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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 Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **DECLARATION OF NANCY P. WATKINS IN SUPPORT OF STATE FARM GENERAL'S INTERIM RATE REQUEST AND RESPONSE TO CONSUMER WATCHDOG'S PRE-HEARING OBJECTIONS**

DECLARATION OF NANCY P. WATKINS

1. I, Nancy Watkins, declare as follows:

A. Qualifications

2. My name is Nancy Watkins, and my business address is 2261 Market Street, Suite 5485, San Francisco, California. I am a Principal and Consulting Actuary with Milliman, Inc. ("Milliman"). I am a Fellow of the Casualty Actuarial Society ("CAS") and a Member of the American Academy of Actuaries ("AAA").

3. Milliman is among the world's largest providers of actuarial, risk management, and related technology and data solutions. Milliman's consulting and advanced analytics capabilities encompass healthcare, property and casualty insurance, life insurance and financial services, and employee benefits. With more than 5,100 employees in 2024, the firm serves the full spectrum of business, financial, government, union, education, and nonprofit organizations. Founded in 1947, Milliman today has offices in principal cities worldwide, covering markets in North America, Latin America, Europe, Asia and the Pacific, the Middle East, and Africa.

4. A complete statement of my educational, employment, and academic credentials is included in the curriculum vitae filed as SFG-NW-1[1] with this testimony.

5. I meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained herein.

6. My 2025 billable rate is $925 per hour payable to Milliman, Inc. for my actuarial consulting services, including expert witness support. My payment is not dependent on the outcome of this matter.

B. Background

7. In 2024, State Farm General Insurance Company ("SFG") submitted the following California rate applications through the System for Electronic Rates & Forms Filing ("SERFF"):

- Non-Tenant Homeowners, SFMA-134139896, State Tracking # 24-1271, submitted 6/27/2024

1 All future references to SFG-NW-# are to exhibits to this Declaration of Nancy P. Watkins unless otherwise specified.

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- Renter/Condo, SFMA-134139931, State Tracking # 24-1273, submitted 6/27/2024
- Rental Dwelling, SFMA-134139850, State Tracking # 24-1330, submitted 7/5/2024

8. On 2/3/2025, SFG submitted a letter to Commissioner Lara requesting emergency approval of interim rates.[2] On 2/5/2025, SFG provided supporting rate indications in SERFF for the interim rate requests that updated the original filing data and assumptions with revised effective dates and catastrophe provisions reflecting the impact of the Los Angeles wildfire losses.[3] On 3/14/2025, the Commissioner issued an order for a hearing on the request for the interim rates, with another hearing to be held no later than 6/1/2025 based on updated rate-setting data through the end of Q1 2025.[4]

9. On 3/24/2025, Consumer Watchdog ("CW") submitted objections to the Stipulation between the California Department of Insurance ("CDI") and SFG.[5] I[6] have been asked by counsel for SFG to provide my opinion, from an actuarial perspective, on certain CW objections to the proposed SFG interim rates, as contained in the Declaration of Benjamin A. Armstrong ("Armstrong Decl."), Staff Actuary for CW.

C. Summary of Findings and Opinions

10. Within the context of this matter, a high-level summary of my opinions is as follows:

- CW's objections regarding SFG's updated catastrophe data are invalid.
- CW's selected Amount of Insurance Years ("AIY") trend is unsupported and inconsistent with how the trends are applied.
- CW's selected catastrophe weights cannot be calculated or evaluated based on the

[2] SFG-NW-2, SFMA-134139896, SFG to Lara 2.3.25.pdf, Page 1 and 2.
[3] 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, February 7, 2025, ("Stipulation"), Page 5 at 7-19.
[4] Order Regarding State Farm General Insurance Company's Request for an Emergency Interim Rate Pending Rate Hearing, March 14, 2025 ("Order"), Page 2 at 9-12 and 17-24.
[5] Consumer Watchdog's Objections to CDI and State Farm's Two-Way Stipulation to Interim Rate, March 24, 2025 ("CW Objections"), Consumer Watchdog's Appendix of Exhibits, March 24, 2025 ("CW Exhibits"), Declaration of Benjamin A. Armstrong in Support of Consumer Watchdog's Objections to CDI and State Farm's Two-Way Stipulation to Interim Rate, March 24, 2025 ("Armstrong Decl.").
[6] Throughout this declaration, references to "I" or "my" are intended to include Milliman employees working under my direction to assist in this assignment, including internal peer reviewers. The opinions stated in this declaration are my opinions.

information provided.

- CW's non-catastrophe loss development factor selections are unsupported and noncompliant with the California Code of Regulations ("CCRs").
- CW's loss trend selections are unsupported and inconsistent with external information.
- CW's maximum permitted rate indications are unsupported, non-compliant with CCRs and not actuarially sound.

11. SFG-NW-3 filed with this testimony provides a list of the additional data and information I reviewed in support of this declaration.

12. The remainder of this declaration contains a detailed discussion of each finding. While I have referenced California statutes and regulations, I am not an attorney, and I do not purport to interpret these statutes and regulations as "laws". I interpret them as directions given to actuaries in performing our actuarial responsibilities.

13. Some regulations in CCR Tit. 10, Article 4 – Determination of Reasonable Rates have been updated since the filings were submitted on 6/27/2024 and 7/5/2024. Per CCR Tit. 10, § 2644.28 - Prospective Application of Revisions to Regulations, I am relying on the rules in effect on the dates the rate applications were initially received by the Commissioner.

D. CW's objections regarding SFG's updated catastrophe data are invalid

14. Mr. Armstrong presents multiple objections to SFG's inclusion of updated catastrophe data within the pending rate filings. However, within the context of this matter, the time frame for catastrophe provision data is not inconsistent with CCRs, and CW's objections are invalid.

15. It is standard ratemaking practice to remove catastrophe losses from the historical data and replace them with an average provision in line with long-term expectations.[7] This is because due to their nature, the presence or absence of catastrophe losses can cause huge swings in the rate indication. CCR Tit. 10, § 2644.5 – Catastrophe Adjustment provides further instruction regarding catastrophe adjustments.

[7] Geoff Werner and Claudine Modlin, Casualty Actuarial Society, Basic Ratemaking, 5th edition, May 2016, https://www.casact.org/sites/default/files/2021-03/5_Werner_Modlin.pdf., Page 94.

16. The version of CCR Tit. 10, § 2644.5 in effect when the Commissioner originally received SFG's filings requires that catastrophe losses in the ratemaking data be replaced with a loading based on a multi-year, long-term average of catastrophe claims. For homeowners multiple peril, at least 20 years must be used to calculate the average catastrophe claims.

17. In addition, the Prior Approval Rate Application Filing Instructions published by the CDI require that the historical data cannot be more than 8 months old at the time of the filing submission.[8] For example, a filing submitted in June 2024 would need to use data no more than 8 months old, and the eighth month prior to June 2024 is October 2023. Since the data must end on a traditional quarter, that means that the data would need to be through Q4 2023.

18. SFG's original rate filings, submitted 6/27/24 and 7/5/2024, were based on historical data through Q4 2023 for both catastrophe and non-catastrophe losses.[9] Subsequently, on 2/5/25 SFG provided supplementary information within the pending rate filings, showing interim rate indications based on the same data and assumptions as the original filing, but with a new effective date of 5/1/25 and an updated Exhibit 9 that included catastrophe data through January 2025.[10]

19. CW objects to "inconsistent time frames" for catastrophe and non-catastrophe loss data in the interim indications.[11] Mr. Armstrong's reasons include:

- "The Rate Templates must use a consistent time period for all catastrophe and non-catastrophe loss data, otherwise it amounts to cherry-picking the specific loss data that

[8] SFG-NW-4, California Department of Insurance, Prior Approval Rate Filing Instructions, Jun. 5, 2023, Page 27 [hereinafter "Prior Approval Rate Filing Instructions"].

[9] SFG-NW-30, SFMA-134139896, NT PriorAppRateTl No Var.pdf, Page 1; SFG-NW-5, SFMA-134139896, NT Filing Exhibits.pdf, Exhibit 9, Page 2 [hereinafter "NT Filing Exhibits - Exhibit 9"]; SFG-NW-31, SFMA-134139931, TN PriorAppRateTl No Var.pdf, Page 1; SFG-NW-6, SFMA-134139931, TN Filing Exhibits.pdf, Exhibit 9, Pages 2-3 [hereinafter "TN Filing Exhibits - Exhibit 9"]; SFG-NW-32, SFMA-134139850, RDP PriorAppRateTl No Var.pdf, Page 1; SFG-NW-7, SFMA-134139850, RDP Filing Exhibits.pdf, Exhibit 9, Page 2 [hereinafter "RDP Filing Exhibits - Exhibit 9"].

[10] SFG-NW-26, SFMA-134139896, NT PriorAppRateTI No Var – Interim.pdf, Page 1 [hereinafter "NT PriorAppRateTI No Var – Interim"]; SFG-NW-8, SFMA-134139896, NT Exhibit 9 – Interim.pdf, Exhibit 9, Page 2 [hereinafter "NT Exhibit 9 – Interim"]; SFG-NW-28, SFMA-134139931, TN PriorAppRateTI No Var – Interim.pdf, Page 1 [hereinafter "TN PriorAppRateTI No Var – Interim"]; SFG-NW-9, SFMA-134139931, TN Exhibit 9 - Interim.pdf, Exhibit 9, Pages 2-3 [hereinafter "TN Exhibit 9 – Interim"]; SFG-NW-27, SFMA-134139850, RDP PriorAppRateTl No Var – Interim.pdf, Page 1 [hereinafter "RDP PriorAppRateTl No Var – Interim"]; SFG-NW-10, SFMA-134139850, RDP Exhibit 9 - Interim.pdf, Exhibit 9, Page 2 [hereinafter "RDP Exhibit 9 – Interim"].

[11] CW Objections, Page 9 at 16-17; Armstrong Decl., Page 3 at 1-19.

serves the Applicant's interests regardless of potential distortions such as offsets between the catastrophe and non-catastrophe data, which is actuarially unsound".[12]

- Mr. Armstrong contends that the non-catastrophe data in the interim rate indications is too old and should have been updated at least through Q2 2024 because the "filing [was] submitted 2/5/2025".[13]
- Mr. Armstrong also cites a portion of CCR Tit. 10, § 2644.5(c) that went into effect on 12/12/2024, which specifies that the historical catastrophe losses be submitted through the most recent year of the non-catastrophe losses.[14] He interprets this to mean that to include 2024 catastrophe data, SFG would need to update the non-catastrophe data through Q2 2024 and to use 2025 catastrophe data, SFG would need to update the non-catastrophe data through 2025.[15]

20. These objections are invalid on multiple fronts. First, the Rate Templates do not specify a consistent time period for all catastrophe and non-catastrophe loss data. The amount of data necessary to determine a catastrophe adjustment under CCR Tit. 10, § 2644.5 – a period of at least 20 years – is not required for non-catastrophe data and would not be appropriate to use.

21. Second, SFG is not "cherry-picking the specific loss data that serves [its] interests" by providing an updated Exhibit 9; it is providing appropriate actuarial support for its interim rate request. Per the Commissioner's Order, SFG will be providing another set of rate indications based on catastrophe and non-catastrophe data updated through Q1 2025 for the rate hearing.[16]

22. Third, per CCR Tit. 10, § 2644.28, SFG must satisfy the rules in effect on the dates the rate applications were initially received by the Commissioner. Its submission of Exhibit 9 on 2/5/2025 meets these requirements by providing the catastrophe data for at least 20 years, and using a multi-year, long-term average of catastrophe claims to determine a catastrophe adjustment. The provision cited by Mr. Armstrong does not apply because it went into effect after the filing was submitted.

[12] Armstrong Decl., Page 3 at 5-9.
[13] Armstrong Decl., Page 3 at 11-13.
[14] Armstrong Decl., Page 3 at 13-16.
[15] Armstrong Decl., Page 3 at 16-19.
[16] Order, Page 2 at 17-24.

23. Finally, Mr. Armstrong makes a distinction between "actual" catastrophe loss data through 2024 and "estimated" catastrophe loss data for the first weeks of January 2025.[17] However, this is a false distinction; the Prior Approval filing instructions allow estimates to be included in the losses underlying the catastrophe provision in the form of case and IBNR reserves, and SFG has historically included reserve estimates in the loss data reported for catastrophes, to bring them an ultimate basis.[18] There are multiple ways to estimate case reserves and IBNR reserves for catastrophes, but such estimates are typically based on some combination of experience and exposure data, updated over time as more experience emerges. Many of them combine estimates of frequency and severity, which is what SFG did to estimate its 2025 catastrophe losses for submission in the 2/5/25 indication.[19]

24. In my opinion, given the CDI instructions and the applicable regulations and the timing and intent of the interim rate indications, SFG's submission is actuarially sound and consistent with regulations.

E. CW's selected AIY trend is unsupported and inconsistent with how the trends are applied

25. SFG's catastrophe exhibits in support of the interim rate indication included updated AIY data for 2024 and 2025. Mr. Armstrong used this data to conclude that SFG's previously selected average AIY trend was excessive, and substituted his own trend selections (without disclosing what they are). However, his selections were mistakenly based on total AIY rather than average AIY per exposure; as a result, CW's selections are unsupported and inconsistent with how the trends are applied.

26. CCR Tit. 10, § 2644.5 requires that "the catastrophic losses of any one accident year in the recorded period are replaced by a loading based on a multi-year, long-term average of catastrophe claims". Section 2644.5 does not specify a particular methodology for this; per the Prior Approval Rate Filing Instructions, insurers provide the support for the catastrophe

[17] Armstrong Decl., Page 3 at 2-4.
[18] Prior Approval Rate Filing Instructions, Page 38.
[19] NT Exhibit 9 – Interim, Page 2; TN Exhibit 9 – Interim, Pages 2-3; RDP Exhibit 9 - Interim, Page 2.

adjustment factors in Exhibit 9, including "a demonstration of how the loading based on a multi-year, long-term average of catastrophe claims was derived".[20]

27. Typically, the catastrophe losses are expressed as an annual ratio to some measure of exposure, typically either non-catastrophe losses or AIY, and then averaged. SFG uses AIY, defined as $1000s of building insurance in force for one year and reflects changing values, as the measure of exposure in the denominator of its ratio.[21]

28. To convert the catastrophe to AIY ("CAT/AIY") ratio into a ratio of catastrophe to non-catastrophe losses for the Rate Template, both the estimated catastrophe and non-catastrophe losses must be projected to the same future time period the rates are expected to be in effect. The trend factors for both the AIY and non-catastrophe losses are based on the same time period and are on a per-exposure basis.[22]

29. SFG provided data supporting the AIY per exposure trend and fitted trends in Exhibit T.[23] The data for Non-Tenant Homeowners, Renters, Condos, and Rental Dwelling is through Q4 2023, consistent with the data used to select premium and loss trends. The fitted trend indications (bottom of Exhibit T) are based on the rolling average AIY per exposure data in the last column of Exhibit T. For example, for Non-Tenant Homeowners the average amount of AIY coverage per exposure increased from $567 thousand at Q4 2021 to $681 thousand at Q4 2023; the 8-point fitted trend indication of 9.26% is based on all the values between these points.

30. SFG selected AIY trends using the same point fits as their selected premium and loss trends; for example, consistent with its Non-Tenant Homeowners premium and loss trends, SFG selected the 8-point fitted trend (9.3%) for the Non-Tenant Homeowners AIY per exposure trend.[24] Based on the data provided in Exhibit T, SFG's AIY trend selections are reasonable and

[20] Prior Approval Rate Filing Instructions, Page 38.
[21] NT Filing Exhibits - Exhibit 9, Page 1; TN Filing Exhibits - Exhibit 9, Page 1; RDP Filing Exhibits - Exhibit 9, Page 1.
[22] NT Filing Exhibits - Exhibit 9, Page 5; TN Filing Exhibits - Exhibit 9, Page 6; RDP Filing Exhibits - Exhibit 9, Page 5.
[23] SFG-NW-11, SFMA-134139896, Final Exhibits (1) – Exhibit T.pdf. This exhibit includes support for Non-Tenant Homeowners, Renter, Condo, and Rental Dwelling and was provided in each of the three filings.
[24] NT Exhibit 9 - Interim, Page 5; TN Exhibit 9 - Interim, Page 6; RDP Exhibit 9 - Interim, Page 5.

fully supported. In my opinion, SFG's selected AIY trends are both compliant with regulations and actuarially sound.

31. CW claims that SFG's selected AIY trend factor is unsupported and significantly higher than justified.[25] Mr. Armstrong argues that 1) the data is too old and should have been updated through Q2 2024 or Q1 2025 and 2) updated data would produce much lower 8-point trend factors of 0.0% or -4.2% for Non-Tenant Homeowners.[26] These objections are unfounded in several crucial ways.

32. First, as discussed earlier, the interim rate indications included limited updates, and SFG will be preparing fully updated rate indications with data through Q1 2025.

33. Second and most importantly, Mr. Armstrong's calculations and opinions are based on data that is inconsistent with how the trends are applied. Mr. Armstrong stated that he derived his lower AIY trend estimates from data provided in Exhibit 9, Page 2.[27] Exhibit 9, Page 2 displays <u>total</u> AIY, not <u>average</u> AIY per exposure; the data to calculate average AIY per exposure for 2024 and 2025 is not available in the interim filings. But total amounts and average amounts don't necessarily follow the same trend; for example, if SFG writes fewer policies in a given year, total AIY could decrease even if the average AIY per exposure continued to increase.

34. Using the data on Exhibit 9, I confirmed that Mr. Armstrong's trend figures are indeed for <u>total</u> AIY, not <u>average</u> AIY per exposure. For example, the change in total AIY for Non-Tenant Homeowners from 2023 to 2024 was 845,501,592 / 845,640,269 – 1 = 0.0%, which matches Mr. Armstrong's estimate.[28] Similarly, the change from 2024 to 2025 is 809,596,207 / 845,501,592 – 1 = -4.2%.

35. Finally, because Mr. Armstrong did not disclose what his final AIY trend selection was or provide the exhibits showing his calculations, the only thing I can tell from his declaration is that it is probably lower than that of SFG. Mr. Armstrong's misinterpretation of how the AIY

[25] CW Objections, Page 9 at 19-20.
[26] Armstrong Decl., Page 4 at 22-28.
[27] Armstrong Decl., Page 5 at 18-19.
[28] NT Exhibit 9 – Interim, Page 2.

trend is derived and applied means that his estimates are not supported by the data; they would be biased by any changes in exposure and do not produce an actuarially sound trend estimate.

F. CW's selected catastrophe weights cannot be calculated or evaluated based on the information provided

36. In its updated catastrophe exhibit, SFG shortened the experience period underlying its average CAT/AIY ratios from 34 years to 20 years in order to better reflect changes in catastrophe risk. Mr. Armstrong argued that the weights used by SFG were unsupported and apparently chose different weights but failed to show them, and ultimately his selections cannot be calculated or evaluated based on the information provided.

37. As previously stated, the version of CCR Tit. 10, § 2644.5 – Catastrophe Adjustment in effect when SFG's filings were originally submitted requires that catastrophe losses in the ratemaking data be replaced with a loading based on a multi-year, long-term average of catastrophe claims. For homeowners multiple peril, at least 20 years must be used to calculate the long-term average.

38. SFG's original filings used 34 years (1990-2023) of calendar year loss and defense and cost containment expenses ("DCCE") associated with catastrophe claims, then calculated ratios to annual AIY for each year. SFG's methodology to determine the long-term average CAT/AIY ratio was to assign the highest weight to the latest year and 5% less weight to each prior year back to 2000. For the years 1990-1999, the remainder of the distribution was spread evenly across the 10-year period, such that the weights for all years would add up to 100%.[29]

39. SFG's interim rate templates were updated to include additional catastrophe loss and AIY data for Calendar Year 2024 and January 2025. The experience period was shortened to use only 20 years of data, but the weighting methodology was the same, assigning the highest weight to the latest year and 5% less weight to each prior year, such that the weights for all years would add up to 100%. SFG supported the shorter experience period by noting the increasing

[29] NT Filing Exhibits - Exhibit 9, Page 2; TN Filing Exhibits - Exhibit 9, Pages 2-3; RDP Filing Exhibits - Exhibit 9, Page 2.

pattern of CAT/AIY within the state and stating that reliance on more recent data is the most appropriate way to reflect the increasing catastrophic loss per exposure over time.[30]

40. These ratios are then added to a separate provision for Fire Following Earthquake ("FFEQ") claims (calculated using a different methodology based on catastrophe models) and multiplied by the trended AIY for the prospective policy period to derive a total dollar amount of catastrophe loss and DCCE. That dollar amount is compared to developed and trended non-catastrophe loss and DCCE to derive a "Catastrophe Adjustment Factor" that is used in the overall rate indication.[31]

41. In order to assess SFG's decision to weight only the past 20 years rather than to continue to assign weights to earlier years back to 1990, I researched changes that may have occurred over this period.

42. There is widespread recognition that exposure to catastrophes in California has increased over time, as officially stated in a 2023 Executive Order issued by Governor Newsom:[32]

> "WHEREAS climate change has made California hotter and drier over the last several decades, resulting in more frequent wildfires of greater intensity; and
>
> WHEREAS since 2018, California has experienced the seven largest wildfires in state history, as well as the single deadliest and most destructive wildfire, and during that time wildfires have burned millions of acres and destroyed thousands of structures; and
>
> WHEREAS climate change has increased the occurrence and severity of winter storms, as evidenced by the series of severe storms that battered the State this winter and spring, damaging or destroying hundreds of homes and businesses and threatening thousands more…"

43. The California Department of Forestry and Fire Protection ("CAL FIRE") tracks the most destructive California wildfires in terms of structures destroyed. As of February 7, 2025, 16 of the 20 most destructive California wildfires have occurred in the past 20 years, with all but two of those fires occurring since 2017.[33]

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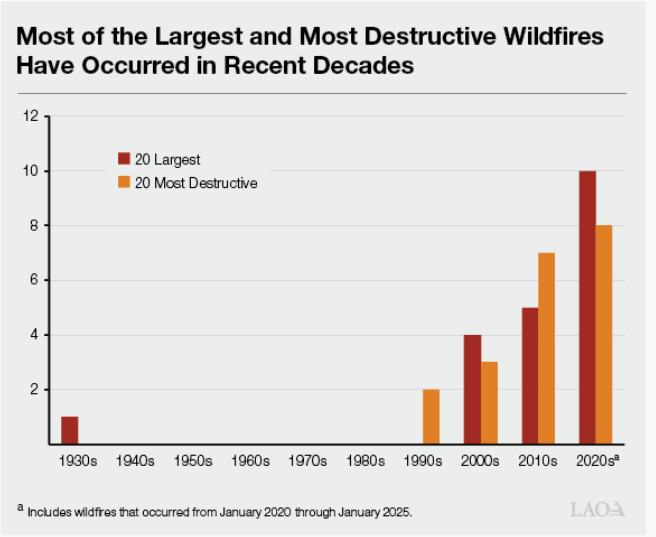
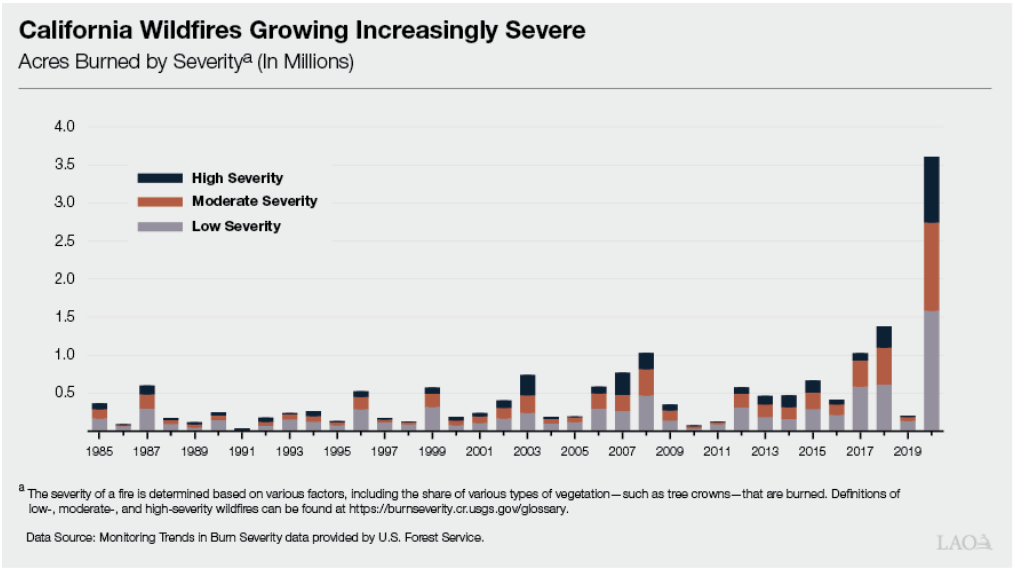
[30] NT Exhibit 9 – Interim, Page 2; TN Exhibit 9 - Interim, Pages 2-3;RDP Exhibit 9 - Interim, Page 2.
[31] NT Exhibit 9 - Interim, Page 5; TN Exhibit 9 - Interim, Page 6; RDP Exhibit 9 - Interim, Page 5.
[32] State of California, Executive Order N-13-23, September 21, 2023.
[33] CAL FIRE, "Top 20 Most Destructive California Wildfires", February 7, 2025, https://34c031f8-c9fd-4018-8c5a-4159cdff6b0d-cdn-endpoint.azureedge.net/-/media/calfire-website/our-impact/fire-statistics/top20_destruction.pdf

44. The California Legislative Analyst's Office has also found that most of California's largest and most destructive wildfires have occurred in recent decades. This trend has been particularly notable over the last several years, which have seen some of the worst wildfires in the state's recorded history. For example, eight of the most destructive wildfires occurred from August 2020 through January 2025.[34]



45. Additionally, California wildfires are becoming increasingly severe, as measured by the increase in acres burned by severity level over the past few decades.[35]



[34] California Legislative Analyst's Office, "Frequently Asked Questions About Wildfires in California", February 13, 2025, https://lao.ca.gov/Publications/Report/4952

[35] California Legislative Analyst's Office, "Frequently Asked Questions About Wildfires in California", February 13, 2025, https://lao.ca.gov/Publications/Report/4952

46. Some of the significant factors that have contributed to the statewide trends of wildfires becoming deadlier and more destructive in recent decades include:

- Increased development in fire-prone areas: Between 1990 and 2020, the number of housing units in California's WUI grew from 3.6 million to 5.1 million (a 42 percent increase).
- Climate change is contributing to hotter weather and longer dry seasons in California than was previously typical. Extremely dry conditions in combination with high winds can be particularly high risk for wildfires.
- Utility infrastructure management. Although only about 10 percent of wildfires are started by utility equipment, powerlines caused at least 8 of the 20 most destructive fires in California's history.
- Unhealthy forests. Much of the state's forestlands are unhealthy, which means they tend to be dense with small trees and brush that serve as "ladder fuels" to carry wildfires into tree canopies, increasing their spread.[36]

47. Exploring the link between climate change and wildfires, the Western Fire Chiefs Association notes that:

- As temperatures grow hotter and the air becomes drier because of climate change, wildfires occur more frequently; they also burn bigger and hotter. Data from the National Interagency Fire Center shows a proportional increase in the amount of acreage burned by wildfires with the rise in temperatures since 1983.
- From 1982-2000, fire season peaked in August in the Western United States; since 2001, it has peaked in July. Fire season is also lasting longer, as the result of shorter winters and longer summers.[37]

48. Based on these sources, it appears that there is significant external evidence to support SFG's assertion of rapidly growing catastrophe risk in California. The company had

[36] California Legislative Analyst's Office, "Frequently Asked Questions About Wildfires in California", February 13, 2025, https://lao.ca.gov/Publications/Report/4952

[37] Western Fire Chiefs Association, "Wildfires and Climate Change", March 4, 2024, https://wfca.com/wildfire-articles/wildfires-and-climate-change/

received a prior ruling ("Precedential Decision")[38] on a Homeowners filing submitted in 2014, regarding the use of weights vs. trend factors in developing its CAT/AIY load based on data over a long time period. The Precedential Decision noted that § 2644.5 requires the catastrophe adjustment factor to reflect changes between the insurer's historical and prospective exposure to catastrophes due to changes in the mix of business.[39]

49. Ultimately, the Precedential Decision concluded that the most actuarially sound method applied more weight on recent years to reflect changes in mix of business in accordance with § 2644.5.[40]

50. In its interim rate indications, SFG is adhering to the applicable version of § 2644.5 by using a multi-year average based on 20 years of data. Because the overall risk is increasing so much, especially in recent decades, it is actuarially sound to put more weight on experience from recent years and less weight on older years that would tend to understate risk. In my opinion, given the regulations in place at the time of this filing, SFG's selected catastrophe weights/years are actuarially sound and produce a reasonable catastrophe provision within the interim indications.

51. Mr. Armstrong objects to SFG's rationale for increasing weights on more recent years in lieu of applying trend factors and cites CCR Tit. 10, § 2644.5(g) as disallowing the application of trend to the catastrophe adjustment except for the trend factor that is used to project AIY.[41] However, his citation is not applicable, because it incorrectly references a version of the regulations that was adopted in December 2024 and allows the substitution of modeled catastrophe losses for wildfire. The CCR Tit. 10, § 2644.5 – Catastrophe Adjustment in effect when SFG's filings were originally submitted is silent on trend and does not allow the use of catastrophe models for wildfire. This criticism is also inapplicable because SFG is not using a trend factor in

[38] SFG-NW-12, California Department of Insurance, "Precedential Decisions", State Farm General Insurance Company: File No. PA-2015-0004, https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0600-decision-ruling/0100-precedential/statefarmgeneralpa201500004.cfm ("Precedential Decision").
[39] Precedential Decision, Page 28.
[40] Precedential Decision, Page 29.
[41] Armstrong Decl., Page 4 at 6-9.

its CAT/AIY weighting but instead placing a higher weight on more recent years in accordance with the Precedential Decision.

52. Mr. Armstrong objects that no support was provided for increasing the weights on recent years and decreasing them on older years, but he does not comment on the explanation from SFG that this was done to reflect the increasing catastrophic loss per exposure over time.[42]

53. He states that he reverted to the CAT/AIY weighting schemes used by SFG in their original filing in order to avoid placing an excessive weight on the 2025 year.[43] There are multiple ways to interpret Mr. Armstrong's description of reverting to the original SFG weighting schemes, but he did not disclose the specific weights or years he used, or what his ultimate CAT/AIY selections are. I tried to reverse engineer Mr. Armstrong's methodology based on the Catastrophe Adjustment Factor which appears in his Exhibit B (1.811 for Non-Tenant Homeowners), but this is mathematically unsolvable given that it is calculated using trended AIY and, as previously mentioned, he did not disclose his selected AIY trend assumption either.

54. Ultimately, I cannot evaluate the reasonableness of Mr. Armstrong's assumptions based on the insufficient documentation provided. However, his description of his rationale fails to acknowledge the reason for SFG's selected weights, which is the widely accepted concept that catastrophic risk has risen drastically in the past couple of decades.

G. CW's non-catastrophe loss development factor selections are unsupported and noncompliant with CCRs

55. Mr. Armstrong revised one of SFG's non-catastrophe loss development factor selections without providing any support for how it was derived. His selection was noncompliant with CCR Tit. 10, § 2644.6 or any allowable variances.

56. In California, the Cal. Ins. Code and CCR provide specific requirements and constraints on the assumptions and methods used in ratemaking. The maximum permitted earned premium is defined as the sum of the company's projected losses and DCCE, adjusted for estimated investment income on reserves and ancillary income, plus an allowance for expenses

[42] Armstrong Decl., Page 4 at 10-12.
[43] Armstrong Decl., Page 5 at 16-17.

and profit (CCR Tit. 10, § 2644.2). The "projected losses" are defined as the insurer's historic losses per exposure, adjusted for catastrophes, loss development,[44] and trend (CCR Tit. 10, § 2644.4).

57. CCR Tit. 10, § 2644.6 provides instructions regarding loss development, including:

- Loss development shall be based on the dollar-weighted average of the ratios of losses for the three most recent accident-years, policy-years, or report years available.
- Loss development shall employ either paid losses or the sum of paid losses and case-specific reserves.

58. Under certain circumstances insurers can vary from the standards, as described in CCR Tit. 10, § 2644.27 – Variance Request. Variances for Loss Development are appropriate when the loss development formula in § 2644.6 does not produce an actuarially sound result for various specified reasons.

59. For the proposed interim rates, SFG selected dollar-weighted averages of the ratios of Paid – Pure Loss and Paid – DCCE Dollars for the three most recent accident years available.[45] SFG disclosed that reserving changes implemented in January 2023 made the use of development patterns based on incurred losses (the sum of paid losses and case-specific reserves) inappropriate without adjustment. SFG evaluated possible adjustments to the historical incurred loss data, which would heavily rely on assumptions, and determined that the resulting ultimate losses were similar to the results from the standard loss development on a paid basis. Accordingly, SFG selected development factors based on paid losses.[46]

60. In my opinion, SFG's loss development selections are compliant with CCR Tit. 10, § 2644.6, supported by the data, supported by the provided rationale, did not necessitate a Variance, and are actuarially sound.

[44] As a claim matures, payments are made and claim adjusters gather more information about the value of the loss until the final payment is made and the ultimate amount is known. For more recent claims, losses are to some degree immature and therefore the ultimate loss amount is not yet known. The process of adjusting immature losses to an estimated ultimate value is known as loss development.

[45] SFG-NW-13, SFMA-134139896, NT StdExhTl No Var.pdf, Exhibit 7; SFG-NW-14, SFMA-134139931, TN StdExhTl No Var.pdf, Exhibit 7; SFG-NW-15, SFMA-134139850, RDP StdExhTl No Var.pdf, Exhibit 7.

[46] SFG-NW-16, SFMA-134139896, NT Filing Memo.pdf, Page 1 [hereinafter "NT Filing Memo"].

61. Mr. Armstrong asserts that SFG's selected development factors are excessive, but he provided no basis for this assertion.[47] Mr. Armstrong's selections for development factors are shown in the lines for "Loss_Devt" and "DCCE_Devt" in his revised rate change calculations in Exhibit B. Like SFG, Mr. Armstrong selected paid development factors separately for loss and DCCE. Mr. Armstrong in fact selected factors identical to SFG's selections, except for the loss development factor for Non-Tenant Homeowners, which he reduced to 1.725 from SFG's selected 1.793. Mr. Armstrong did not provide any rationale for this selection, or any explanation or support for how it is calculated. It is apparently not calculated using 3-year weighted averages of historical data in accordance with the standards described in CCR Tit. 10, § 2644.6.

62. I do not know whether CW is allowed to propose or justify a Variance, but Mr. Armstrong did not do so in this case. Without support for a Variance, Mr. Armstrong selected a factor that is different from the derived averages described in CCR Tit. 10, § 2644.6, therefore is non-compliant with § 2644.6.

H. CW's loss trend selections are unsupported and inconsistent with external information

63. Mr. Armstrong objected to SFG's trend selections without providing any support, and made different trend selections for non-catastrophe loss and DCCE and premium. CW's lower loss trend selections are unsupported and inconsistent with external information.

64. In addition to projecting historical losses to an ultimate level, it is necessary to adjust the losses for underlying trends expected to occur between the historical experience period and the period for which the rates will be in effect. Claim frequencies and claim costs are both impacted by underlying factors that may change expected levels over time. These changes in frequency and severity are referred to as loss trend.[48]

65. CCR Tit. 10, § 2644.7 provides further instructions regarding loss and premium trend, including:

- The premium and loss trend factors shall be developed using the insurer's most

[47] Armstrong Decl., Page 5 at 3-4.

[48] Geoff Werner and Claudine Modlin, Casualty Actuarial Society, Basic Ratemaking, 5th edition, May 2016, https://www.casact.org/sites/default/files/2021-03/5_Werner_Modlin.pdf., Page 109.

actuarially sound company-specific rolling calendar year data excluding catastrophes, for the most recent 8, 12, 16, 20, or 24 quarters

- The insurer shall file its rate change application using the single data period that it determines to be the most actuarially sound
- The insurer shall submit the frequency and severity calculation on all bases, and shall demonstrate that its selection is the most actuarially sound

66. SFG's selected loss trends are based on the 8-point fit for Non-Tenant Homeowners and the 20-point fit for all other lines, using Reported Frequency and Paid Severity.[49] They selected the corresponding fits for Premium trend.[50] For Non-Tenant Homeowners, SFG explained that their selection focused on the net trend[51] and reflects flattening premium trend and continued severity trend expected during the policy period.[52] For Renters/Condo and Rental Dwelling, SFG explained that their selection of mid- to longer-term trends focused on the net trend indication and strike a balance between responsiveness and stability.[53]

67. Mr. Armstrong asserts that SFG's trend selections are excessive.[54] His declaration did not provide any support for this assertion or explain the basis of his annual trend selections, but I believe that Mr. Armstrong's loss trend selections correspond with the 20-point fit for Non-Tenant Homeowners, the 24-point fit for Renters, the 8-point fit for Condo, and the 24-point fit for Rental Dwelling, all based on Reported Frequency and Paid Severity from Exhibit 8 of SFG's filings. Additionally, Mr. Armstrong revised the premium trends, which also correspond with the above-referenced point fits from Exhibit 5 of SFG's filings.

68. A comparison of the indicated net trends at various time periods vs. selections of SFG and CW is shown in the attached SFG-NW-25 and summarized below:

[49] SFG-NW-17, SFMA-134139896, NT StdExhTl No Var.pdf, Exhibit 8; SFG-NW-18, SFMA-134139931, TN StdExhTl No Var.pdf, Exhibit 8; SFG-NW-19, SFMA-134139850, RDP StdExhTl No Var.pdf, Exhibit 8.
[50] SFG-NW-20, SFMA-134139896, NT StdExhTl No Var.pdf, Exhibit 5; SFG-NW-21, SFMA-134139931, TN StdExhTl No Var.pdf, Exhibit 5; SFG-NW-22, SFMA-134139850, RDP StdExhTl No Var.pdf, Exhibit 5.
[51] Net trend, also called "loss ratio trend", is calculated as [(1 + loss trend) / (1 + premium trend)] - 1.
[52] NT Filing Memo, Page 1.
[53] SFG-NW-23, SFMA-134139931, TN Filing Memo.pdf, Page 1; SFG-NW-24, SFMA-134139850, RDP Filing Memo.pdf, Page 1.
[54] Armstrong Decl., Page 5 at 3-4.

Indicated vs. Selected Net Trend

Line of Business	Minimum Indicated	Maximum Indicated	SFG Selected	CW Selected
Non-Tenant Homeowners	-0.2%	22.3%	8.1%	3.8%
Renters	-0.7%	12.0%	4.4%	3.6%
Condo	2.9%	9.7%	4.6%	3.4%
Rental Dwelling	-5.2%	11.4%	6.7%	5.9%

Source: SFG-NW-25

69. Mr. Armstrong offers no explanation as to why such inconsistent time periods were chosen, but I noted that they all represent the lowest non-negative point fits based on SFG's reported frequency and paid severity data for each of the referenced lines. In general, they result in net trend selections at the low end of the indicated ranges of net trends; for Non-Tenant Homeowners his selection of +3.8% is close to the low end of a range of -0.2% to +22.3%, whereas SFG's selection of +8.1% falls below the middle of the range.

70. In the interim indications, the SFG trend adjustment is applied to bring loss and premium from the average historical cost level (experience ending Q4 2023) to 5/1/2026, which is the average loss date for the prospective period assuming an effective date of 5/1/2025.[55] The highest loss trends selected by SFG were for Non-Tenant Homeowners and Rental Dwelling, both of which cover the cost associated with damage to the dwelling and attached structures, along with other coverages.[56] To better assess the reasonableness of the SFG and CW trend selections, I considered recent external factors regarding construction costs within the trend period (2024-2026) and found the following information:

- In July 2024 the National Association of Home Builders ("NAHB") noted that, even as overall inflation has moderated, the cost of residential construction building materials has continued to rise. They warned that the construction industry will likely need to adapt to this new reality of higher material prices for the foreseeable future.[57]

[55] NT PriorAppRateTI No Var – Interim, Page 7.1; RDP PriorAppRateTl No Var – Interim, Page 7.1; TN PriorAppRateTI No Var – Interim, Pages 7.1-7.2.
[56] State Farm, "What does a homeowners insurance policy cover?", https://www.statefarm.com/insurance/homeowners/home-insurance-coverage, and "What is a rental dwelling policy?", https://www.statefarm.com/insurance/rental-properties/rental-homes
[57] National Association of Home Builders, "Material Costs Affect Housing Affordability", Jul. 16, 2024, https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy/material-costs

- The Los Angeles fires may create a demand surge that impacts cost trends in 2025 and beyond. Demand surge refers to the sudden increase in the cost of materials, labor or services due to increased demand following a natural disaster. According to Corelogic, the probability of a demand surge is directly related to the size and severity of the event that precedes it. Demand surge can increase costs anywhere from 15-30% and typically last between 6 and 12 months. If local regulatory constraints slow the rebuilding process, it can exacerbate demand surge.[58]
- In March 2025, an NAHB analysis noted that scarcity and an acute, sustained rise in building material costs are driving up the cost to construct homes. With nearly 72% of sawmill and wood products imported in 2024 coming from Canada, and 74% of lime and gypsum products from Mexico, the proposed tariffs on those countries would increase prices of these and other critical materials needed to build and repair homes.[59] An analysis by CoreLogic suggests that the proposed tariffs on Canada and Mexico could increase home construction costs by 4 to 6% over the next 12 months as material costs adjust to the new landscape. This would be on top of any other increases in material costs, which typically track inflation.[60]

71. Given recent events, there are strong reasons to believe that costs of building and repairing homes are rising acutely and will continue to rise in the near future due to factors such as demand surge and tariffs.

72. In summary, SFG's selections are in compliance with CCR Tit. 10, § 2644.7. They are supported by SFG's own data as provided in the filings and are chosen on an internally consistent basis, with a sufficient rationale provided. The higher loss trends selected are further supported by available information about the external environment for building and construction costs in the prospective term. It is my opinion that SFG's selections are actuarially sound.

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[58] SFG-NW-29, Corelogic, "How Demand Surge After Natural Disasters Impacts the Cost and Timing of Recovery", Oct. 28, 2019.

[59] National Association of Home Builders, "How Tariffs Impact the Home Building Industry", https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy/how-tariffs-impact-home-building

[60] Corelogic, "Will Trump Tariffs Harm Home Affordability?", Feb 10, 2025, https://www.corelogic.com/intelligence/will-trump-tariffs-harm-home-affordability/

73. Mr. Armstrong provides no arguments about why lower trends are more representative of the future period under consideration, when external factors point to increasing trends.

I. CW's maximum permitted rate indications are unsupported, non-compliant with CCRs and not actuarially sound

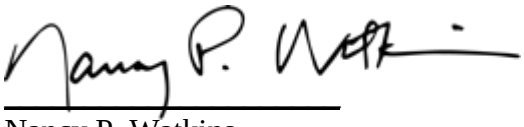
74. Mr. Armstrong states that the purpose of his preliminary rate indications was to address his previously noted objections and show that State Farm's proposed emergency interim rate requests are excessive. Based on his selected revisions to CAT/AIY weights, AIY trend, premium and loss trend, and loss development factors, Mr. Armstrong indicated maximum permitted rate indications of -0.1% for Non-Tenant Homeowners, +8.1% for Renters/Condo, and +30.6% for Rental Dwelling.[61]

75. Given the many issues I have noted with respect to Mr. Armstrong's analysis, it is my opinion that CW has failed to show that State Farm's proposed interim rate requests are excessive. In various respects his selected assumptions are unsupported, undocumented, and non-compliant with CCRs, and taken together they produce maximum permitted rate indications that are not actuarially sound.

J. Conclusion

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

77. Executed April 2, 2025, at Orinda, California.



Nancy P. Watkins

[61] Armstrong Decl., Page 5 at 8-26.