Farm General were required to place more or all of its catastrophe reinsurance program in the unaffiliated reinsurance market, market conditions suggest that its reinsurance costs for the program would likely rise by (i) 50% to 100% (1.5 to 2.0 times the current cost) to accomplish a placement of 30-50% of the program, (ii) 200% (3 times the current cost) to allow a placement of 50-75% of the program, and (iii) as much as 300+% (4+ times) to place 750-100% of the program. These views reflect the reinsurance market's view of the potential for increased frequency and severity of California wildfires since the events of 2017 and 2018 in particular, as well as the developing views of the potential frequency of even more severe events such as the January 2025 California wildfires.

33. Thus, statements within the Objections that State Farm General has paid too much for its reinsurance program are not supported by comparing the costs State Farm actually has paid over the period from 2015 to 2024 to the costs it would have been required to pay to place the same limits in the unaffiliated reinsurance market. In my view, the reason that State Farm General has been able to place the overall catastrophe reinsurance program at costs lower than the unaffiliated reinsurance market rates is due to its ownership by SFMAIC. Thus, State Farm General benefitted very materially from placing the majority of its reinsurance with affiliated reinsurers.

State Farm General Benefitted From Its Reinsurance Program

34. The Objections also state that the State Farm General reinsurance programs have provided little to no benefit to State Farm General. This assertion is inconsistent with the benefits

1 the reinsurance program provides State Farm General, inconsistent with the general purpose of
2 reinsurance, and inconsistent with the workings of the reinsurance marketplace.

3 35. I have studied and have personal knowledge of State Farm General's reinsurance
4 programs over the 2015 to 2024 period. During the 2015 to 2024 period, these annual reinsurance
5 programs have provided material benefit to State Farm General, above and beyond the benefits
6 previously discussed.

7 36. My study included a close look at the impact of the 2017 and 2018 California wildfires
8 on State Farm General's financial statements. My study shows that for both the 2017 and 2018
9 accident years State Farm General benefitted materially from the existence of the 2017 and 2018
10 catastrophe reinsurance programs, respectively. To be specific, my review demonstrated that, for
11 the 2017 accident year, State Farm General benefited from an initial cession to reinsurers of \$1.8
12 billion in losses and loss adjustment expenses from the 2017 fires when the December 31, 2017
13 financial statements were filed with various departments of insurance, including the California
14 Department of Insurance. Specifically, during 2017, State Farm General suffered a then record of
15 \$4.9 billion gross (direct) accident year losses and loss adjustment expenses – an amount that was
16 reduced by \$1.8 billion, the amount of risk State Farm General ceded to its reinsurers. This \$1.8
17 billion reduction was a substantial benefit to State Farm General.

18 37. At the beginning of 2017 State Farm General had policyholder surplus of \$4.1 billion.
19 If these reinsurance programs had not been in place, then the policyholder surplus reduction on the
20 2017 financial statements would have been material – likely more than 40%. In 2018, the gross
21 (direct) loss estimates for the 2017 accident year, a portion of which being attributable to the 2017
22 fires, were reduced by over \$1.1 billion, to approximately \$3.8 billion, because the fire damage
23 fortunately turned out to be less than initially estimated. But even at this lower \$3.8 billion
24 estimate of the losses, the catastrophe reinsurance program still provided \$1 billion of benefit to
25 the company, or about 31% of its policyholder surplus – a very material benefit. In 2019, the
26 gross (direct) loss estimates for the 2017 accident year, which again, were attributable in part to
27 the 2017 fires, were reduced again by over \$0.1 billion (\$100,000,000) because the fire damage

1 was thankfully even less than initially re-estimated in 2018. But even at this lower estimate of the
2 losses the catastrophe reinsurance program still provided \$0.9 billion (\$900,000,000) of benefit to
3 the company, or about 36% of its policyholder surplus – remaining a very material benefit to State
4 Farm General.

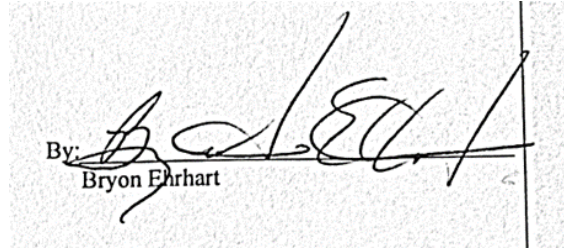
5 38. In 2020, large subrogation recoveries reduced State Farm General's 2017 accident
6 year gross (direct) losses by \$0.9 billion to approximately \$2.8 billion and reduced the ceded
7 losses by \$0.7 billion to \$0.2 billion. (\$200,000,000). Even then, when I looked at the 2017
8 accident year re-estimated through the end of 2024, the catastrophe reinsurance program for 2017
9 provided continuing benefits of \$0.139 billion (\$139,000,000). CW and Mr. Armstrong's analysis
10 misses these important financial statement and economic benefits provided through State Farm
11 General's reinsurance contracts. To be clear, State Farm General's reinsurers took the risk that
12 material (\$0.9 billion in this case) subrogation benefits might not be available for the 2017 fires
13 and paid losses to State Farm General before the subrogation settlements monies became available
14 to the company.

15 39. I also studied the 2018 accident year and also found that State Farm General materially
16 benefitted from the 2018 catastrophe reinsurance program. The initial estimate of State Farm
17 General's 2018 gross (direct) accident year losses, including the 2018 California wildfires, was
18 \$2.9 billion, and these losses were offset by \$0.3 billion of cessions to reinsurers. The ability to
19 recover approximately \$300,000,000 – over 10% of the gross (direct) loss – is a material benefit.
20 Through 2020 and 2021 subrogation settlements reduced the estimated 2018 gross (direct)
21 accident year losses by \$0.5+ billion to \$2.1 billion and reduced the ceded losses by \$0.25 billion.
22 (\$250,000,000). Again, State Farm General's reinsurers took the risk that material subrogation
23 benefits might not be available for the 2018 fires and paid losses to State Farm General before the
24 subrogation settlements monies became available to the company.

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

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4 Executed at Miami Beach, Florida

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6 Dated: April 2, 2025

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A handwritten signature in black ink, appearing to read 'Bryon Ehrhart', is written over a horizontal line. The signature is stylized with a large, sweeping 'B' and 'E'. Below the signature, the name 'Bryon Ehrhart' is printed in a small, black, sans-serif font.