Harvey Rosenfield, SBN 123082
Pamela Pressley, SBN 180362
William Pletcher, SBN 212664
Benjamin Powell, SBN 311624
Ryan Mellino, SBN 342497
CONSUMER WATCHDOG
6330 San Vicente Blvd., Suite 250
Los Angeles, CA 90048
Tel. (310) 392-0522
Fax (310) 861-0862
harvey@consumerwatchdog.org
pam@consumerwatchdog.org
will@consumerwatchdog.org
ben@consumerwatchdog.org
ryan@consumerwatchdog.org

Attorneys for CONSUMER WATCHDOG

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 EXHIBIT LIST**

Pursuant to the Administrative Law Judge's ("ALJ") April 4, 2025 Case Management Order, Consumer Watchdog submits the following exhibit list:

Number	Date	Document Description
IRH-CWD-201	July 26, 2024	Consumer Watchdog's First Set of Discovery Requests Propounded on State Farm
IRH-CWD-202	August 23, 2024	Consumer Watchdog's Second Set of Discovery Requests Propounded on State Farm
IRH-CWD-203	August 23, 2024	Consumer Watchdog letter to CDI regarding Consumer Watchdog's July 26, 2024 Discovery Requests
IRH-CWD-204	August 26, 2024	CDI letter to Consumer Watchdog regarding Consumer Watchdog's July 26, 2024 Discovery Requests
IRH-CWD-205	August 26, 2024	State Farm letter to Consumer Watchdog regarding Consumer Watchdog's July 26, 2024 Discovery Requests
IRH-CWD-206	October 8, 2024	Transcript of Hearing in *In the Matter of the Filing Dated January 3, 2024, by the North Carolina Rate Bureau for Revised Homeowners Insurance Rates*, Vol. II
IRH-CWD-207	February 3, 2025	State Farm letter to Commissioner Lara requesting emergency interim rate approval
IRH-CWD-208	February 5, 2025	Consumer Watchdog letter to Commissioner Lara regarding State Farm's emergency interim rate approval request
IRH-CWD-209	February 7, 2025	CDI letter to Commissioner Lara regarding State Farm's emergency interim rate approval request Two-Way Stipulation to Emergency Interim Rate Request between CDI and State Farm Proposed Order
IRH-CWD-210	February 7, 2025	Consumer Watchdog letter to CDI in response to proposed Two-way Stipulation to Emergency Interim Rate Request between CDI and State Farm
IRH-CWD-211	February 14, 2025	Commissioner Lara letter to State Farm regarding State Farm's emergency interim rate approval request proposing February 26, 2025 informal conference

IRH-CWD-212	February 19, 2025	Consumer Watchdog letter to Commissioner Lara regarding February 26, 2025 informal conference
IRH-CWD-213	February 20, 2025	Commissioner Lara letter to Consumer Watchdog regarding February 26, 2025 informal conference
IRH-CWD-214	February 25, 2025	State Farm letter to Commissioner Lara regarding February 26, 2025 informal conference
IRH-CWD-215	February 26, 2025	Consumer Watchdog Memo to All Parties re Consumer Watchdog's Review of Proposed Emergency Interim Rate Approval
IRH-CWD-216	February 26, 2025	Transcript of Proceedings, State Farm Emergency Rate Approval
IRH-CWD-217	March 6, 2025	Consumer Watchdog letter to Commissioner Lara regarding Consumer Watchdog's analysis of information presented by State Farm at February 26 informal conference
IRH-CWD-218	March 6, 2025	Consumer Watchdog letter to Commissioner Lara regarding statements made by Haden Kirkpatrick
IRH-CWD-219	March 11, 2025	Transcript of Proceedings, Follow-Up Meeting re State Farm Request for Emergency Interim Rate
IRH-CWD-220	March 11, 2025	State Farm letter to Deputy Commissioner Lucy Wang regarding State Farm's emergency interim rate approval request
IRH-CWD-221	March 11, 2025	State Farm letter to Commissioner Lara regarding State Farm's emergency interim rate approval request
IRH-CWD-222	March 12, 2025	Consumer Watchdog letter to Commissioner Lara regarding State Farm's emergency interim rate approval request
IRH-CWD-223	March 12–13, 2025	Email correspondence between State Farm and Deputy Commissioner Lucy Wang
IRH-CWD-225	March 19, 2025	CDI letter to ALJ Latimer requesting limited in-person attendance at April 8, 2025 hearing
IRH-CWD-226	March 20, 2025	Consumer Watchdog letter to ALJ Latimer regarding CDI's request for limited in-person attendance at April 8, 2025 hearing
IRH-CWD-227	March 28, 2025	Consumer Watchdog letter to ALJ Seligman
IRH-CWD-230		Ben Armstrong CV
IRH-CWD-231		Allan I. Schwartz CV
IRH-CWD-232		Data from SFG Schedule F, Part 3

IRH-CWD-233		Supplemental Exhibit 9A, SFG Exhibit Q, produced with SFG's July 10, 2024 responses to CDI's objections
IRH-CWD-234		State Farm General Insurance Company California Homeowners Insurance Rate Filing, SERFF Tracking #: SFMA-133569018, State Tracking #: 23-613, Company Tracking #: HO-45657, PDF File "HO Filing Exhibits", Rate Level History, Exhibit 2
IRH-CWD-235	February 25, 2025	S&P Global Ratings, *State Farm General Insurance Co. 'AA' Ratings Placed on CreditWatch, Negative On Weakening Capital Position*
IRH-CWD-236	February 6, 2025	Jean Eaglesham, Wall Street Journal, *State Farm Was All in on California—Until It Pulled the Plug Before the Fires*
IRH-CWD-237	December 2023	Actuarial Standard of Practice No. 29, Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention
IRH-CWD-238	July 1997, updated May 2011	Actuarial Standard of Practice No. 30, Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking
IRH-CWD-239	December 2017	Actuarial Standard of Practice No. 53, Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention
IRH-CWD-240	May 1988	Casualty Actuarial Society, Statement of Principles Regarding Property and Casualty Insurance Ratemaking
IRH-CWD-241	January 2001	American Academy of Actuaries, Code of Professional Conduct
IRH-CWD-242	April 4, 2025	Juan Carlos Arancibia, Investor's Business Daily, *Homebuilding Stocks Reverse Higher As This Key Material Escapes Tariffs*
IRH-CWD-243	April 3, 2025	National Association of Home Builders, *In Win for NAHB, Canadian Lumber Exempt from Trump's Global Reciprocal Tariffs*
IRH-CWD-244	June 7, 2024	California Department of Insurance, Contract with Milliman, Inc.
IRH-CWD-245	November 8, 2016	Order Adopting Revised Proposed Decision, In the Matter of State Farm, File No. PA-2015-00004
IRH-CWD-246		2014 California P & C Market Share Report, Homeowners Multiple Peril
IRH-CWD-247		2018 California P & C Market Share Report, Homeowners Multiple Peril

IRH-CWD-248		2023 California P & C Market Share Report, Homeowners Multiple Peril
IRH-CWD-249		2023 State Farm Schedule Y, Part 1A
IRH-CWD-250		2023 State Farm Schedule D, Part 2, Section 2
IRH-CWD-251		State Farm Leadership Team
IRH-CWD-252	February 3–March 14, 2025	State Farm General Insurance Company: Update on California

DATED: April 7, 2025

Respectfully submitted,

Harvey Rosenfield
Pamela Pressley
William Pletcher
Benjamin Powell
Ryan Mellino
CONSUMER WATCHDOG

By: Pamela Pressley
Pamela Pressley
Attorneys for CONSUMER WATCHDOG

EXHIBIT IRH-CWD-201

Harvey Rosenfield, SBN 123082
Pamela Pressley, SBN 180362
Benjamin Powell, SBN 311624
Ryan Mellino, SBN 342497
CONSUMER WATCHDOG
6330 San Vicente Blvd., Suite 250
Los Angeles, CA 90048
Tel. (310) 392-0522
Fax (310) 861-0862
harvey@consumerwatchdog.org
pam@consumerwatchdog.org
ben@consumerwatchdog.org
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Attorneys for CONSUMER WATCHDOG

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No.: 24-1271 **CONSUMER WATCHDOG'S FIRST SET OF DISCOVERY REQUESTS PROPOUNDED ON STATE FARM GENERAL INSURANCE COMPANY**

DEMANDING PARTY: CONSUMER WATCHDOG

RESPONDING PARTIES: STATE FARM GENERAL INSURANCE COMPANY

SET NUMBER: ONE

Pursuant to California Code of Regulations, title 10 ("10 CCR"), § 2655.1 and Government Code section 11507.6, liberally construed, Intervenor Consumer Watchdog, hereby propounds the following discovery requests on STATE FARM GENERAL INSURANCE COMPANY.

Consumer Watchdog requests that delivery of documents be made to Pamela Pressley at the offices of Consumer Watchdog, located at 6330 San Vicente Boulevard, Suite 250, Los Angeles, California 90048. To the extent possible, Consumer Watchdog requests that YOU produce DOCUMENTS in electronic format, such as PDF, or WORD or EXCEL as applicable. Responsive documents should be produced either in the order they are kept or in correlation to the request to which they are responsive, and Consumer Watchdog requests that YOU identify which documents are responsive to which requests.

Pursuant to 10 CCR § 2655.1(b), if YOU do not produce a responsive DOCUMENT, YOU must specifically identify the DOCUMENT along with the specific objection pursuant to which the item is withheld. In addition, YOU are required to precisely specify why the objection applies. Moreover, if an item is withheld pursuant to a privilege, YOU must describe the nature of the item in such a manner to enable a determination as to the applicability of the privilege so stated.

Pursuant to 10 CCR § 2655.1(a), YOU have an ongoing duty to produce additional items that are responsive to these requests as new items become relevant or are identified.

DEFINITIONS

1. The terms "STATE FARM," "YOU," and "YOUR" refer to applicant STATE FARM GENERAL INSURANCE COMPANY and applicants' agents, employees, attorneys, accountants, investigators, and anyone else acting on their behalf.

2. The term "DOCUMENT" or "DOCUMENTS" means all items that are discoverable pursuant to Government Code section 11507.6, liberally construed, including, but

not limited to, any written, printed, filmed, microfilmed, computerized, recorded or graphic matter of any nature whatsoever, whether original or copy, including, but not limited to, all correspondence, email, notes, memoranda, minutes, logs, calendars, drafts, ledgers, account records, data, journals, bills, receipts, reports, analyses, accountings, schedules, policies, contracts, agreements, records, drawings, plans, designs, details, schematics, diagrams, models and any other writings as defined in section 250 of the Evidence Code. "DOCUMENT" or "DOCUMENTS" also includes all preliminary versions, revisions, drafts, and amendments of any of the foregoing, all attachments or appendices to any of the foregoing, and all copies of the foregoing that contain any commentary, notations, or alterations or that are otherwise not identical to the original. "DOCUMENT" or "DOCUMENTS" also includes any "STATEMENT" or "STATEMENTS," as defined below.

3. "STATEMENT" or "STATEMENTS" shall have the same meaning as that term is defined in Government Code section 11507.6, liberally construed to include: "written statements by the person signed or otherwise authenticated by him or her, stenographic, mechanical, electrical or other recordings, or transcripts thereof, of oral statements by the person, and written reports or summaries of these statements."

4. The term "RELATED TO" means constitutes, contains, embodies, comprises, reflects, identifies, states, deals with, comments on, responds to, describes, analyzes, was made by, was used to determine, was consulted by YOU or any witness YOU intend to call at the hearing on this matter, or is in any way pertinent to the subject matter described in the request.

5. The term "EXHIBIT" means such exhibit or attachment that was included with the APPLICATION.

6. The term "APPLICATION" means the Prior Approval Rate Application with California Department of Insurance file number 24-1271, which is the subject of this hearing, including all updates and revisions, including those required pursuant to any orders issued by the Administrative Law Judge.

7. The term "AFFILIATES" means all entities effectively controlling YOU or controlled by YOU or associated with YOU in any way under common ownership or control.

8. The term "PREDECESSOR" refers to any company within the State Farm Group family of companies that wrote homeowners insurance in California during the time period applicable to the request, including but not limited to State Farm General Insurance Company.

DISCOVERY REQUESTS

1. Provide all DOCUMENTS YOU believe YOU might offer into evidence in this matter.

2. Provide the names and addresses of persons who are witnesses to the subject matter of this proceeding, including all persons who had a role in preparation of the APPLICATION.

3. Provide the names and addresses of persons who are witnesses who have knowledge regarding the DOCUMENTS and issues that are the subject of the document requests contained herein.

4. Provide the names and addresses of persons YOU intend to call as witnesses to testify at the hearing on this matter.

5. Provide any, and all, STATEMENTS pertaining to the subject matter of the proceeding made by any witness that YOU propose to call to testify at the hearing on this matter.

6. Provide any, and all, STATEMENTS pertaining to the subject matter of the proceeding made by any other persons having personal knowledge of the APPLICATION.

7. Provide all DOCUMENTS RELATED TO the APPLICATION, including all correspondence between individuals who assisted in compiling the APPLICATION.

8. Provide all DOCUMENTS exchanged between YOU and any witness YOU intend to call in this proceeding.

9. Provide all DOCUMENTS RELATED TO the APPLICATION exchanged between YOU and the California Department of Insurance including correspondence, but not including DOCUMENTS previously provided to Consumer Watchdog.

10. Provide the actuarial report and underlying workpapers supporting the Statement of Actuarial Opinion of the Loss and Loss Adjustment Expense Reserves as of December 31, 2023.

11. Provide the most recent actuarial report and underlying workpapers for Loss and Loss Adjustment Expense Reserves, if later than December 31, 2023.

12. Provide all DOCUMENTS related to the calculation of the NAIC IRIS ratios as of December 31, 2023.

13. Provide all DOCUMENTS related to the most recent calculation of the NAIC IRIS ratios, if later than December 31, 2023.

14. Provide all DOCUMENTS, reports, data, analyses, and calculations related to the Reinsurance Attestation Supplement for 2023.

15. Provide the most recent Own Risk and Solvency Assessment ("ORSA") report along with any related documents.

16. Provide the Risk-Based Capital Report and Calculation underlying the "Authorized control level risk-based capital" values set forth in the 2023 Annual Statement at Page 17, Line 29.

17. Provide the most recent Risk-Based Capital Report and Calculation, if later than that shown in the 2023 Annual Statement.

18. Provide all DOCUMENTS exchanged during the period from January 1, 2023 to the present between State Farm General Insurance Company and the "rating agencies" referenced in Exhibit 13, Page 1, Section D of the Application.

19. Provide all DOCUMENTS exchanged during the period from January 1, 2023 to the present dealing with solvency issues between State Farm General Insurance Company and the "IL DOI" as referenced in Exhibit 13, Page 1, Section D of the Application as State Farm General Insurance Company's solvency regulator.

20. Provide the loss trend data in Exhibit 8 of the Application by cause of loss.

21. Provide all DOCUMENTS RELATED TO the statements in Notes (3) and (6) on page 2 of Exhibit 9 that "Adjustments have been made as needed to incorporate any significant changes in our contract and in the distribution of our book of business."

DATED: July 26, 2024

Respectfully submitted,

Harvey Rosenfield
Pamela Pressley
Benjamin Powell
Ryan Mellino
CONSUMER WATCHDOG

By: Pamela Pressley

Pamela Pressley
Attorneys for CONSUMER WATCHDOG

PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

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

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

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

CONSUMER WATCHDOG'S FIRST SET OF DISCOVERY REQUESTS PROPOUNDED ON STATE FARM GENERAL INSURANCE COMPANY

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

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

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

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

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

Kaitlyn Gentile

Service List

Nikki McKennedy Rate Enforcement Bureau **California Department of Insurance** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Tel. (415) 538-4500 Fax (510) 238-7830 Nikki.McKennedy@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Jon Phenix Public Advisor Edward Wu Acting Public Advisor Tina Warren Office of the Public Advisor **California Department of Insurance** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Tel. (916) 492-3705 Fax (510) 238-7830 Jon.Phenix@insurance.ca.gov Edward.Wu@insurance.ca.gov Tina.Warren@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Nicole Pettis Pricing Manager **State Farm** One State Farm Plaza Bloomington, IL 61710 Tel. 309-766-2265 nicole.pettis.m3ht@statefarm.com	☐ FAX ☒ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL

EXHIBIT IRH-CWD-202

Harvey Rosenfield, SBN 123082
Pamela Pressley, SBN 180362
Benjamin Powell, SBN 311624
Ryan Mellino, SBN 342497
CONSUMER WATCHDOG
6330 San Vicente Blvd., Suite 250
Los Angeles, CA 90048
Tel. (310) 392-0522
Fax (310) 861-0862
harvey@consumerwatchdog.org
pam@consumerwatchdog.org
ben@consumerwatchdog.org
ryan@consumerwatchdog.org

Attorneys for CONSUMER WATCHDOG

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of State Farm General Insurance Company, Applicant.	File No.: PA-2024-00012 **CONSUMER WATCHDOG'S SECOND SET OF DISCOVERY REQUESTS PROPOUNDED ON STATE FARM GENERAL INSURANCE COMPANY**

DEMANDING PARTY: CONSUMER WATCHDOG

RESPONDING PARTIES: STATE FARM GENERAL INSURANCE COMPANY

SET NUMBER: TWO

Pursuant to California Code of Regulations, title 10 ("10 CCR"), section 2655.1 and Government Code section 11507.6, liberally construed, Intervenor Consumer Watchdog, hereby propounds the following discovery requests on STATE FARM GENERAL INSURANCE COMPANY.

Consumer Watchdog requests that delivery of documents be made to Pamela Pressley at the offices of Consumer Watchdog, located at 6330 San Vicente Boulevard, Suite 250, Los Angeles, California 90048. To the extent possible, Consumer Watchdog requests that YOU produce DOCUMENTS in electronic format, such as PDF, WORD, or EXCEL, as applicable. Responsive documents should be produced either in the order they are kept or in correlation to the request to which they are responsive, and Consumer Watchdog requests that YOU identify which documents are responsive to which requests.

Pursuant to 10 CCR § 2655.1(b), if YOU do not produce a responsive DOCUMENT, YOU must specifically identify the DOCUMENT along with the specific objection pursuant to which the item is withheld. In addition, YOU are required to precisely specify why the objection applies. Moreover, if an item is withheld pursuant to a privilege, YOU must describe the nature of the item in such a manner to enable a determination as to the applicability of the privilege so stated.

Pursuant to 10 CCR § 2655.1(a), YOU have an ongoing duty to produce additional items that are responsive to these requests as new items become relevant or are identified.

DEFINITIONS

1. The terms "STATE FARM," "YOU," and "YOUR" refer to applicant STATE FARM GENERAL INSURANCE COMPANY and applicants' agents, employees, attorneys, accountants, investigators, and anyone else acting on their behalf.

2. The term "DOCUMENT" or "DOCUMENTS" means all items that are discoverable pursuant to Government Code section 11507.6, liberally construed, including, but

not limited to, any written, printed, filmed, microfilmed, computerized, recorded or graphic matter of any nature whatsoever, whether original or copy, including, but not limited to, all correspondence, email, notes, memoranda, minutes, logs, calendars, drafts, ledgers, account records, data, journals, bills, receipts, reports, analyses, accountings, schedules, policies, contracts, agreements, records, drawings, plans, designs, details, schematics, diagrams, models and any other writings as defined in section 250 of the Evidence Code. "DOCUMENT" or "DOCUMENTS" also includes all preliminary versions, revisions, drafts, and amendments of any of the foregoing, all attachments or appendices to any of the foregoing, and all copies of the foregoing that contain any commentary, notations, or alterations or that are otherwise not identical to the original. "DOCUMENT" or "DOCUMENTS" also includes any "STATEMENT" or "STATEMENTS," as defined below.

3. "STATEMENT" or "STATEMENTS" shall have the same meaning as that term is defined in Government Code section 11507.6, liberally construed to include: "written statements by the person signed or otherwise authenticated by him or her, stenographic, mechanical, electrical or other recordings, or transcripts thereof, of oral statements by the person, and written reports or summaries of these statements."

4. The term "RELATED TO" means constitutes, contains, embodies, comprises, reflects, identifies, states, deals with, comments on, responds to, describes, analyzes, was made by, was used to determine, was consulted by YOU or any witness YOU intend to call at the hearing on this matter, or is in any way pertinent to the subject matter described in the request.

5. The term "EXHIBIT" means such exhibit or attachment that was included with the APPLICATION.

6. The term "APPLICATION" means the Prior Approval Rate Application with California Department of Insurance file number 24-1271, which is the subject of this hearing, including all updates and revisions, including those required pursuant to any orders issued by the Administrative Law Judge.

7. The term "AFFILIATES" means all entities effectively controlling YOU or controlled by YOU or associated with YOU in any way under common ownership or control.

8. The term "PREDECESSOR" refers to any company within the State Farm Group family of companies that wrote homeowners insurance in California during the time period applicable to the request, including but not limited to State Farm General Insurance Company.

DISCOVERY REQUESTS

22. YOUR response to the California Department of Insurance's 7/10/2024 Objections (the "7/10/2024 Objections") stated in part: "The forecast analysis process was mainly performed using the R statistical language, therefore, many of the requested calculations cannot be directly provided in a spreadsheet presentation format." Provide all DOCUMENTS, including but not limited to computer code and data files, RELATED TO the forecast analysis mainly performed using the R statistical language. Also provide a complete description of what else other than the R statistical language STATE FARM used in the forecast analysis process.

23. YOUR response to the 7/10/2024 Objections, Nos. 5 and 6, stated in part: "The selected leverage factor of 50% (surplus-to-premium ratio of 2.0) supports the risk adjusted capital needed to write business within the state of California." Provide all DOCUMENTS, including but not limited to computer code and data files, used by STATE FARM in deriving its numerical value of the risk adjusted capital needed to write business within the state of California.

24. YOUR response to the 7/10/2024 Objections, Nos. 5 and 6, stated in part: "The selected rate of return of 15% reflects the selected leverage factor, the current insurance environment, and the surplus position of State Farm General." Provide all DOCUMENTS, analyses, and calculations used in deriving the 15% value.

25. YOUR response to the 7/10/2024 Objections, Nos. 5 and 6, stated in part: "To support the catastrophe risk component, a study was done that analyzed catastrophe reinsurance program quotes from internal and publicly available data for both traditional and non-traditional reinsurers." Provide that study, and all DOCUMENTS RELATED TO that study.

26. YOUR response to the 7/10/2024 Objections, No. 4a, stated in part: "Refer to Exhibit E for Non-Catastrophe pure premium trend selections by segment." Provide comparable trend values, including all underlying data and calculations, based on renewal business only.

27. YOUR response to the 7/10/2024 Objections, No. 4b, stated in part: "Refer to Exhibit F for historical trends from the corresponding filings. The projected pure premium trend selections are reasonable when compared to historical trends." Provide the corresponding premium trend values, including all underlying data and calculations.

28. Provide the following DOCUMENTS for STATE FARM for each year from 2020 to 2024:

a. Reinsurance Summary Supplemental;

b. Supplemental Compensation Exhibit;

c. Audited Financial Reports;

d. Management's Report of Internal Control Over Financial Reporting;

e. Notification of Adverse Financial Condition;

f. Corporate Governance Annual Disclosure;

g. Form F-Enterprise Risk Report;

h. Group Capital Calculation.

29. 10 CCR § 2644.9(c) states: "any Wildfire Risk Model . . . that is used, in whole or in part, in an insurer's rating plan shall be provided to the Commissioner as part of an insurer's complete rate application." 10 CCR § 2644.9(f) provides that "[a]ny rating plan, or Wildfire Risk Model submitted to the Commissioner in connection with a complete rate application . . . shall be available for public inspection pursuant to Insurance Code sections 1861.05, subdivision (b), and 1861.07 . . . ." As required by regulation, provide all Wildfire Risk Models STATE FARM has "used, in whole or in part, in [its] rating plan," including, but not limited to, the "catastrophe models" referred to in YOUR response to the 7/10/2024 Objections, Nos. 5 and 6. Provide the actual models themselves, not only documentation concerning the models.

30. YOUR Answer to Consumer Watchdog's Petition for Hearing stated in part (4:25–26): "The reinsurance agreements at issue are filed annually with State Farm General's regulator to ensure the terms are fair and reasonable for the affiliated companies." Please provide copies of those reinsurance agreements from 2015 to the present.

31. YOUR Answer to Consumer Watchdog's Petition for Hearing stated in part (6:11–12): "State Farm's solvency regulator has initiated company action level supervision over the Company." Provide all documents exchanged between STATE FARM and STATE FARM's solvency regulator regarding the company action level supervision over the Company from 2020 to the present.

32. For each catastrophe model used in the filing, provide all catastrophe risk metrics and analytics (e.g., PML, TVaR, Standard Deviation, size of loss distribution, etc.) that STATE FARM used during 2020 to the present for any purpose, including, but not limited to, capital adequacy, capital allocation, underwriting, exposure management, and reinsurance.

33. YOUR Answer to Consumer Watchdog's Petition for Hearing stated in part (4:20–22): "Reinsurance is necessary to protect California's policyholders against catastrophic events, such as the 2017 wildfires, where State Farm experienced over $3 billion in loss." By contrast, the 2023 Annual Statement for SFGIC shows total direct incurred (= paid + case reserves + IBNR reserves) losses PLUS defense and cost containment expenses PLUS adjusting and other expenses for ALL events for ALL coverages in accident year 2017 of less than $2.8 billion. (2023 SFGIC Annual Statement, Schedule P – Part 1A – Summary, Column (26), Line (5)). Please provide all DOCUMENTS reflecting the "over $3 billion in loss" value given in YOUR Answer.

34. YOUR Answer to Consumer Watchdog's Petition for Hearing stated in part (4:22–25): "CW's allegation that State Farm's reinsurance agreement 'is not a true transfer of risk' is conclusory and ignores the important role reinsurance plays in protecting State Farm's policyholders and ensuring that State Farm can meet risk metrics considered by regulators." Please provide all DOCUMENTS listing and/or explaining the risk metrics that STATE FARM stated are considered by regulators. Additionally, provide all DOCUMENTS demonstrating the value of, and derivation of, the values of those metrics for STATE FARM from 2020 to the present.

35. Provide all DOCUMENTS supporting YOUR statement regarding the allegedly "important role reinsurance plays in protecting State Farm's policyholders," given the facts that:

a. From 2014 to 2023, the reinsurance recovery rate (ceded loss and loss adjustment expense ratio) averaged less than 19%. (2023 SFGIC Annual Statement, Schedule P – Part 1A – Summary, Columns (2), (27) and (30).) This means that for every $100 of reinsurance premium, the income of STATE FARM decreased by about $80.

b. The reinsurance recovery rate was less than 100% in every year from 2014 to 2023, including years with a catastrophe (e.g., 2017). This means in every year, even in years with a catastrophe, STATE FARM's financial condition would have been better without reinsurance.

c. The vast majority of STATE FARM's reinsurance was with State Farm Mutual ("SFM"), about 80% in 2023 (2023 SFGIC Annual Statement, Schedule F, Part 3, Column (6)), meaning that SFM is extracting hundreds of millions of dollars of profit a year from STATE FARM policyholders.

36. Provide all Hazard Analyses performed by or on behalf of STATE FARM from 2020 to the present for any purpose, including, but not limited to, capital adequacy, capital allocation, underwriting, exposure management, and reinsurance.

37. Provide all Dynamic Financial Analyses performed by or on behalf of STATE FARM from 2020 to the present for any purpose, including, but not limited to, capital adequacy, capital allocation, underwriting, exposure management, and reinsurance.

38. Provide all Enterprise Risk Management Analyses performed by or on behalf of STATE FARM from 2020 to the present for any purpose, including, but not limited to, capital adequacy, capital allocation, underwriting, exposure management, and reinsurance.

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DATED: August 23, 2024

Respectfully submitted,

Harvey Rosenfield
Pamela Pressley
Benjamin Powell
Ryan Mellino
CONSUMER WATCHDOG

By:

Ryan Mellino
Attorneys for CONSUMER WATCHDOG

PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

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

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

On August 23, 2024, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S SECOND SET OF DISCOVERY REQUESTS PROPOUNDED ON STATE FARM GENERAL INSURANCE COMPANY

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

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

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

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

I declare under penalty of perjury that the foregoing is true and correct. Executed on August 23, 2024 at Los Angeles, California.

Kaitlyn Gentile

Service List

Nikki McKennedy Melissa Wurster Daniel Wade Rate Enforcement Bureau **California Department of Insurance** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Tel. (415) 538-4500 Fax (510) 238-7830 Nikki.McKennedy@insurance.ca.gov Melissa.Wurster@insurance.ca.gov Daniel.Wade@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Vanessa O. Wells Victoria C. Brown **Hogan Lovells US LLP** 855 Main Street, Suite 200 Redwood City, CA 94063 Tel: (650) 463-4000 Fax: (650) 463-4199 Vanessa.Wells@hoganlovells.com Victoria.Brown@hoganlovells.com	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL

EXHIBIT IRH-CWD-203

August 23, 2024

VIA EMAIL

Nikki McKennedy
Assistant Chief Counsel
California Department of Insurance
1901 Harrison Street, 4th Floor
Oakland, CA 94612
Phone: (415) 538-4162
Email: nikki.mckennedy@insurance.ca.gov
CC: Melissa Wurster, Attorney, Rate Enforcement Bureau, melissa.wurster@insurance.ca.gov
Dan Wade, Attorney, Rate Enforcement Bureau, daniel.wade@insurance.ca.gov

Re: In the Matter of the Rate Application of State Farm General Insurance Company, CDI File No. 24-1271, SERFF Filing No. SFMA-134139896, PA-2024-00012

Dear Ms. McKennedy,

The August 14, 2024 Order Granting Consumer Watchdog's Petition to Intervene stated: "Petitioner's formal discovery requests shall be deferred until the Petition for Hearing is adjudicated" and that "the discovery requests may be construed as informal requests for information" while the Petition for Hearing is pending. The plain language of applicable regulations, however, permits formal discovery to be served with a petitioner's Petition for Hearing/Petition to Intervene, which is what Consumer Watchdog did here. Nothing in the regulation states that a petitioner or intervenor must wait until the matter "is brought to a hearing before an administrative law judge" to serve discovery.

California Code of Regulations, title 10 ("10 CCR"), chapter 5, subchapter 4.9 is entitled "Rules of Practice and Procedure for Rate Proceedings." 10 CCR section 2649.1 states: "This subchapter sets forth the rules of practice and procedure governing proceedings conducted pursuant to Article 10 of Chapter 9 of Part 2 of Division 1 of the California Insurance Code." 10 CCR section 2661.1, subdivision (h) provides that a "rate proceeding" is "established upon the submission of a petition for hearing." 10 CCR section 2655.1, subdivision (a) states: "any intervener may [] request discovery concurrently with the filing and service of each party's initial pleading." "Pleading" is defined to include "any petition." (10 CCR § 2651.1, subd. (g).)

As contemplated by these regulations, Consumer Watchdog "request[ed] discovery concurrently with the filing and service of" its Petition for Hearing/Petition to Intervene on July 26, 2024. State Farm failed to respond to Consumer Watchdog's first set of discovery requests within the ten–business day period mandated by Section 2655.1, and has yet to provide responses or even proffer a justification for its delay. Consumer Watchdog is prepared to engage

in meet and confer discussions upon receiving responses as required by Section 2655.1, subdivision (c).

Any delay in ruling on Consumer Watchdog's Petition for Hearing should not preempt our right as a party to the proceeding, initiated upon the filing of our Petition, to serve discovery and obtain responses as required under Section 2655.1, especially in this case where a public hearing is mandatory on State Farm's 30% rate increase request. In any case, at this stage in the proceeding, unless and until Consumer Watchdog files a motion to compel, setting the matter for a hearing before an administrative law judge is not a prerequisite for the parties to engage in discovery under Section 2655.1.[1] Treating Consumer Watchdog's discovery requests as "informal requests for information" is no substitute for compliance with the regulations, as we know from past experience that doing so will afford State Farm the opportunity to delay its responses and/or provide incomplete responses and withhold information it claims is confidential, thus precluding Consumer Watchdog from obtaining information that is necessary for it to present evidence and arguments in support of its positions as required by the statute and implementing regulations. Accordingly, State Farm must be required to respond to Consumer Watchdog's requests in a complete and timely manner, and the Commissioner must respect Consumer Watchdog's right to bring a motion to compel State Farm to respond under Section 2655.1 if the company fails to do so.

Please note that Consumer Watchdog is serving State Farm with a second set of discovery requests pursuant to Section 2655.1 concurrently with this letter. Consumer Watchdog expects responses within ten business days of service, as the regulation requires.

Thank you,

Ryan Mellino

Ryan Mellino
Consumer Watchdog
Staff Attorney

[1] Indeed, Section 2655.1(h) provides: Unless a party files a motion to compel discovery, discovery requests, responses thereto, and lists of items not produced shall not be filed with the Administrative Hearing Bureau.

EXHIBIT IRH-CWD-204

RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

August 26, 2024

Ryan Mellino
Staff Attorney
Consumer Watchdog
6330 San Vicente Blvd., Suite 250
Los Angeles, CA 90048
ryan@consumerwatchdog.org

SUBJECT: In the Matter of the Rate Application of State Farm General Insurance Company, File no. 24-1271, PA-2024-00012

Dear Mr. Mellino:

This letter responds to your letter dated August 23, 2024.

Neither I nor anyone in the Rate Enforcement Bureau ("REB") issued the August 14, 2024 Order Granting Consumer Watchdog's Petition to Intervene in the above matter ("Order"). If you have questions regarding the Order or wish to request reconsideration, please contact Deputy Commissioner and Special Counsel Lucy Wang, who issued the Order on behalf of the Commissioner.

REB agrees, however, that Consumer Watchdog's First and Second Sets of Discovery Requests in the above matter are premature at this time. Per Insurance Code section 1861.08(e), discovery "shall be liberally construed" in rate hearings. Rate hearings, however, "are commenced by a filing of a notice." (Ins. Code, § 1861.08, subd. (b).) REB has not yet filed a notice of hearing in this matter. And, although an intervenor is authorized to serve discovery requests on an insurer concurrently with the filing and service of the intervenor's initial "pleading," which may include a "petition," a "pleading" is defined as a "formal document filed with the Administrative Hearing Bureau [(AHB)]." (Cal. Code Regs, tit. 10, § 2651.1, subd. (g); see also, Cal. Code Regs., tit. 10, § 2661.3, subd. (e).) Consumer Watchdog's petition for hearing has not yet been filed with AHB. REB will file Consumer Watchdog's petition for hearing with AHB if and when the Commissioner determines to issue a Notice of Hearing in this matter. (Cal. Code Regs., tit. 10, § 2653.5.) At the present time, however, Consumer Watchdog's petition for hearing has not been filed with AHB and is not a "pleading" per the regulations, and therefore its concurrently served discovery requests are premature.

As a final note, please note that REB is not authorized to determine any motion to compel in this matter.

CALIFORNIA DEPARTMENT OF INSURANCE
PROTECT • PREVENT • PRESERVE
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Tel: 415-538-4162•
Nikki.McKennedy@insurance.ca.gov

Best regards,

Nikki McKennedy

Nikki McKennedy

cc: See Proof of Service

PROOF OF SERVICE
In the Matter of the Rate Application of
State Farm General Insurance Company, Applicant.
CDI File No. PA-2024-00012
(RRB FILE NO. HO-24-1271)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On August 26, 2024, I served the following document(s):

LETTER TO RYAN MELLINO DATED AUGUST 26, 2024 RESPONDING TO HIS LETTER OF AUGUST 23, 2024

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city and county of San Francisco, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Cecilia Padua
Cecilia Padua

In the Matter of the Rate Application of
State Farm General Insurance Company, Applicant.
CDI File No. PA-2024-00012
(RRB FILE NO. HO-24-1271)

Name/Address	Phone/Fax Numbers	Method of Service
Harvey Rosenfield, Esq. Pamela Pressley, Esq. Benjamin Powell, Esq. Ryan Mellino, Esq. Attorney(s) for Intervenor **CONSUMER WATCHDOG** 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org ben@consumerwatchdog.org ryan@consumerwatchdog.or	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL
Vanessa O. Wells, Esq. Victoria C. Brown, Esq. Attorney(s) for Applicant **HOGAN LOVELLS US LLP** 855 Main Street, Suite 200 Redwood Ciy, CA 94063 Vanessa.Wells@hoganlovells.com Victoria.Brown@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
NON PARTIES		
Kenneth Allen Deputy Commissioner Rate Regulation Branch **CALIFORNIA DEPARTMENT OF INSURANCE** 300 South Spring Street, 14th Floor Los Angeles, CA 90013 ken.allen@insurance.ca.gov	Tel: (213) 346-6783 Fax: (213) 897-9051	Via EMAIL
Jon Phenix, Esq. Public Advisor & Staff Counsel III Office of the Special Counsel **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Jon.phenix@insurance.ca.gov	Tel: (916) 492-3705 Fax: (510) 238-7830	Via EMAIL

EXHIBIT IRH-CWD-205

Hogan Lovells US LLP
855 Main Street
Suite 200
Redwood City, CA 94063
T +1 650 463 4000
F +1 650 463 4199
www.hoganlovells.com

August 26, 2024

Via Email only: ryan@consumerwatchdog.org

Mr. Ryan Mellino
Staff Attorney
Consumer Watchdog
6330 San Vicente Boulevard, Suite 250
Los Angeles, CA 90048

Re: In the Matter of the Rate Application of State Farm General Insurance Company, CDI File No. 24-1271, SERFF Filing No. SFMA-134139896, PA-2024-00012

Dear Mr. Mellino,

We (meaning my firm, Hogan Lovells US LLP) represent State Farm General Insurance Company ("SFG" or "State Farm General") in connection with filing 24-1271. I am responding to the letter you sent to Nikki McKennedy, Assistant General Counsel and Chief of the CDI Legal Department's Rate Enforcement Bureau. Your letter contains multiple mistaken assumptions all leading to the overall, fairly egregious error in assuming there currently exists a "hearing" under California Insurance Code (CIC) § 1861.08. There does not, and the procedures that are triggered when such a hearing is noticed are not in effect.

At the threshold, you will note that you have directed your letter to Nikki McKennedy, who, as noted, is an attorney and Chief of the Rate Enforcement Bureau. Ms. McKennedy is not a hearing officer and is not part of the Administrative Hearings Bureau. There is no hearing officer because there has been no hearing noticed. That is to say, on the face of your letter you demonstrate Consumer Watchdog's knowledge that no hearing has been noticed; as a corollary CIC 1861.08 is not triggered and there is no right to discovery.

We are well aware of the regulations at issue, along with the precept that regulations must be construed consistently with the authorizing statutes. See, *e.g.*, *State Farm General Insurance Company v. Lara*, 71 Cal. App. 4th 148 (2021). Consumer Watchdog along with State Farm General has briefed to the AHB the manner in which the regulations must be construed to take account of developed procedures rather than limited to some plausible construction on the face of the regulation devoid of context – in that case, so that Consumer Watchdog can be paid compensation for its interventions in an informal developed process not accounted for in the regulations. Plainly, Consumer Watchdog is aware of this developed, informal process, in which it has participated for at least two decades. Two points emerge:

(1) The regulations cannot – and do not intend to – allow Consumer Watchdog to notice a hearing thereby triggering the hearing provisions of CIC § 1861.08.

(2) Having for decades participated in the review process in which there is no discovery, Consumer Watchdog cannot now pretend that it always thought it was entitled to discovery prior to any notice of hearing.

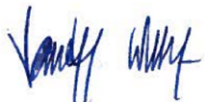
With respect to the latter, it should be noted that within the last several years Consumer Watchdog commenced sending out what it labeled as "Requests For Information" in rate review proceedings (no notice of hearing). These "Requests For Information" are not countenanced by any rule, but insurers generally responded in order to be cooperative. Significantly, these "Requests For Information" did not in any way conform to discovery as permitted under the Administrative Procedures Act – *i.e.*, they took the form of questions which would not be permitted under the APA. This action by Consumer Watchdog demonstrates its understanding that it is not entitled to APA discovery until a hearing is noticed, as necessary to trigger CIC § 1861.08.

What is more, and finally, nothing in the APA or the regulations would permit a second set of discovery requests, as Consumer Watchdog has attempted coincident with its letter. My suggestion to Consumer Watchdog is that it await a notice of hearing rather than squander its opportunity at discovery.

State Farm General, unsurprisingly, has no inclination to voluntarily produce irrelevant and confidential information when there is no requirement to do so. If Consumer Watchdog intends to proffer "Requests For Information," we await that proffer.

In the meantime, we note that CDI has filed many pages of objections through SERFF. SFG is in the process of responding to them. There is overlap with Consumer Watchdog's putative discovery requests. We encourage Consumer Watchdog to review those objections and responses.

Sincerely,



Vanessa Wells

Partner
vanessa.wells@hoganlovells.com
D +1.650.463.4022

cc: Nikki McKennedy – nikki.mckennedy@insurance.ca.gov
Melissa Wurster – melissa.wurster@insurnace.ca.gov
Dan Wade – daniel.wade@insurance.ca.gov

EXHIBIT IRH-CWD-206

NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING DATED JANUARY 3, 2024, BY THE NORTH CAROLINA RATE BUREAU FOR REVISED HOMEOWNERS INSURANCE RATES	)	BEFORE THE COMMISSIONER OF INSURANCE
	)	DOCKET NO. 2157

COPY

BEFORE: AMY FUNDERBURK, HEARING OFFICER

TRANSCRIPT

OF

HEARING

VOLUME II - P.M. SESSION

Raleigh, North Carolina

Tuesday, October 8, 2024

1:32 p.m.

A P P E A R A N C E S

On behalf of the North Carolina Rate Bureau:

MICKEY SPIVEY, ESQ.
LISA LEEAPHORN, ESQ.
BRIAN BEVERLY, ESQ.
Young, Moore & Henderson, P.A.
3101 Glenwood Avenue, Suite 200
Raleigh, North Carolina 27612

On behalf of the North Carolina Department of Insurance:

TERENCE FRIEDMAN, ESQ.
SHANNON WHARRY, ESQ.
North Carolina Department of Insurance
3200 Beechleaf Court
Raleigh, North Carolina 27604

Hearing in the matter of the filing dated January 3, 2024, by the North Carolina Rate Bureau for revised homeowners' insurance rates, at North Carolina Department of Insurance, 3200 Beechleaf Court, Raleigh, North Carolina, on the 8th day of October, 2024, at 1:32 p.m., before Wendy Sawyer, Court Reporter and Notary Public.

INDEX OF EXAMINATIONS

THE WITNESS: PAUL ANDERSON EXAMINATION

Continued Cross, by Mr. Friedman.....251

INDEX OF EXHIBITS

(No exhibits offered.)

P R O C E E D I N G S

* * * * * *

HEARING OFFICER FUNDERBURK: Good afternoon. We're back on the record. It is 1:32 p.m., Tuesday afternoon, October 8th. I'll remind the witness that you are still under oath.

Mr. Friedman, are you prepared to continue?

MR. FRIEDMAN: I am, Your Honor.

HEARING OFFICER FUNDERBURK: Please do so.

MR. FRIEDMAN: Can everybody hear me now?

CONTINUED CROSS EXAMINATION

BY MR. FRIEDMAN:

Q. All right. Mr. Anderson, if you could turn to -- those are the ASOPs. Excuse me. When you were retained and began work on this filing, did you see some version of the work of Dr. Zanjani, ISO, and/or Dr. -- or Ms. Mao before you signed your opinion?

A. Yes.

Q. Okay. About how long before you worked on your opinion did you see their findings?

A. The rate review process, I may be getting

the exact dates a little bit off, but I believe the rate review process began in April or May of 2023. And one of the first components would be reviewing some data from ISO, which is used then as an input for Aon's work. So the work that Ms. Mao oversees. There's additional review of -- hold on, I'm going to answer your question.

There's additional review of work completed by ISO, review of work completed by Aon, and then towards the end of the process, there's review of the work completed by Dr. Zanjani. That would have occurred really throughout the summer. And if memory serves me right, I completed my testimony, roughly, in October of 2023.

Q. Okay. And sir, did you actually begin on it at the same time that ISO began working on the filing or sometime after that?

A. I'll distinguish between the rate review process and the rate filing. The rate filing is the culmination of the rate review process. So ISO would have been working on, actually, the rate review process even before they brought information to the Rate Bureau. I believe Ms. Biliouris talked yesterday about the aggregation of the data and things like that.

So they would have had work going on for several

months. They would have done a majority of the analysis in the work during the rate review process. And then at the -- again, towards the end, they would be preparing filing exhibits in preparation of the filing.

And at that point, I would begin drafting my -- or I did begin drafting my testimony and kind of wrap up the draft really as the final filing exhibits are also prepared so that I could kind of check my testimony against the final filing exhibits. Does that make sense?

Q. It does --

A. Okay.

Q. -- but I guess I'm still unclear on a couple of things. One, when ISO first -- here's the simplest, easy way to ask it. Yesterday, you may have heard Ms. Biliouris testify about that it took approximately 12 months to finish the filing. Do you recall that 12 to 13, I think was her estimate?

A. Yes, I remember that.

Q. At what point in those 13 months did you first come on and begin working on your part of the filing?

A. Are you asking when I began interacting with the Bureau and reviewing components of the filing

or actually working on my testimony?

Q. Working -- interacting with either the Bureau or any of the other experts who were working on it, as well, including ISO.

A. That would have been about six months into the process. So if the data aggregation began in roughly November of 2022, my involvement, I believe, would have kind of ramped up or began in roughly May of 2023.

Q. And how early on, whether they were the final results or preliminary results of their work, how -- how early on did you see some results from Dr. Zanjani or Dr. Mao -- or Ms. Mao, excuse me?

A. I'm estimating a little bit on the specific time frames, but the work completed by Ms. Mao would have been roughly in July, maybe early August, and that would also be about the time that I would have reviewed and seen Dr. Zanjani's work. It was probably roughly in late July or in August.

Q. Okay. And between that initial work you reviewed and the ultimate written opinion by Ms. Mao for her report, had there been any changes in her analysis, in her data?

A. Can you repeat that just to make sure that I'm answering?

Q. Sure. Did the initial data analysis by Ms. Mao change at any time after you first saw it?

A. Not that I recall.

Q. Okay. What about Dr. Zanjani?

A. I don't believe so. Not that I recall. I'm not remembering anything.

Q. So I'm going to be going through your testimony largely now. So that is in Book 1 at Exhibit RB-19. During the time you've worked at Milliman, did you -- was Dr. Appel also employed by Milliman at any time?

A. Yes, he was.

Q. Okay. Did you work with him on North Carolina Rate Bureau filings?

A. Yes. I did.

Q. With regard to what aspects of the filings?

A. The main -- my main role was to assist with the compensation for assessment risk.

Q. Okay. Did you assist him with the cost -- with the profits?

A. No.

Q. Were you familiar with what he did with the profits?

A. At a high level.

Q. Did you work with him on the net? The net -- by net, I'm meaning to refer to the net cost of reinsurance.

A. Again, I was familiar with that work at a high level.

Q. So when you worked with him, did you work with him on the contingency, as well, or was that your work from the get-go?

A. I did not work with him on the contingency, and that's a new component of the filing just in the last two or three years. So an exhibit resembling RB-21 would not have been included in any of the filings that David -- that Dr. Appel would have been involved in.

Q. When you said a new aspect of the filings, does that mean it's a new thing that Milliman, in particular, is working on?

A. Yes. The new thing is the exhibit that's documented in RB-21, which was an exhibit that Milliman put together that we developed prior to two or three years ago. There was not any quantitative support to support the contingency provision.

Q. But you have worked on the contingency provision before developing RB-21 along with Dr. Appel?

A. Again, I was familiar with it at a high

level, but I did not work on anything specific related to the contingency provision.

Q. Okay. Do you know whether Dr. Appel's contingency provision was rejected in the 2014 homeowners' order?

MR. BEVERLY: Objection. Can you tell me what you mean by rejected?

BY MR. FRIEDMAN:

Q. Whether the Commissioner disapproved of it and gave 0 percent.

A. I would clarify that it wasn't Dr. Appel's contingency provision. It was the Rate Bureau's. And I'm not certain that Dr. Appel provided support for that or whose testimony would have --

Q. Okay.

A. -- would have supported that provision in the filing.

Q. Are you aware of whether Milliman's work, whomever was testifying for Milliman on the -- on the contingency was disapproved of in any part?

A. I don't recall who worked on the contingency provision. My recollection is that Dr. Appel's focus was on profits and the net cost of reinsurance.

Q. Okay. But do you know whether Milliman's

analysis of the contingency provision was rejected? And it was Milliman's analysis. Am I correct?

A. No. My understanding is, again, prior to two or three years ago that there was not a standalone analysis to support a contingency provision, that there was not quantitative support or an exhibit included in the filing to support a 1 percent or whatever the selected contingency provision would be in those previous filings.

Q. Are you -- do you know whether there was a 1 percent contingency provision calculated by whomever in the 2014 homeowners' filing?

A. I don't know for certain. I would anticipate that there probably was. Many times a contingency provision is selected judgmentally. If you recall my earlier comments about the reasons for using a contingency provision, those are very difficult to quantify, if not impossible, what future judicial decisions, what the impact would be.

So it's common for actuaries to just judgmentally select a relatively small provision for contingencies. 1 percent is very common. I have seen contingencies up to 2, 3, 4, 5 percent on occasion.

Q. Would you say that 1 percent is the norm?

A. Yes.

Q. So with regard to on page 4 of your testimony, at the bottom paragraph, the bottom answer, you state that the 2024 homeowners' filing is generally consistent with prior filings, but there is one component of this filing that relies on a different approach as compared to the 2020 homeowners' filing. Do you see that?

A. Yes.

Q. And you then state on page 5 that that different component has to do with the calculation of the CAR?

A. That's correct.

Q. Okay. You state that in 2020, Milliman did not have available data necessary to complete the CAR. Is that a fair paraphrase of your testimony?

A. Yes. That's -- that's reasonable.

Q. Okay. What data was that?

A. It was event level detail of modeled hurricane losses. That type of data comes directly from one of the hurricane models. Again, we're using AIR or RMS, and that information is really only available to entities that license the models.

So Milliman was relying on a third party who had access to that information and essentially the licensing contracts of the modelers changed that

restricted that information to be shared with Milliman as an independent third party.

However, Aon licenses those -- yeah. Aon licenses those models, which is why they were able to then complete the analysis in 2024.

Q. All right. And so let me understand that. So Milliman doesn't license its own models?

A. Correct.

Q. And it had been relying on a third party to provide -- it had been relying on a third party to provide it with the losses. Was it also relying on that third party's run of the model to provide it with detail to calculate the net?

A. The net -- I assume you mean net cost of reinsurance?

Q. Net cost of reinsurance. I'm sorry.

A. For who?

Q. If I understand -- I may be mis-recalling your testimony a bit ago, but that Milliman worked on the net cost of reinsurance in, let's say, 2014.

A. That's correct. That's my --

Q. Did it continue doing the net cost of reinsurance up until 2020?

A. The work supporting the net cost of reinsurance transition from Milliman to Aon, I think it

was a little bit before 2020.

Q. Okay. So in any case, then, at least for the CAR, the third party ceased having access and so Aon licensed its modeling software itself. And so it took over the work. Is that fair?

A. The third party had access to the data, but they could not share it with Milliman because we were -- we were then the third party to the modelers. You know, the modelers had the relationship with -- with the third party. We were not allowed to have access to that data.

So in the 2020 filing, the most recent data we had was one year prior to that. So we were able to make an adjustment, just kind of roll the data forward or project it forward a year, and that's what we used to support the 2020 filing.

But by the time we began work on subsequent filings, not just for homeowners but other residential property filings, that the data that Milliman had access to was -- it was too old, it was too stale that the projection method wouldn't be appropriate.

Q. On page 5 of your testimony, you -- I believe you say that you -- Aon replicated the methodology used for the CAR by Milliman in the 2018 homeowners' filing. That is -- do you see that where

you state that?

A. Yes.

Q. Okay. When, in the past, Milliman calculated the CAR, did you use any consideration of the actual surplus of the Beach Plan or the FAIR Plan?

A. Yes. I did. Or we did.

Q. Do you know whether Aon continued to do that after they began modeling the CAR?

A. Yes. They do.

Q. Okay. And do they -- did you all use the actual assessment history?

A. Can you clarify who you all is?

Q. I'm sorry. Did Milliman use the actual assessment history of the FAIR Plan and the Beach Plan in calculating the CAR?

A. No. That wasn't really applicable to this methodology.

Q. Why is that?

A. The -- the -- the purpose of the methodology here is to simulate. It's to project the likelihood of an assessment, but it also -- we identify -- this could get technical here. We -- we apply the Beach and FAIR Plans reinsurance contracts to the modeled losses, we reflect the surplus of the Beach and FAIR Plan to identify in which events or in which

scenarios would the Beach or FAIR Plan essentially exhaust their resources and need to issue assessments.

We actually take those that the losses that result in assessments, and we put them into layers that reflect the likelihood of them occurring. You may hear about, like, a 1 in 100 hurricane event or a 1 in 20 event.

There's different severities or different probabilities of events that could trigger these assessments. And as you look at the exhibits supporting the compensation for assessment risk, depending on the -- the layer of where those losses fall, so the lower the probability, the more severe the event, there is a -- the multiplier that gets -- that gets applied in that methodology increases as you as the event becomes more severe or as the layers become less likely. So I mean, lower probability.

That complexity of an analysis, you can't glean that from historical assessment information. You need the thousands of iterations of modeled hurricane data to be able to apply the reinsurance contracts, to be able to put the losses into layers, and then apply these adjustment factors.

Q. Okay. So different subject, though also still on page 5, bottom of the first paragraph. Do I

understand your testimony there to be, well, first of all, that there are insurance companies now that have provisions in their reinsurance treaties that would cover Beach and FAIR Plan assessments?

A. I'm sorry. Are you pulling that out of my testimony?

Q. Well, I'm looking at the last sentence of the first paragraph. To reflect that some insurance companies no longer retain exposure to assessments from the Beach and FAIR Plan pursuant to the companies' respective reinsurance agreements, Aon then modified the calculated compensation for assessment risk provision by multiplying it by 50 percent.

So is that -- so that's saying that just that, that some insurance companies are now -- have reinsurance against assessments?

A. Yes. That was information that the Rate Bureau and myself learned from Aon. As reinsurance brokers, they see reinsurance contracts. And we learned, again, within the last few years that many reinsurance contracts cover assessments from entities like the Beach and FAIR Plan.

Q. And is my understanding by multiplying it by 50 percent, that's an assumption that approximately half of the North Carolina homeowners' carriers do have

coverage under their reinsurance for assessments?

A. Yes. I would just clarify that instead of 50 percent of the companies, it would be 50 percent of the exposures in the state.

Q. Okay.

A. That may be represented by that --

Q. Do know where that -- I mean, how you came to the 50 percent or how, I guess, more particularly, Aon did?

A. That was -- that was judgment. That type of information is difficult to obtain. Aon has access to reinsurance contracts but certainly not for the entire industry. So that was an informed judgment decision or selection.

Q. Did you ever see any data from Aon about actual reinsurance costs in North Carolina?

A. Whose costs?

Q. Costs borne by North Carolina homeowners' carriers that are members of the Bureau.

A. I have not seen that information or that data.

Q. Have you calculated reinsurance costs for other clients?

A. Do you mean a net cost of reinsurance?

Q. The net cost? Yes. I'll refer to it as

net -- the net.

A. Okay. Yes. I have. I have calculated that.

Q. Okay.

A. In order to do that, again, the appropriate inputs or information need to be provided to me. I don't have access to the models like Ms. Mao would have at Aon.

So I would need to -- we need to have the right information and the right data available to me. That may include the total reinsurance premiums and the expected hurricane losses that coincide with those reinsurance premiums. And then subsequent to that, I could calculate a net cost to reinsurance.

Q. So when you have calculated it, you have actually seen historical data actually paid by carriers for their net.

A. Yes.

Q. But you didn't see any of that here?

A. No.

Q. Okay. Have you ever seen a reinsurance cost -- or excuse me -- a net calculation without some apparent actual prices included in it, other than this filing?

A. In any other state, a rate filing that

would include the net cost of reinsurance would be for an individual company. And the corresponding losses and expenses and components of that filing would be company-specific. So in order to support their net cost of reinsurance in the filing, they would need to provide that specific information.

So, yes, this information is readily available in a state like Florida, where reinsurance information needs to be provided as part of the rate filing process. Because the Rate Bureau is submitting a filing on behalf of the industry, those assumptions, those processes, and method, they're different because the Rate Bureau is presenting information as a hypothetical one company.

There is not a single reinsurance contract that applies to the entire state of North Carolina or to the entire industry. So some of what we observe in other states simply doesn't apply in North Carolina.

Q. But the Rate Bureau's submissions, where there is relevant North Carolina data, are based, as I understand it, on the data they receive from the individual members through their data calls. Is that correct?

A. That's correct.

Q. Okay. Have you ever seen any actual data

requested by the Bureau of its members regarding the costs of the net?

A. I have not seen that data.

Q. If you did see that data, would it give you a better insight into the actual costs that North Carolina carriers have for the net?

A. If the data was the actual reinsurance costs, yes, that would give me insights into the actual reinsurance costs.

Q. Would it give you insights and/or make you more comfortable with, if you were -- if you were the person calculating the net for the Bureau, would you find it helpful to have the actual costs, the net costs of the members?

A. It would be helpful, but that -- that specific component of rate indication or the rate making process is one item that companies keep confidential and proprietary. It's oftentimes only included in filings when a state such as Florida might require it.

So companies are typically reluctant to share that information. My understanding is that the Rate Bureau has asked for that information. It's just exceptionally difficult to obtain that.

As a result, the approach that's being used,

relying on leading expert in the reinsurance market and Aon to use their experience to identify a reasonable layer of reinsurance and to quantify it that way is -- is a very reasonable alternative.

Q. Do you know whether homeowners' carriers that are members of the Bureau in North Carolina file annual financial statements with the Department of Insurance?

A. You mean with the North Carolina Department of Insurance?

Q. Yes.

A. I'm not 100 percent certain what the filing requirements are. If it's only their state of domicile or if they need to also submit financials in other states in which they're licensed, I'm not 100 percent certain of that.

Q. Okay. So you've -- have you ever seen any annual financial statement of a North Carolina homeowners' carrier?

MR. BEVERLY: Objection. You mean a carrier that writes in North Carolina?

MR. FRIEDMAN: I guess I better -- better specify. Yes. It would be a member of the Bureau that writes homeowners.

HEARING OFFICER FUNDERBURK: Can you

fully -- could you fully rephrase the question for the witness?

MR. FRIEDMAN: Absolutely.

BY MR. FRIEDMAN:

Q. Have you ever seen an annual filing of a homeowners' carrier, an annual North Carolina filing of a homeowners' carrier that is a member of the Bureau?

A. A rate filing?

Q. No. Annual financial filing. Annual statement.

A. I have seen annual statements of companies that are members of the North Carolina Rate Bureau. Those annual statements would reflect the entire organization, and it would not be North Carolina specific, the -- the information that's contained in that.

Q. Do those annual filings -- for national companies you're talking about? Is that fair?

A. Yes. Yeah.

Q. For national companies, do those filings reflect their overall cost of reinsurance?

A. Indirectly. There are data elements in an annual statement such as direct written premium and net written premium that you can then imply the difference of those would be the ceded premium.

I actually tried doing some of these calculations recently, and the right information isn't there to obtain what I would consider a reasonable calculation or estimate of a net cost of reinsurance. So there are -- there's some direct losses and some net losses, but the pieces don't all fit together based on the information in the annual statement.

Q. For what purpose were you recently trying to discern that?

A. To see if I could determine the net cost of reinsurance out of an annual statement.

Q. The -- is your understanding that for other expenses in the -- for North Carolina homeowners' Bureau members that respond to the data calls, some of those are national carriers as well. Is that correct?

A. That's correct.

Q. And have you seen those carriers apportion their national expenses to North Carolina?

A. Which expenses are you specifically referring to?

Q. Their G&OA.

A. My understanding is that some of the expenses such as the G and OA, the General and Other AC (phonetic), are typically countrywide expenses. Obviously, well, expenses that might get, I want to say

allocated or can be attributed to individual states would be something like premium taxes, which are unique by state. So it depends on the expense component as to whether it's a countrywide estimate or a state-specific estimate.

Q. Okay. So what is a component? I use the term apportion just because it's a tax term, but what is the allocate -- how -- are there some expenses, G&OA expenses, that are allocated by those national companies to North Carolina in order to respond to the data calls?

A. Yes. In fact, the ones you just mentioned, the General and Other AC, I believe, are allocated to the state because there are, as I think about it, there are state pages within the annual statement where the General and Other AC and commissions and taxes license fees can be found.

Q. Other than the companies' proprietary concerns about revealing what they pay for net, is there anything prohibiting them if they have a national reinsurance treaty from allocating some part of that to North Carolina?

A. The process of allocating a countrywide reinsurance contract to individual states is -- is not straightforward. It's complex. There isn't really a

consistent methodology to do. There are several methodologies that are considered or used. That's a difficult process to do.

Q. But it is possible?

MR. BEVERLY: Objection; calls for speculation.

MR. FRIEDMAN: Your Honor, why don't we go to -- we're going to turn back to the Actuarial Standards of Practice that is at Book 3, Exhibit 12.

HEARING OFFICER FUNDERBURK: Is this in regard to arguments regarding Mr. Beverly's motion or objection, I'm sorry?

MR. FRIEDMAN: It is. It is absolutely related to that.

HEARING OFFICER FUNDERBURK: Proceed.

MR. FRIEDMAN: Sorry, one second, Your Honor.

HEARING OFFICER FUNDERBURK: And while you're doing that, Mr. Beverly, could you elaborate on why that would be speculative, not able to be done?

MR. BEVERLY: Anything is possible, Your Honor. I was looking for more context to the question.

HEARING OFFICER FUNDERBURK: Okay.

MR. BEVERLY: That's all.

HEARING OFFICER FUNDERBURK: Thank you.

MR. FRIEDMAN: Sorry, Your Honor. There is a specific provision on speculation by actuaries, and I'm looking for it. I'll move on in 30 seconds, Your Honor, if I can't.

If you could turn -- we're going to be going to ASOP 17, and that is at page 18 in Exhibit 12 and going to Rule 3.8 that is on page 21. I'll read it into the record.

The actuary may be asked to answer hypothetical questions. Hypothetical questions may fairly reflect facts and evidence, may include only a part of the facts and evidence, or may include actuarial assumptions the actuary believes to be unreasonable.

If permitted by the rules of evidence and procedure and any other rules applicable in the forum, and by the rulings of a judge or other official charged with overseeing the forum, the actuary may refuse to answer hypothetical questions based on what he believes, in good faith, to be unreasonable actuarial assumptions.

So my response to Mr. Beverly would be

that it -- this is -- I mean, actuaries are employed to hypothesize. They term it estimate, but still, that's what they're -- that's the nature of what they do is look at different possibilities and outcomes and consider if X fact were to change, what would that outcome be.

So that is -- I'm asking him simply whether it is possible that for a national insurer that is a member of the Bureau and writing homeowners insurance in North Carolina to allocate some portion of its national net reinsurance costs to North Carolina. He's answered so far that it's cumbersome, but I'm asking him whether it's possible.

HEARING OFFICER FUNDERBURK: And I think that the first question is, is it possible? I wouldn't necessarily consider that to be speculative because it's yes or no. Is it possible? Now, we may be in different territory when and if he's asked to speculate.

So, Mr. Beverly, I'm going to overrule your objection and ask the witness do you understand the question that is pending, Mr. Anderson? Would you like it restated?

MR. DIETDERICH: Can you repeat the

question, please?

MR. FRIEDMAN: Sure.

BY MR. FRIEDMAN:

Q. Is it possible for a national homeowners' carrier that is a member of the Bureau writing homeowners insurance in North Carolina to allocate some percentage of its national net costs of reinsurance to North Carolina?

HEARING OFFICER FUNDERBURK: And, Mr. Friedman, please adjust your microphone. Bring that closer so the court reporter can hear you. Thank you.

THE WITNESS: Yes. That would be possible.

BY MR. FRIEDMAN:

Q. Did you review the CAR calculation that Milliman did in 2014?

A. Yes.

Q. Okay. Is it correct that that was based on the AIR WSST?

A. I reviewed it at the time, which was ten years ago.

Q. Okay.

A. I would rely on whatever is documented with the 2014 filing if it identifies what version of

the AIR model was used, then that's what was used.

Q. Do you recall whether or not the output that was used to calculate -- the AIR output that was used to calculate the CAR was event level?

A. Yes. The output from the AIR model that would have been used in the CAR analysis would have been event level.

Q. Okay. For the CAR analysis or CAR analysis in the current filing, is the model output at event level?

A. My understanding is that Aon intended to replicate Milliman's methodology from the 2020 filing. And if they did that then that would have also used event level data.

Q. Okay. Going back to your testify -- testimony. On page 5 of your testimony, in the last paragraph before the first full question, beginning with this approach.

A. Yes.

Q. Okay. You state, this approach, though it changed from the 2020 homeowners' filing, was used by the Rate Bureau and its dwelling insurance rate filing submitted in July 2023. And the change is reasonable, actuarially sound, and has minimal impact on the rate level indications.

By that, are you in addition to talking about that change, are you also saying that Aon's calculation of the CAR is actuarially sound?

A. I'm just checking to see if I specifically comment on the compensation for assessment risk later in my testimony.

Q. Where else do you -- page 13 is where you address it further. If you look at --

HEARING OFFICER FUNDERBURK: Well, Mr. Anderson, you can have the time you need and just let us know when you're ready to proceed.

THE WITNESS: As I say, so in on page 13, I say I reviewed Aon's methodology and results to ensure that the compensation for assessment risk provision in this filing is consistent with those previous filings. So given that it was consistent, I would say that it was reasonable.

BY MR. FRIEDMAN:

Q. Thank you. Now, with regard to the CAR, you testified that the calculation includes both the potential for FAIR Plan assessments and the potential for Beach Plan assessments. Is that right?

A. Yes. That's correct.

Q. Do you know if there's a statutory provision allowing for the Commissioner to take into

account as part of a rate assessment by the FAIR Plan?

A. Can you explain your question?

Q. Sure. Are you aware that there is a North Carolina statute allowing the Commissioner to take into account, for the purposes of rate making, the potential for an assessment by the Beach Plan?

A. Yes.

Q. Are you aware of whether there's a similar plan for a similar permission for the Commissioner with regard to FAIR Plan assessments?

A. I believe the statutes are silent on one of the entities. It's where it's not mentioned. So it explicitly identifies one and is silent on the other.

Q. Are you aware that in the 2014 order by the then Commissioner, he found that the CAR did not provide for consideration of an assessment as to FAIR Plan's assessments by the FAIR Plan, if I may rephrase?

A. I am -- I am familiar with the order as it relates to the compensation for assessment risk.

Q. So you do recall that part of his 2014 order?

A. Yes.

Q. Okay. Did notwithstanding that order and notwithstanding the fact that you don't know whether -- you're not aware of any statute permitting the

Commissioner to consider FAIR Plan assessments, did for as long after that, 2014, as Milliman calculated the CAR, did it continue calculating it with FAIR Plan assessments?

A. Yes. The compensation for assessment risk reflects FAIR Plan assessment, but it is not a provision for assessment.

Q. I understand it's not a provision for assessment. It's the CAR. Correct?

A. Right.

Q. But you're aware that the Commissioner's order in 2014 said that the CAR cannot be calculated to reflect FAIR Plan data.

A. Is that also reflected in the statutes?

Q. No. There's -- as you said, there's nothing in the statutes about FAIR Plan data allowing the Commissioner to consider it at all.

A. Is there a question?

Q. Yeah. The question was -- back that up then. So when did Milliman stop doing the CAR calculation? Remind me.

A. After the 2020 filing.

Q. Okay. And since then, has --

HEARING OFFICER FUNDERBURK: Mr. Friedman, please speak up or get closer to the mic.

BY MR. FRIEDMAN:

Q. Since then, has Aon continued including FAIR Plan data in its calculation of the CAR?

A. Yes. They have.

Q. Okay. Since you are aware of the absence of any statutory provision allowing that and since you are aware of the Commissioner in 2014 saying it's not allowable, the FAIR Plan data, did you have any concerns about the law on that issue that such that you'd raise them in your personal opinion or such that you'd raise them to Ms. Mao or such that you'd raise them for to the attention of the Commissioner's actuaries?

A. No.

Q. Why not?

A. My understanding is that the Commissioner's order misunderstands the intention of the compensation for assessment risk. This does not relate to expected assessments.

Q. The Commissioner's order was upheld on appeal. Was it not?

A. Yes.

Q. To your understanding, does that establish the law in North Carolina, an appellate decision?

A. My under --

MR. BEVERLY: Objection.

HEARING OFFICER FUNDERBURK: Grounds, just put a statement for the record, and then I'll allow Mr. Friedman to respond.

MR. BEVERLY: I mean, there's -- there's a question asking him whether he understands what the Court of Appeals was thinking in -- in ruling on a Commissioner's order.

HEARING OFFICER FUNDERBURK: Any arguments, Mr. Friedman?

MR. FRIEDMAN: Yes. I'm not asking that question. I'm asking whether he understands that a Court of Appeals decision, whatever it may say, is law.

HEARING OFFICER FUNDERBURK: I'm going to sustain as to the way that I heard the question and ask you to restate and rephrase your question.

BY MR. FRIEDMAN:

Q. Do you understand that the Commissioner -- excuse me, that the Court of Appeals decision affirming the Commissioner's 2014 order is law?

A. I'm not a legal expert in a situation like that. I would rely on the Rate Bureau's counsel.

Q. Do you know the history of assessments currently for the FAIR Plan versus the Beach Plan? In

the last ten years, do you know whether the Beach Plan's assessed more than once?

A. Not off the top of my head. I would know where to find that information, though.

Q. Do you know how often over the past ten years the FAIR Plan has assessed?

A. I believe the FAIR Plan has issued assessments a couple of times in the last few years, if I'm remembering right. I know one of the entities has. I thought it was the FAIR Plan. I may be misremembering that.

Q. Hypothetical. If the FAIR Plan is assessing more often than the Beach Plan, and if you're including the FAIR Plan data on those assessments in your CAR, would that not drive up the CAR as opposed to just including the Beach Plan assessments?

A. The compensation for assessment risk is not a provision for assessment?

Q. They're -- they're including it as the data. If the Beach -- if the FAIR Plan is assessing more often and you include that data, then the Beach Plan is assessing, and you include that data in calculating the CAR, would that drive up the number, the mere fact that the FAIR Plan is assessing more often?

HEARING OFFICER FUNDERBURK: Would -- would you like the question restated, Mr. Anderson?

THE WITNESS: I can answer -- I can answer the question.

Not based on the current methodology because we're using modeled hurricane data. The recent history of assessments doesn't impact the analysis because it's based on modeled data.

BY MR. FRIEDMAN:

Q. But it is also based on the surplus in but the calculation is at least based on the surplus, the actual surplus of the FAIR Plan versus the Beach Plan. Is that correct?

A. That's correct.

Q. Do you know whether, in the case of the FAIR Plan, the surplus has been exhausted so that it has assessed?

A. I haven't looked at financials recently, but I believe that they have had to assess in the last several years.

Q. And wouldn't the fact that the calculation is taking into account the surplus and the FAIR Plan is assessing more often than the Beach Plan, wouldn't that lead to the CAR being higher than if you were to include only the Beach Plan data?

A. Including FAIR Plan model losses and their contribution to assessments to the industry creates a larger compensation for assessment risk than only including the Beach Plan.

Q. Thank you. Turning to page 6 of your report, about middle of the page, do you see beginning with "in my opinion", do you see where it states, in my opinion, the selections and methodologies referenced above, including the excess factor, the loss adjustment expense factors, the loss trend factors, and the premium trend factors are reasonable and actuarially sound?

A. Yes. I see that.

Q. And other than the hurricane loss adjustment expenses, the rest of those were calculated by ISO?

A. Yes. They were.

Q. Is it your understanding that in this case, with regard to the historical losses, the ISO used what's called a two-step formula to diverge between the historical losses and then the prospective ones.

A. Did you say a two-step formula?

Q. Yes.

A. Yes. I'm familiar with that.

Q. Okay. Could you explain what that is?

A. In the process of trending losses, maybe by contrast, a one-step process would be to select a single loss trend factor and determine how many years to trend or to project each of the historical accent (phonetic) periods into the future. So you select a trend rate and you apply that to all the years.

To add precision and responsiveness, many companies, including the Rate Bureau, use a two-step approach where they make one selection for the historical time period and a separate selection for what they call the projection period.

So typically, the end of the historical period is either the midpoint or the end of the most recent accent year in the experience period. A separate trend selection is made for that because you can observe history and identify what the trend is over that time.

And it's typically a narrower range of trend selections to make. It's a little bit more of a, if you want to say, a straightforward process. Obviously, to project things into the future, it's a wider range of potential selections there because that's unknown.

And so it's a little bit more straightforward or easy to pick the historical loss trend for the projected trend. Actuaries would also maybe look at

the last several years to see are those trends changing.

If the trend is significantly increasing or decreasing in the most recent year or two, you can reflect that in the projection period. It may not be appropriate to apply that if you only use the one-step approach over the historical and the projection.

So the two-step breaks it up into historical and projection to allow for really reflecting the historical data separately from where you think the future experience will be.

Q. And you said many companies use that in addition to the Rate Bureau?

A. Yes.

Q. Okay. Have you ever used it?

A. Yes.

Q. Now, where you have calculated historical and prospective losses, have you ever become aware of subsequent data? For example, a subsequent data on a subsequent year's losses that caused you to change your calculation?

A. No. That's typically not the way a rate filing process works. When a rate indication or a rate indication supporting a rate filing is submitted, that historical experience, that analysis, that rate

indication is what is being evaluated in the filing. To introduce new data as a separate filing.

I, in my earlier comments, I talked about the delay in reviewing and approving filings. Typically, there's no need to update the data if the filing is reviewed within 30 or 60 days.

North Carolina is unique, especially with Rate Bureau filings, where it has been over ten months since this filing has been submitted. The analysis was done well before that. We talked about the timeframe for that.

I can't think of any other insurance company, individual insurance company, that would be in a situation like this where the -- it would even be feasible to introduce new data. So the -- the delay in the regulatory process here is what provides even the opportunity to consider this.

It's not what actuaries do. We don't -- we don't introduce new data into a filing that's already been submitted. That's a whole separate analysis. It's a whole separate filing.

Q. Are you familiar with what the 2014 Commissioner's order, how it addressed the -- respect the -- the loss trend, in particular, the data that was available for analysis?

A. I believe I have a high level understanding of that.

Q. Okay. Do you recall that the Commissioner said that, for his purposes, he can take notice of subsequent data that has revealed itself after the data period that you were looking at?

A. I didn't recall that detail. I do not recall that detail.

Q. So let's see. On page 7 of your report -- actually, one second, Your Honor.

On page 8, first full answer about midway down. When you state, I'm also familiar with the assumptions selected as inputs to each model, and it is my opinion that the assumptions were applied consistently in both the AIR and RMS models, such that the resulting output of both models is comparable. Do you see that?

A. Yes.

Q. Okay. Are you familiar with the term black box to describe models?

A. Yes.

Q. Is that a common term for -- among actuaries to describe particularly catastrophe models?

A. No. I wouldn't say that actuaries consider catastrophe models to be black boxes. I hear that term more in reference to statistical models,

generalized linear models, things that are some of the -- the more complex versions of those you get into -- this is going to go down a statistical road there, but neural networks and GBMs and different types of modeling like that where it's not easily explainable.

For actuaries, catastrophe models are explainable. There are different components to it from the meteorological aspect, the damaging aspect of it, the exposure aspect of it. When the industry refers to black boxes, that implies that there's just uncertainty and a lack of information and a lack of disclosure. And that's not the case with catastrophe models.

The -- the modelers disclose as much information as they're able to, to explain it, to allow regulators to be comfortable with it, and to approve it. There's proprietary information that cannot be shared. You know, the -- the proprietary information around the meteorological data or how the engineers are -- are assessing the damage to structures.

But the actual just the way the kind of general overview of how the model works, enough information has been shared that my opinion is actuaries would not consider that to be a true black box, that there's enough understanding to be comfortable with the modeling process and to be comfortable with the

results.

Q. Okay. You just spoke about engineering. For lack of a better term, I'll call it inputs, to the models that can't be shared.

A. By engineering, I meant, like, engineers that are building and constructing buildings.

Q. Right.

A. Okay.

Q. I -- for instance, with regard to homes, the durability of --

A. Right. Right.

Q. -- homes. Okay.

A. Sorry. Some people use engineering in talking about even modeling, engineering the data, engineering.

Q. I've represented the North Carolina Building Code Council for four years. I got some understanding about the broad array of engineers there.

So you say that that -- the modelers can't -- is that -- the model, the companies that create the software can't reveal how they're in -- what their assumptions are as far as engineering?

A. I suppose they can. I would say maybe they choose not to. I mean, that's -- that's what would make one model different than the next. I mean,

that's what makes the AIR different than RMS is all the components that they would use to build that model. So --

Q. I'm sorry. I misunderstood your testimony. You were explaining the difference between RMS versus --

A. You asked if engineers can or can't disclose information.

Q. I guess I should better say the software makers who create the models. Can that -- you said that they can't -- I understand is that when you're talking -- you're not talking about whether or not Ms. Mao, for example, can disclose the engineering assumptions that have gone into RMS. Are you?

A. No. I'm talking about AIR and RMS.

HEARING OFFICER FUNDERBURK: Mr. Friedman, can you restate the question so we're clear where we are?

BY MR. FRIEDMAN:

Q. So, I'm distinguishing between the user of the model, which would be, in this case, Ms. Mao, and the creator of the model. I referred to them as the software maker. But -- and in this case, when you say that the engineering standards that have been programmed in as assumptions to the model cannot be

shared, they won't -- that is they won't be shared by AIR and RMS, correct?

A. This is getting beyond my expertise. So I wouldn't say the engineering standards, but maybe the way those are applied in the modeling or the way, again, the weather patterns are simulated. It's how these different components are being simulated or estimated. That's the proprietary information of each model that would not be shared with the public.

Q. Okay. When a person is using the model, such as Ms. Mao, reports its results, do those results contain some part of -- let's just put it this way -- are the losses in the results based on some part of the model that does address the durability of a house? The engineering of house?

Is it your understanding that the model you may not know what engineering assumptions are built into the models, but is it your understanding that when you use the models and get the results, the model is taking into account, for example, that all the homes on the coast in North Carolina may be made of Styrofoam?

A. I understand your question. Yes. The output or the results of the model would reflect the components that go into that model, which would include, among other things, the engineering component

of that, the damageability function. Did I answer your question?

Q. It does.

A. Okay.

Q. It does. So is -- the user of the model, how can the user cross check whether those damageability assumptions are at all accurate?

A. I can't speak for what Aon does to validate the models. I'll resort back a little bit to when I worked at Allstate. So this is -- this occurred a number of years ago, 20 or so years ago. But when Allstate -- so this isn't even directly applicable to Allstate today.

But when Allstate might evaluate the use of different modelers, different vendors, we would evaluate -- we would rely on kind of the validation of those models so that the modelers may -- may simulate historical events that actually occurred.

So in 1995, they could have re-simulated Hurricane Andrew, and they can -- they could compare their actual modeled losses to what actually happened during the actual event. So you can -- you can rerun old events on the models today and compare an actual to predicted. That's a very common approach.

They can do other validation techniques and can

even adjust some of the different assumptions in the models and show companies how that affects the results so they can assess is option A reasonable or is option B reasonable.

So the assessment of the components and of the assumptions and of the proprietary information is really done through, I want to say, kind of scenario testing or these validation exercises where they can see the results that are generated in different scenarios and determine is this reasonable.

Q. So is my understanding correct that those validation methods you can engage in for a model would test the overall losses against the overall model losses?

A. Overall for what?

Q. Let's use hurricanes as an example. When you -- you were talking about validation methods for hurricane losses that are modeled.

A. In a state, in a country, in a year? I mean, what -- what -- what model or what losses are being compared?

Q. North Carolina.

A. So what would you like to compare?

Q. If you -- are you able to validate -- well, first of all, you don't -- the user of the model

does not know what portion of the model losses are specifically attributable to the quality of home construction in North Carolina. Is that right?

A. Right. Right.

Q. And when you go back and validate, do you happen to have that data?

A. No.

Q. Okay. As to meteorological assumptions in the models, I understood your testimony to also be that the model makers -- RMS, Aon has its own models, AIR -- don't reveal the proprietary data regarding what climatological assumptions they built into the model.

A. That's my understanding.

Q. AIR is owned by Verisk, isn't it?

A. Yes.

Q. And it, in fact, does business under the name Verisk nowadays?

A. That's my understanding.

Q. ISO is owned by Verisk and does business as Verisk nowadays.

A. That's correct.

Q. Okay. And Aon owns its own type of or has its own type of modeling that at least is not reflected in the Aon data here. Is that correct?

A. I'm not aware of that. I'm not certain.

Q. Did the Bureau request that Aon specifically combine the results for hurricane losses, not the CAR, not the net. But for hurricane losses, did Aon -- did the Bureau request that Aon combine the results from the AIR standard model and the RMS historical model?

A. Actually, the statute requires the Rate Bureau to consider two models.

Q. I'm speaking, though, as to those two particular models. Do you know whether the Rate Bureau asked Aon to use those two particular models?

A. I don't know that specific discussion as to if direction was provided, if a recommendation was made by Aon. So I don't know that exact interaction there.

AIR and RMS are certainly the two most well-known, I would say, the kind of the longest tenured CAT model vendors as far as, again, just being widely known and used throughout the industry. So those two certainly come to mind frequently when hurricane models or CAT models are discussed.

Q. Are you aware that it was not the AIR standard or the RMS historical, but rather the AIR WSST and the RMS medium term that were specifically used for the calculation of the net cost of reinsurance as well

as the CAR?

A. Yes.

Q. Okay. Do you know whether the Bureau instructed Aon to use those models for that limited purpose or whether Aon chose to?

A. I believe the Rate Bureau would have directed, given that direction, based on input and guidance from Aon about what is used and done in the industry. When pricing and -- and Ms. Mao is -- is more of an expert in this area, but when reinsurance contracts are priced, they consistently rely upon the warm sea surface temperature model and the medium term model. That's the way reinsurance is priced, and therefore that's what was used as the basis of the Rate Bureau's analysis.

Q. Did you review the modeled loss results from -- that Aon provided from, on one hand, RMS historical and AIR standard, versus, on the other hand, Air WSST and RMS medium term?

A. I don't recall if I had -- if I was -- if I received data that showed the two models separate from each other, I believe the information that I was provided to review the output was the blended version of the models. So AIR and RMS were already combined at that point.

Q. But -- okay. Better said this then. Did you see on one hand the combined model losses of AIR standard and RMS historical combined?

A. Can you repeat that again?

Q. Sure. Did you see on one hand the model loss results from AIR standard and RMS historical combined?

A. Yes.

Q. Did you see, on the other hand, the modeled loss results from AIR WSST and RMS medium term combined?

A. I'm trying to recall from the reinsurance, the net cost of reinsurance analysis. The starting point of that calculation is the calculated reinsurance premium. And the Rate Bureau then subtracts the modeled losses corresponding to those layers related to the standard and the long term model.

The ratepayer would not need the modeled losses from the warm sea surface temperature medium term to do that calculation. So I'm not sure if they were available in that analysis file or not.

Q. So you don't recall seeing them?

A. I don't recall seeing them.

Q. Do you recall seeing any data in the results from the hurricane models, any of the four that

made a distinction between the hurricanes that made landfall in North Carolina versus those that didn't? The models hurricanes, I should say.

A. Yeah. The only time I saw that distinction was when the filing was put together, and I believe it's Exhibit F in the filing that has all the detailed hurricane data. That's the only time where that level of detail is provided to see where the events made landfall.

Q. So Exhibit F in your recollection shows which modeled hurricanes made landfall outside of North Carolina versus which modeled hurricanes land fell in North Carolina?

A. That's correct.

Q. For those modeled hurricanes that had landfall outside of North Carolina, do you recall any data in Aon's data that distinguished among the strength of the winds once that non-landfall hurricane reached North Carolina?

A. In Exhibit F that has that level of detail, there was a category of the storm, but the standard industry practices of that is measured at the time of landfall. That's -- that's the way the modelers identify the category of the event is at the time of landfall or maybe a small distance off of

shore. It's very near to the time of landfall.

And I believe if you go to the NOAA website, National Oceanic, they're -- again, they're the government entity that is the expert on hurricanes. They also identify the category of the storm based on when it made landfall.

There are historical storm tracks that may identify a higher category throughout the storm track, but when a category of a hurricane is identified, it relates to the time of landfall.

Q. Is it possible that if there is a Category 5 -- well, let's just, regardless of the category, if there is a modeled hurricane based on that simply is a hurricane based on, I think, the 75-miles-per-hour standard that hits South Carolina that by the time it actually comes to North Carolina, will not any longer be a hurricane because it's no longer has wind speeds of 75 miles an hour?

A. What's the question in that?

Q. Is it possible that if something -- if an actual hurricane hits South Carolina, it's a hurricane because it's winds are over 75 miles. By the time it hits North Carolina, it is no longer classifiable as a hurricane?

A. Yes. That's -- that's possible.

Q. Okay. To your knowledge, do -- in modeling North Carolina losses, do AIR or RMS take that into account? The fact that it's modeled hurricanes may no longer technically be hurricanes once they hit North Carolina.

A. What do you mean by take into account? What would they do with that to take --

Q. Would their losses in North Carolina for a non-North Carolina landfall event be based -- their calculation of North Carolina losses -- be based on the strength of the modeled hurricane in whatever other state it made landfall? Or would it be based on the actual wind speed by the time it reached North Carolina?

A. There are modeled hurricane losses in North Carolina attributable to an event. Some kind of a named hurricane or named storm. The category of that storm is based on when it makes landfall. So whether it makes landfall in North Carolina or South Carolina or Florida as a Category 4, regardless of what it is when it gets to North Carolina, it's categorized as a Category 4 based on the time of landfall. And if it generates modeled losses in North Carolina, it will be in the dataset.

Q. So the modeled losses, as for example,

there's a model hurricane that hits Florida, Category 4. Are the model losses for North Carolina, once it reaches here, based on the damage that a Category 4 hurricane can inflict even though that may no longer even be a hurricane when it hits North Carolina?

A. Are you asking if the losses in North Carolina would represent or reflect a Category 4 hurricane?

Q. Yes.

A. No. That -- the path of the hurricane is part of the modeling process. It's simulated, and that includes a weakening of the winds. It would include the corresponding rainfall and the wind speeds and things like that. So I'm sure there are others tens of thousands of rows of data there.

But if we went through, we could find a Category 4 storm that made landfall in Florida that only had $50,000 of losses in North Carolina because that simulated storm died down so much that there were barely any winds, therefore, barely any losses in North Carolina.

So through the modeling process, the modeled losses in North Carolina represent the state or the condition of that storm when it's affecting North Carolina.

Q. Okay. Thank you for clarifying that. Does -- do the RMS and AIR models only measure hurricane strength events?

A. I'm not 100 percent certain. That might include some tropical depressions. If it's -- it may include named storms, which includes tropical depression sometimes, so there would be a lower threshold for that. Again, that would be something that Ms. Mao would be able to articulate.

HEARING OFFICER FUNDERBURK: And Mr. Anderson, I'll note we're -- we're planning to go till 4:00 today. You've been on the stand about an hour and a half. Are you fine to proceed, or do you need a break?

THE WITNESS: I'm okay.

HEARING OFFICER FUNDERBURK: Thank you. Please proceed. I'm sorry to interrupt you.

MR. FRIEDMAN: No problem.

BY MR. FRIEDMAN:

Q. For a tropical depression, what's the wind speed necessary for it to qualify as one?

A. I'm not sure. They don't get nearly as much attention as hurricanes.

Q. Right. So those -- would that -- those be

better questions posed to Ms. Mao?

A. Yes. Yeah. I would suspect it somewhere, I don't know, 50, 60 miles an hour. Obviously, something below that 75-mile-an-hour threshold.

Q. Could you go to page 9 in your testimony?

A. Okay.

Q. Top of the second full paragraph in -- on that page, where you're discussing the demand surge. Could you explain what a demand surge is?

A. When a major catastrophic event occurs impacting a single state or multiple states because of the widespread damage in a localized area, there's typically a noticeable increase in costs for labor and supplies because of the increased demand.

So this is the law of supply and demand. When the supply is low and the demand is up, the costs increase. So that's what this is intended to reflect is that it's measurable, it's noticeable. There have been enough historical events to observe the impact of this increased demand on labor and materials when a major event occurs.

So the model without demand surge would just reflect the damage done on the insured value of the home. So if it's a $100,000 home, it would it would reflect damage on a $100,000 home.

But if an event were to occur, it may cost X percentage more than that to actually rebuild or repair that home because of the increased demand and the lack of supply in the area.

Q. Is the demand surge in one state surrounding a hurricane the same as the demand surge in an adjoining state from the same hurricane entering it?

A. I guess I don't know that for certain, but I would imagine that it would differ. That's where damage is more widespread, and there's a greater increase in demand, the impact of that demand surge would be greater, again, maybe at the point of landfall as opposed to 500 miles inland.

Q. And by demand in that context, would that include simply how many people's homes were there that got affected?

A. Yes. Which then has a resulting demand on materials and rebuilding costs and things like that. But, yes, it's based on the number of homes or policies affected.

Q. You ever calculated demand surge or reviewed results from a hurricane model of demand surge?

A. I have not calculated, but I have reviewed results from a model that include demand surge.

Q. When they calculate demand surges, they place a percentage on it. Is that fair?

A. Yes.

Q. Have you ever seen a hurricane model whose demand surge calculation varied between states?

A. No. That adds a layer of complexity and uncertainty that it kind of goes beyond the purpose of the hurricane model. You know, the hurricane model is simulating tens of thousands or 100,000 years, and it is averaging all this information together.

Similarly, the additional costs for demand surge represents an average across all of the areas that might be impacted by an event. So, again, to try and measure and estimate the precision and granularity of localized demand surge would be exceptionally difficult.

Q. Would you agree that the demand surge, if you had a -- if you had a hurricane that first hit Florida and moved up to Alabama, the demand surge could be different simply because there are fewer people living in Alabama than Florida?

A. It could be different for a variety of reasons. That could certainly be one of them is the number of people or the population.

Q. Okay. And yet you've never seen a model

that differentiated between what the percentage of demand surge there was in Florida -- this is just a hypothetical -- versus what it was in Alabama?

A. I have not seen that. No.

Q. Our demand surge functions in hurricane models based on actual past historical expenses for demand surge?

A. That's my understanding that the -- that that component of the model would be based on historical experience. They would look at the impact of past events and, yeah, and compare the impact that additional demand surge on each of those events.

Q. So the models, although they are modeling historical losses without necessarily any data on actual hurricane losses. First of all, is that your understanding that what was done here that the measurement of the hurricane losses was purely modeled?

A. Do you mean the measure of the hurricane losses in the filing?

Q. Yes.

A. And are you asking if the hurricane loss component is strictly based on model losses?

Q. For the AIR and the RMS that Ms. Mao used, was that strictly modeled?

A. If I'm understanding your question

correctly, the or the hurricane loss provision in the filing is based strictly on modeled losses.

Q. Okay. But it is your understanding, as I understand, from what I take from what you just said, that even though the hurricane losses are not based on actual historical hurricane data, the demand surge function of that same model is based on actual demand surge prices?

A. I believe so because of the ability to measure the impact of increased demand is -- is objective. It can be measured. It can even be monitored over time if that increases or decreases over time. It's not possible to measure hurricane exposure looking at a 5-year, 10-year, 20-year time period. I mean, modelers are simulating, as you probably know, 10,000 or 100,000 years.

In that sense, hurricane exposure can't be measured objectively by looking at historical experience. There isn't enough historical experience to measure that. There is enough experience to measure demand surge.

Q. I appreciate that. Thanks so much. Going on to going to page 10 of your report. About midway down, you are talking about the other acquisition expenses.

A. Yes.

Q. And the second paragraph in that answer distinguishes between the fixed expenses for homeowners versus the fixed expenses for tenants and condominium owners.

A. Yes.

Q. And the filing sets the fixed expenses for tenants and condominium unit owners at 50 percent of the expense to homeowners.

A. That's correct.

Q. What is that 50 percent calculation based on?

A. ISO would better be able to answer this question, but I believe it's based on judgment, informed judgment, knowing and understanding that the expenses that correspond to tenants and condo are lower than the expenses corresponding to owners. This were based on how the data is collected and aggregated. I'm not sure that the specific level of detail would be available to quantify this. So this was the Rate Bureau's best estimate to reflect the fact that the expenses are different and to develop a reasonable estimate to do that.

Q. Have you ever seen any actual data from the Rate Bureau reflecting the difference that their

members reported or their fixed expenses for tenants and condos versus their fixed expenses for homeowners?

A. I have not seen that data. No.

Q. Do you know if they ever asked for it?

A. I don't know if they've asked for that.

Q. Have you -- you said inform that they have judgmentally selected 50 percent, and I believe you said on some informed basis?

A. Yes. That's correct.

Q. Do you know what that informed basis was?

A. Member companies are -- are participating on all the committees so they can, without disclosing proprietary information, they can certainly share their company experience with, again, the relative differences in things like other acquisition expenses between forms. They could confirm that there is a difference or whether there is not a difference between these.

So the Rate Bureau does have access or they have information from the member companies to assess whether this is a reasonable assumption. I'm not sure if there is other specific data that might be available, but certainly, the discussions at the committee level and getting assurance or affirmation from the committee members, from the member companies, is a -- is a good

reasonability check on this selection.

Q. So you stated that the Bureau members may not be able, for proprietary reasons, to share the actual fixed expenses for tenants and condominiums with the other members of the -- of the Bureau?

A. Well, at -- at committee meetings, member companies can't talk about proprietary information. I mean, they have to be careful about, you know, antitrust laws and things like that.

Q. Do you know whether North Carolina homeowners' carriers that are members of the Bureau actually internally keep data on the actual fixed expense load for or the actual fixed expenses of tenants and condominiums policies?

A. I don't know that.

Q. Have you seen in other states' carriers where you're dealing with a single file or carrier that have kept that data?

MR. BEVERLY: I'm sorry. A single what?

BY MR. FRIEDMAN:

Q. Well, I guess, I should say for a company that is filing its own rate request, have you said that -- you said you've worked on homeowners' filings for individual companies in other states. Have you

seen whether those individual companies internally keep the data on the fixed expense loads for tenants and condominium owners versus homeowners?

A. This level of detail in the data isn't commonly displayed in a rate filing. Oftentimes, the expense provisions would be reviewed, and they'd be summarized across all of homeowners, which is what this filing -- so owners, tenants, and condos would be combined.

So I haven't specifically looked for this information in other filings. I would suggest that that's probably a low probability to find it, just because most companies would keep it at the aggregated level, but it's -- it's possible that it would be available.

Q. Do you recall the conclusion in the 2014 order about the 50 percent load for fixed expenses that the Bureau assigned to tenants and condominiums?

A. I do not recall that. No.

Q. Do you know if there was a time in the past when the Bureau did not assign a 50 percent fixed expense load based on judgment but used a different formula to assign the expense load?

A. No. I'm not aware of that. I might clarify. All this is doing is allocating the expenses

among the three policy forms. So there's like a fixed bucket of -- of other acquisition expenses, and this is just allocating it to the policy form.

So it's not removing expenses or costs out of the system or adding some in. It's just the allocation process. So --

Q. But it is affecting the premiums that a tenants and condo policy -- or policyholder will pay versus those that a homeowner's policyholder will pay?

A. Correct. So it would be reduced because that's a lower expense load. It would be reducing the premiums for tenants and condos, maybe possibly a modest amount, a moderate amount, because they are lower dollar premiums typically than homeowners.

So even a $10 savings might be more significant than it would be on a homeowner's policy. There's also a lot more homeowner's policy -- excuse me, a lot more owners' policies in the overall owners' book.

So the offsetting slightly higher premium for owners is, I would argue, negligible. So you have very few policies that are getting the benefit because tenants and condos are less represented, and the owners would only have to go up a little bit, so --

Q. You'd argue it's negligible, but you also said that you'd never seen the data split out at that

level. Is that correct?

A. Well, in the rate filing, it's -- we can see the effect of this calculation. We could remove this adjustment and calculate it as a constant other acquisition expense applied to all of them and see the impact.

Q. What if you took the 50 percent judgmental call and cut it in half, would that be only a negligible impact on the premiums paid by tenants and condo owners?

A. What are you cutting in half?

Q. The 50 percent fixed expense load, if you cut that to 0.25.

A. So is the -- the relativity 0.25 or is the relativity back up to 0.75?

Q. For the tenants and condos, the -- the relativity is now 0.25.

A. Well, that would further reduce the expense component for those two policy forms.

Q. Right. Would the difference still be only negligible?

A. Well, it's not negligible on those two policy forms because those are smaller dollar premiums.

Q. Okay.

A. So again, only, you know, even a 10 or 15

or $20 reduction in their premiums could be a sizable percentage. If the offset is only a $2 increase on a homeowner's policy, if the average homeowner's premium is $1,000 that's two-tenths of a percent. So the -- the negligible impact is on the owners.

So this is an effective way to allocate the costs, giving a recognizable benefit to tenants and condos with a minimal impact on owners.

Q. Okay. Thank you. Turning to page 13 of your report. Actually, let's turn to page 17. You've already referred to these yourself. But there are two paragraphs there. I'll just read the questions.

Assuming that the provisions for profit, CAR and NCR or net are reasonable, do you have an opinion whether the proposed rates reasonably provide the expected cost for homeowners' insurance in North Carolina? And you said, yes, if I assume that they are reasonable.

Do you, in fact, consider the calculation of the profit provision by Dr. Zanjani to be reasonable?

A. Yes.

Q. Have you ever reviewed any past Commissioner's orders or North Carolina Courts of Appeals decisions on the calculation of profit for the Department's purposes?

A. I'm familiar with, again, that 2014 order at a -- at a high level. The profit.

Q. What do you recall from that 2014 order about the Court of Appeals finding on the profit provision calculations done by Dr. Vander Weide and Dr. Appel?

A. So the high level recollection is that the Rate Bureau's profit provision was rejected. I don't remember the specific arguments or details or points of contention that led to that conclusion.

Q. And opining that Dr. Zanjani's calculation is reasonable, did you go back and see whether it resembled the calculations done by Dr. Vander Weide and Dr. Appel?

A. I did not make that comparison.

Q. Okay. Did you rely on the advice of the Bureau's attorneys as to whether Dr. Zanjani's calculation was in keeping with North Carolina's law?

A. Yes.

Q. Turning to page 14 in your report.

A. Okay.

Q. At the bottom paragraph, you state, for this filing, the Rate Bureau engaged Aon, one of the world's largest reinsurance brokers, to develop the provision for the net cost of reinsurance.

It is my understanding that Aon was retained by the Rate Bureau based on their ability to access relevant data and experience from the reinsurance market, their expertise with catastrophe-related issues, and their prominence in the reinsurance industry. This is consistent with prior homeowners' rate filings submitted by the Rate Bureau.

Do you know whether Aon, in calculating the net, actually relied on any experience as in actual net costs from the reinsurance market?

A. My understanding is that that's not the way reinsurance is priced. The net cost of reinsurance is really the end result of the whole process of purchasing and applying reinsurance and building it into rates. My understanding is that in Aon's analysis, they evaluated the prices for reinsurance in the market.

So it's the reinsurance premium is -- was the starting point, and that was really the focal point was they identified what a reasonable reinsurance contract would look like, where would it attach, where would it exhaust. They have models or techniques that determine reinsurers split things up into layers.

The first layer is $500 million and then a billion dollars. They have methods to optimize that,

where they will reduce costs as much as possible or make that process as efficient as possible. But the starting point is reinsurance premiums.

And then the modeled losses that are subtracted out of that came from a different component of the filing that came from the modeled hurricane losses. And the net result then is the net cost of reinsurance.

So my understanding is that Aon's focus in doing their analysis is not on the net cost of reinsurance. It's on reinsurance premiums and the cost of purchasing reinsurance in the market.

Q. In Aon's data, did you see anything reflecting the actual price of -- of historical price of reinsurance premiums?

A. No. I did not.

Q. Okay. You stated that when you have calculated re -- or the net costs for, in other states, for single insurance companies, you have typically considered that data?

A. Yes.

Q. And you testified that it is possible for national homeowners' carriers that are also members of the Bureau and write homeowners in North Carolina to allocate their national costs, their national net cost for reinsurance to North Carolina?

A. Could you repeat the beginning portion?

Q. Do you recall your testimony an hour ago that it is possible for a national carrier that also does business writing home policies in North Carolina, homeowners' policies, to allocate its national net costs for reinsurance to North Carolina?

A. Yes.

Q. And you didn't see any of that data in Aon's calculation of the net?

A. What do you mean by that data?

Q. Yeah. The actual allocations -- the actual allocations of the actual premium price.

A. So I mean, that data would be proprietary, confidential data between Aon and their clients that can't be disclosed with third parties. That's a -- that's part of the client relationship between Aon and the companies that they do business with, similar to Milliman with our clients. That's not my data to share. It's the client's data. I can't share that.

So Aon, legally, as far as the contracts with their clients, they're obligated, they can't share that information. If I have access to that information in reviewing an individual company's reinsurance, it's because that company has given me that data to use for an analysis. It's not for me to share. It's for me to

do an analysis for them, maybe submit a rate filing for them, but it's their data and it's their proprietary information. So these are two very different scenarios. That's not Aon's data to share.

Q. Assuming there were no proprietary concerns of the insurance companies in sharing their actual premium experience for the net cost of reinsurance, would that be helpful information to know in calculating the net costs for North Carolina?

A. That's a very big assumption. But if there were no proprietary issues, yes. I mean, additional data would be helpful.

Q. Okay. And to be clear, it is the insurance companies that have deemed it proprietary.

A. That would depend on the contracts between Aon and their -- their clients.

Q. Okay. But I think you did testify that -- have you entered into contracts with carriers that say the -- where the carriers are the ones who define what is proprietary and what you can't share other than with them?

A. Yes. Yes.

MR. FRIEDMAN: So, Your Honor, can I address the Court briefly?

HEARING OFFICER FUNDERBURK: On what?

MR. FRIEDMAN: On just the schedule.

HEARING OFFICER FUNDERBURK: Proceed.

MR. FRIEDMAN: So I'm going to go on now to the one calculation that Mr. -- not just ones he opined on, but the actual calculation he conducted, that is with regard to the contingency cost or contingency provision. I do not anticipate that my direct of him will necessarily be done by 4:00, but I will try to put in as much of it as possible unless the Court has other concerns.

HEARING OFFICER FUNDERBURK: Do you have any response, Mr. Beverly?

MR. BEVERLY: No. Your Honor. Onward.

HEARING OFFICER FUNDERBURK: Let's move forward. When we get to 4:00, we'll reevaluate exactly how much additional time we may need to take. As we discussed earlier, I am concerned about timeliness, and making sure that we're proceeding forward. So please -- please go ahead and continue.

MR. FRIEDMAN: Could I address that briefly, Your Honor?

HEARING OFFICER FUNDERBURK: I think we need to -- I think we need to finish your witness testimony.

MR. FRIEDMAN: Okay.

HEARING OFFICER FUNDERBURK: And then counsel can discuss the overall schedule, and we'll get back to that. But if -- I would like you to go ahead and proceed.

MR. FRIEDMAN: Absolutely.

BY MR. FRIEDMAN:

Q. Could you go to page 12 of your exhibit? Or, excuse me, your report.

A. Okay.

Q. So are you basing your calculation of the contingency provision only on the regulatory or supposed regulatory delays that you calculated? Or are you also basing it on the potential for adverse court decisions, extension of coverage for unforeseen or unintended exposures, or reduction in filed rate changes, and unexpected large losses?

A. Just to clarify, what's the beginning of that? Did I base my calculation, or did I base the contingency provision?

Q. Your -- your opinion about a 1 percent contingency provision being actuarially reasonable?

A. My opinion about the 1 percent provision being reasonable is based on all of those reasons, all those components.

Q. Okay. Can you tell me about any adverse court decisions in the past ten years that would have affected the homeowners' carriers in North Carolina?

A. No, I cannot.

Q. Do you know about any pending lawsuits that would contribute to a contingency provision?

A. No. I cannot.

Q. So with regard to reduction in filed rate changes, are you referring to -- does that include where the Commissioner has ordered a reduction in the recommended rate or by -- the recommended rate of the Bureau?

A. Yes. I believe that's wording that comes out of the ASOP, Actuarial Standard of Practice Number 30. That would be my interpretation of that language would be similar to yours where the company has requested a certain rate change and whether it's the Commissioner or just through the review and approval process a lower amount is approved or is agreed upon.

Q. So the reduction could be due to a Commissioner's order or a settlement for less than the requested rate.

A. Right. Yes.

Q. If it's due to a Commissioner's order, is the order that the rate that he adopts the legal rate,

regardless of whether the -- the Bureau sought a higher rate?

A. So this ASOP, this terminology applies to more than just North Carolina. I understand we're applying it in this instance to North Carolina, but the concept of reductions and filed rate changes certainly applies universally across the state. So Commissioner decisions may or may not even be involved as to a contributing factor here.

Q. But in North Carolina, specifically, is it your understanding that if the Commissioner orders a rate that is less than the requested rate of the Bureau, then that is the legal rate?

A. I would defer to the lawyers to assign a legal label on that -- on that decision, whether it's the legal rate or what other label might be attached to that.

Q. But that is the maximum that a member of the Bureau can charge in North Carolina.

A. No.

Q. Well, without regard to --

A. A rate loss.

Q. Yes.

A. Yeah.

Q. Let's just say that whatever the variance

in the manual rate, that is the maximum manual rate that a homeowners' carrier that's a member of the Bureau can charge in North Carolina.

A. That's correct.

Q. And if the Bureau enters into a settlement for less than its requested rate, that is -- that establishes the maximum manual rate that the members can charge?

A. That's correct.

Q. And if the Bureau decides on what the effective period for that rate will be in its settlement, that is the effective period that they have to abide by for the manual rate?

A. I believe the effective date in settlements isn't decided by the Rate Bureau. That would either be collaborated or the Department of Insurance would certainly contribute to the settlement date.

Q. Certainly. But what I'm asking is once it's been entered into, the settlement, that establishes what the effective period will be for the manual rates that the Rate Bureau members can charge?

A. Yes.

Q. And where the Commissioner orders that the -- there be a particular effective period, that

order establishes what the effective period will be for the manual rates that the members can charge?

A. Kind of. I guess I don't consider an effective period. There's an effective date of the rate change, and at the time that's decided, we don't know how long that rate will be in effect for because we don't know when the next rate change will occur.

Q. We don't know when the Bureau will come back and ask for it.

A. Right.

Q. Okay. But at the very least then it establishes the effective date at the front end.

A. Yes. So these Commissioner orders and settlements certainly represent reductions in filed rates, which are actually added reasons for a contingency provision because the contingency, again, is the difference between the estimated cost and the actual cost.

And this reduction in rates, whether it's by Commissioner's order or settlement that you just asked about, is exasperating that. It's increasing the difference between the estimated rate and the actual cost -- the estimated cost and the actual cost. So that's actually more of a justification for a contingency provision.

Q. Okay. If the Bureau has entered into a settlement that establishes the rate, the manual rates, and the effective date, they sign off on that, why should they get to come back and ask for more afterward based on what they didn't get in the settlement?

MR. BEVERLY: Objection. There are any number of reasons, Your Honor, why a settlement might be reached. I suggest that's an improper question.

MR. FRIEDMAN: He's testified that the -- that's what is -- that policy or, excuse me, that factor reflects, and I'm just asking him whether or not once they've signed off on the settlement, why should they get to come back and say, oh, we really wanted more?

HEARING OFFICER FUNDERBURK: And can you explain, Mr. Friedman, how that's in the purview of an actuary giving an expert opinion on how to set rates?

MR. FRIEDMAN: Well, his testimony is that the contingency provision allows for the company to try to recover rates that it didn't agree to in the settlement or rates above what they agreed to in the settlement.

And what I'm asking him is whether or

not they -- once they've agreed in the settlement that those are the legal rates, why, as a policy matter or as from an actuarial perspective, they should be entitled to come back and try to get what they bargained away?

MR. BEVERLY: I'd argue, Your Honor, that the -- the entire premise mischaracterizes the testimony. That to suggest that the -- somehow the Rate Bureau has now agreed that the settled or the rate agreed upon in settlement is the adequate rate or the needed rate, that's just wrong.

HEARING OFFICER FUNDERBURK: The objection is sustained, Mr. Friedman.

BY MR. FRIEDMAN:

Q. Can you tell me if any -- any unexpected large losses other than hurricanes that occurred in North Carolina -- for North Carolina homeowners' carriers in the past five years?

A. Not off the top of my head. I would have to go back and look at actual experience or even news reports or things like that.

Q. So going on to RB-21. This is your calculation of the purported impact of regulatory delay on the contingency provision that's requested in this filing?

A. It's my calculation of the estimated impact on rates. It provides support for one of the reasons as to why a contingency provision is needed.

Q. And in order to arrive at this, you compared so-called regulatory delays among four types of residential policies. Is that correct?

A. That's correct.

Q. Those four types are Dwelling, manufactured home or Mobile Home F, Mobile Home C, and then Homeowners.

A. That's correct.

Q. Okay. Why are the alleged regulatory delays in Mobile Home C, Mobile Home F, or Dwelling relevant to the alleged regulatory delays in Homeowners?

A. Because the general rate review process and approval process is consistent. It's the same entity the Rate Bureau that is submitting the filing. The analyses are very similar between those four products. So the way the filing is presented to the Department is very similar. The components of each of those rate filings are very similar to each other. The people reviewing the filings are the same.

So all of the facets of the analysis are very, very similar. It's just a different line of business.

So the review process, the questions that might be raised, they're consistent across all four of the products. So that's the primary reason that this -- the rate review and approval process is very, very similar across all these -- all these products.

The other is that it increases the sample size. To make decisions off of one or two observations, again, as an actuary, the larger the sample size, the more credible it is, the more confident we are in being able to make reliable decisions.

I didn't -- I'd have to count the homeowners. If there's only three or four homeowners' filings here, it's hard to know if that's a trend or just an anomaly or if it's -- if it's reliable. Here we have 21 observations that we can -- we can make more reliable estimates or observations than if it's just three or four filings.

Q. So would you agree that the exposures for MHC are far fewer than those for homeowners?

A. By exposures, do you mean, like, residential properties?

Q. I guess I should say policies. Maybe that's a better term.

A. Yes. Mobile home would have fewer policies than homeowners.

Q. Both Mobile Home C and Mobile Home F forms?

A. Yes.

Q. It's the same for dwelling?

A. Yes.

Q. Okay. And the Rate Bureau, in your -- does it, in your experience, ask for different requested rates for Dwelling, Mobile Home C and Mobile Home F than it does for Homeowners?

A. Did you ask if there's different rates?

Q. Different requested rates. When it does an MHC filing, that requested rate is not necessarily going to be duplicative of what it requests when it does on homeowners filing.

A. That's correct. Yeah. These are standalone insurance products and standalone lines of business that have separate premium calculations, and the rate -- rate indications and the rate filings are separate.

Q. And in your experience, do the premiums among Mobile Home C, Mobile Home F, Dwelling, and Homeowners vary?

A. Yes.

Q. Significantly?

A. Premiums within each of those products

vary significantly. I mean, the premiums for properties are -- depend on a lot of characteristics. The primary one is probably the value of that dwelling. I would -- well, it's not a stretch to say that the average value of a home is very different than the average value of a mobile home. So, yes, the premiums vary but as do the underlying characteristics.

Q. Are there fewer carriers in North Carolina writing mobile home policies than writing homeowners' policies?

A. Yes.

Q. Are there fewer carriers writing dwelling policies than are writing homeowners' policies?

A. I believe so. Yes.

Q. Okay. And are there some -- so by that token, there are some people, some carriers writing homeowners' policies that aren't writing mobile home policies. Is that fair?

A. That's correct.

Q. Likewise, there are some carriers writing homeowners' policies that are simply not writing dwelling policies.

A. That's correct.

Q. So in light of all those differences in numbers of policies among these four forms, in premiums

charged among these four forms, and in the difference between what companies are homeowners' writers versus which ones are writing the other three forms, how can you say that the experience of mobile homes and dwelling are reflective of the alleged regulatory delay for homeowners' carriers?

A. Because the -- the review process, the analysis, the exhibits, the content of the filing is consistent, just because the numbers are bigger because it reflects more policies or more homes, the -- the review process is consistent across all four filings. It's still just one filing being submitted for each one.

So and with the consistent presentation of the data from one filing to the next, there should be consistency, or there could be consistency in the review process and understanding the way the data is presented and what have you.

So I'm not -- I'm not sure I understand why the number of policies or homes would affect the review process.

Q. Why should the homeowners' carriers get a contingency provision based on the regulatory delay for dwelling and mobile home carriers when those homeowners' carriers aren't even writing those

policies?

A. The -- the contingency provision as implied by the name, it's -- it's a contingent provision for this difference between the expected and the actual costs. It's a provision to account for unknown things that may occur, large losses, judicial court -- judicial decisions, things that are unpredictable, they're difficult to quantify.

In prior settlements or rate filings or negotiations with the Rate Bureau and the Department, it's been mentioned that, you know, there was no support for the contingency provision. So this was an attempt to -- we identified that among the list of reasons that are included in the actuarial standard of practice, we identified this one can be quantified.

So here is the Rate Bureau's attempt to quantify, to respond to that question or objection that it's not supported. So we've -- we've done that. The Rate Bureau has done that. They're quantifying one of the reasons for the contingency provision to -- to adjust how we can actually put some numbers around something that in the past had been unknown. So this is actually addressing a concern of the Department in response to questions that they've raised in the past.

Q. So I recognize that this is an attempt by

the Bureau to quantify some support for the contingency provision. But you understand the questions I've just gone through in the past 15 minutes are not about the fact that y'all tried to quantify it, but rather about the quality of that quantification. Do you understand that?

A. Yes.

Q. Thank you. Now --

A. I would note that just visually looking at this exhibit, if we pared it down to just homeowners, the indicated impact would increase. So if you would you know, if -- if there's a preference to focus on just homeowners, it's going to actually increase the contingency provision because there's greater uncertainty, greater delays on homeowners' filings than the other -- than the other filings. So that adds to the uncertainty, and it adds to the need for this provision in the filing.

Q. You testified earlier, as well, though, that you don't go back based on data that isn't included in your report and recalculate the report. Is that fair?

A. Yes. I'm not suggesting we did that. You asked about limiting the data to just homeowners.

Q. Now, when you say regulatory delay, what

do you mean by that term? What are the types of things that can constitute, in your opinion, regulatory delay?

A. Yeah. As an actuary, when we use the term regulatory, it's really, I would say, almost anything related to kind of insurance department activities. So we'll talk about the regulatory environment or the regulatory requirements.

So the regulatory delay is, in this instance, I would say is any delay associated with once the filing is in the hands of the insurance department. You know, whether that is entirely due to the insurance department processes or whether it's simply the interaction of the two entities in the filing process.

It's -- this is simply the -- the result. We can observe what has happened in the past. I can't explain why there's a delay, but it's measurable, and it's consistent, and it's evident, and it exists. So we -- we quantified it.

Q. Is some of that delay attributable to the Bureau?

A. I don't believe so. The assumed effective dates, when rate filings are made, in my opinion, have a significant cushion built into them. They are projected well beyond an effective date that an individual company would use.

So from my perspective, there is sufficient cushion, sufficient time for that review and approval process with the assumed effective date. The fact that filings can't be resolved until beyond that, it represents, again, just the -- the North Carolina regulatory environment.

Q. Okay. So I understand better, when you are speaking of regulatory delay, you're speaking of the period between the filing and the resolution. Or you speak -- also including the time that the Bureau spends preparing for the filing?

A. It's just the former. It's the delay occurs once the filing is submitted. And we're not quantifying the length of time for the review process. That would be -- well, we're at ten months so far right now, so it'd be over 300 days right now.

This is just between -- the difference between the assumed effective date, which is well in the future when the filing is made, and the actual effective date by the time the filing is settled or approved or -- so it takes so long to get to that process that even this generous assumed effective date has to get pushed out further.

I believe the assumed effective date for this homeowner's filing was 10/1/2024. Well, that was last

week.

Q. Would the effect of that regulatory delay be cut down if, say, the hearing officer in this case ordered that the new rates she were to adopt the Commissioner was to adopt be trended from the original requested effective date to the actual one?

A. Can you repeat that again?

Q. Would your estimates -- are you aware that in 2014, the Commissioner ordered that, although he had already -- the hearing was taking place after the effective date of the filing, in the filing, and although his order came down after the effective date in the filing, but nonetheless, the -- all of the provisions be trended forward until the effective date that he ordered?

A. I was not aware of that.

Q. Okay. Would that affect your contingency provision in term -- just in terms of the effect of regulatory delay?

MR. BEVERLY: I'm sorry. You mean if that were to be done in connection with this case when the order is issued?

BY MR. FRIEDMAN:

Q. In general, where you have a Bureau filing that has a requested effective date, but it isn't

resolved until after that requested effective date. If the resolution allowed for trending from the requested effective date to the actual effective date, would that, at the very least, diminish the effect of regulatory delay that you've calculated here?

A. So that's unprecedented. Again, effective dates typically aren't changed once a filing is submitted. I guess what concerns me is if the filing is already resolved, there is a settled rate change or an approved rate change that has already been agreed to. Changing the effective date would change the indicated rate need. It would not change that resolved rate change.

So if the indication was 20 percent and they -- the Department and the Rate Bureau settled on a 5 percent rate increase, and now if -- if the Commissioner said we'll go back and change the effective date, that's going to take the 20 percent indication and maybe bump it up to 21 percent. Doesn't change the 5 percent settled rate change. It actually increases the gap between the required or the indicated rate need and what was settled.

I suppose if that marginal change, going from 20 to 21, that increase the indication by 1 percent, if that was then applied to the settled rate change, so 5

percent was taken up to 6 percent, that would eliminate this. But this would need to occur before a settlement or an approval, enters the equation because it changes the calculations of the rate indication.

Q. So assuming that --

HEARING OFFICER FUNDERBURK: Please speak louder or closer to the microphone.

BY MR. FRIEDMAN:

Q. Assuming that -- let's -- purely hypothetical, but the Commissioner adopted what he said was the maximum legal rate, manual rate, that the Bureau could charge. And he adopted that rate and set the effective date six months after the requested effective date, but then ordered that all of the data supporting the rate that he adopted be trended forward until his ordered effective date, would that not eliminate the regulatory delay? Whether or not the Bureau agreed with the ordered rate, but at least based on the Commissioner's reasoning, would that not eliminate the regulatory delay?

A. No. I mean, the ordered rate is what it is. The changing of effective date impacts the indicated rate need. So the indicated rate need could move up and down, and the ordered rate is what it is. So we could include a new year's worth of experience.

We could, I don't know, change covered provisions. We could do all kinds of things to adjust the numbers, which affects the indication. But if the ordered rate is a 5 percent increase, it is what it is.

So again, if the indication was 20 percent and Commissioner agrees to 5, the Rate Bureau would say there's still a 15 percent rate need left on the table. It would impact the remaining rate need.

So the Rate Bureau would theoretically want to turn around and say, hey, we still have -- we still need 15 percent more rate. If you add data or change effective dates, it will adjust that 15 percent that's left on the table. Maybe it goes up to 18, maybe it goes down to 12 or -- but it -- it doesn't change the 5 percent. So hopefully that makes sense. This --

Q. No, it does.

A. Yeah.

Q. So, I understand that the Bureau might not be satisfied with the rate that the Commissioner ordered. But assuming that that all plays out on appeal or that they don't appeal it -- let's just say they don't appeal it -- then at the least under the Commissioner's reading or holding on the maximum rate, if he trended it forward based on the data that he relied on --

HEARING OFFICER FUNDERBURK: Mr. Friedman, I'm not seeing a lot of -- it could just be me, but I'm not hearing a lot of difference in the last couple questions that you've asked. If you could be very careful to make sure that you are asking for additional information, I would be much appreciative.

BY MR. FRIEDMAN:

Q. One last question then on that. The reason that you say there would still be an impact from regulatory delay is because the -- if assuming, again, that the Commissioner trended it based on his findings, is that the Bureau didn't get what it wants. Is that correct?

A. No. That's not how I would categorize it.

Q. How would you characterize it?

A. When you say that the Commissioner is trending something, I'm not sure what that means or how it impacts the numbers. If the Commissioner would have otherwise approved a 4 percent increase and then he trended the numbers, he or she trended the numbers and -- and came up with a 5 percent rate change that he agreed to because of a change in the effective date, that might reduce the need for this.

There's still significant rate inadequacy on the

table, but the -- the change that would need to occur to remove the -- to remove this portion of the contingency provision is that a change in effective date would have to be reflected in the calculations that then impacts the decision. If a decision is made before any changes are made, it -- it -- it just doesn't affect anything.

Q. Could that be worked out after the decision, so long as he ordered that it be trended?

A. It could be. Certainly, it's possible. Yeah.

Q. Okay.

A. Changing an effective date is relatively easy. It would not be a big lift or a big effort. There are other concerns about wanting to maybe add additional data, add an additional year of experience into the analysis.

That's incredibly time consuming, incredibly burdensome that -- I mean the committees would have to reconvene and reselect trends and go through the whole process again because you add a year of data and you drop off an older year of data, it affects the entire analysis. It affects every single component of it, the trends, the underlying loss experience, the modeled hurricanes and net cost of reinsurance.

So if you were to expand on this concept and say, oh, can we just add a new year of data? Again, that's a whole new filing. It's a whole new analysis, and we've heard or we've talked about how long that review process is.

You know, if the data was readily available, it's six to nine months for the Rate Bureau to review and approve the rate review process. If it means ISO has to aggregate the data, that's the 12- to 14-month time frame. Changing an effective date is very quick.

Q. And if it were only the Commissioner's actuaries who were trending it, that wouldn't be, then, a delay for the Bureau. It might mean that there was rate inadequacy, as you call it, but it wouldn't mean that there was a delay for the Bureau in trying to accumulate those extra six months of data.

A. Yes. I suspect the Rate Bureau would want to know what those calculations are and understand them. So --

Q. I have --

HEARING OFFICER FUNDERBURK: Mr. Friedman, do you have -- Mr. Friedman, do you have additional cross?

MR. FRIEDMAN: Yes. I have about one or two questions.

BY MR. FRIEDMAN:

Q. Could you turn to RB-18 in Book 1? And I'm trying to figure out exactly -- that is not your exhibit. I believe it is Ms. Mao's exhibit. Is that correct?

A. That's correct.

Q. Okay. And you've tested that the CAR is not intended to address assessments per se?

A. That's correct. It's not a provision for expected assessments.

Q. On page 5 of that exhibit --

A. Yes.

Q. -- do you see the columns that states cost of funding assessments?

A. Yes.

Q. And then on page 9, do you see another column including the cost of funding assessments?

A. Yes.

Q. Okay. So given that those are included in Ms. Mao's analysis of the CAR, do you still say that assessments are not, per se, the concentration of the CAR?

A. Correct.

Q. Okay. How do you reconcile those?

A. So the average assessments or expected

assessments is really -- I would consider a subset of the modeled hurricane losses. And that might sound unusual but what is likely to trigger assessments would be a -- maybe a major hurricane event.

The modeled hurricane losses are built into the overall rate indication, determines the overall premium for the entire industry. A portion of that premium goes to the Beach Plan and FAIR Plan. It's intended to cover their share of the modeled hurricane losses.

Major event occurs. They run out of surplus. They need to issue assessments. Those assessments, again, correspond directly to hurricane losses that are already built into the rate indication through the modeled hurricane provision.

So assessments, average assessments, expected assessments, it's already in the filing, as they -- I mean, it's -- it's -- it's represented by the model hurricane losses.

Member companies get their share of the premium based on their exposure, their policies. They're collecting premium that corresponds to the policies they write. However, if the Beach Plan or FAIR Plan issues an assessment, the companies cannot recoup a significant portion of those assessments through some small portion that they can. They are now responsible

for the Beach and FAIR Plan's share of the losses. The companies collected a premium for their share of the losses.

They did not collect premium for the Beach and FAIR Plan's share of the losses, but now they are responsible for that through the assessments.

So all the member companies need to hold additional capital, need to have additional money in the bank to pay for these potential assessments for losses attributable to the Beach and FAIR Plans' premium not corresponding to their premium. Their premium covers their losses. The Beach and FAIR Plan premium did not cover all their losses. They ran out of money.

Compensation for assessment risk is the compensation that's required on the capital that the companies are holding to cover these potential assessments.

Pick a member company. They have to hold additional money in the bank because they may get an assessment that they cannot recoup from the -- the policyholders. If they have more money in the bank to cover the assessments of the Beach and FAIR Plan. Dr. Zanjani testified on the cost of capital to have more money in that in capital and surplus has a cost

associated with that, and that's what this is.

Q. So the CAR includes the cost of capital and surplus?

A. Trying to think of the best comparison here. I would maybe compare this to the net cost to reinsurance in a sense. Hopefully that -- hopefully -- I mean, essentially the insured -- the member companies are essentially reinsuring the Beach and FAIR Plan for this portion that could be attributable to assessments.

Q. So my question stands. The CAR is based, in part, on capital and surplus?

A. It is, yes. It is based on the need to hold more capital to cover potential assessments from the Beach and FAIR Plan. It is not -- the capital that they're required to hold is not funding their insurance operations. It's funding somebody else's insurance operations.

Q. And meanwhile, while they're holding that capital and surplus, is it invested?

A. Presumably so. Yes.

Q. Two last questions on direct. One --

MR. FRIEDMAN: Could I have -- could we have a five-minute break or a three-minute break even for me just to talk with --

HEARING OFFICER FUNDERBURK: You can

have a three-minute break.

(Discussion off the record)

HEARING OFFICER FUNDERBURK: All right. We're back on the record.

BY MR. FRIEDMAN:

Q. If the Rate Bureau made a homeowners' filing that was based on methods that the North Carolina courts had ruled were unlawful, and if it took the Department, let's say, ten months, to work out how they were unlawful or else to arrive at a settlement that was lower than the request because, in fact, those methods were unlawful, is that regulatory delay attributable to the department?

MR. BEVERLY: Object to form. I don't wish to be heard, Your Honor.

HEARING OFFICER FUNDERBURK: Sustained. Next question.

BY MR. FRIEDMAN:

Q. If the Rate Bureau submitted a filing that were based on incorrect data and it took the Department ten months to figure out what was incorrect about it and then negotiate a settlement that reflected the correct data, would that be regulatory delay attributable to the Department or the Bureau?

A. In the calculations on RB-21, it's

agnostic to what causes the delay. It's just that there is an observable, measurable delay. I'm not -- the Rate Bureau, I'm not concerned about what's causing the delay.

There's a consistent delay in the regulatory process here, regardless of who or what causes it, and -- and that's because it's quantifiable. That's the basis for this particular component that contributes to the contingency provision.

Q. So under your RB-21, even if the Department -- excuse me -- even if the Bureau caused the delay, they should still get a consideration in the contingency provision for that delay.

A. Yes.

MR. FRIEDMAN: Thank you. That's all I have on direct (sic).

HEARING OFFICER FUNDERBURK: Thank you.

Mr. Beverly, will you have redirect? And I'm also noting what time of day we're at.

MR. BEVERLY: Yes, Your Honor. We anticipate probably 20 minutes, maybe a tad more of a redirect, so we'll take direction from you. And we would need to level set, if possible, please, with Mr. Anderson and -- and our group in order to start. So I'd build in another 10, 15 minutes to

that estimate.

HEARING OFFICER FUNDERBURK: Okay. So it -- it sounds like we're better served by doing redirect in the morning?

MR. BEVERLY: I will not oppose that, Your Honor.

HEARING OFFICER FUNDERBURK: Any concerns, Mr. Friedman? Okay. Then that's what our plan will be. We'll be back in session promptly at 9:00 a.m. tomorrow morning. We'll start with redirect of Mr. Anderson.

Sorry if you have plans to go home tonight. Okay. We'll start promptly at 9:00 a.m. with redirect of Mr. Anderson, expecting that to take in the range of 20 to 30 minutes, and then move on to, I believe, your direct of Ms. Mao.

MR. BEVERLY: Thank you, Your Honor.

HEARING OFFICER FUNDERBURK: All right. Thank you. We're in recess.

MR. FRIEDMAN: Your Honor, would you like to address on the record the issue of scheduling or timing? The time -- you expressed some concerns about the time it is taking.

HEARING OFFICER FUNDERBURK: Not -- not at this time. I'm mindful that we have said we

would be gone at 4:00 today, and people may have family commitments that they need to attend to.

MR. FRIEDMAN: Oh, sure. Sure. So we need to speak about --

HEARING OFFICER FUNDERBURK: I want to get -- we'll -- we'll speak about that potentially tomorrow or Thursday.

MR. FRIEDMAN: Can I just understand, so I'm prepared to address, were you speaking about the timing as in getting out at 4:00 or the timing generally of the number of days it may take?

HEARING OFFICER FUNDERBURK: The timing generally of the days that it may take. We're in recess. Thank you.

* * * * *

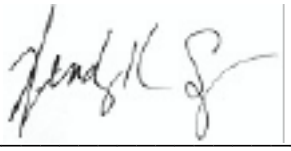
(Hearing adjourned at 4:21 p.m.)

CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA
COUNTY OF WAKE

I, Wendy Sawyer, court reporter, do hereby certify that the witnesses whose testimony appears in the foregoing hearing were duly sworn; that the testimony of said witnesses was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This, the 8th day of October, 2024.



WENDY SAWYER, Court Reporter

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Commission Expires April 23, 2029

EXHIBIT IRH-CWD-207

February 3, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. As the largest insurance group in the state, we appreciate all you and your staff are doing to help consumers navigate the aftermath of last month's horrific Los Angeles wildfires. Thousands of State Farm agents, agent team members and employees are on the ground and assisting customers virtually in the wake of this tragedy. As of February 1st, State Farm General Insurance Company[1] (SFG) has received more than 8,700 claims and has already paid over $1 billion to customers. We know we will ultimately pay out significantly more, as these fires will collectively be the costliest in the history of the company. Although reinsurance will assist us in paying what we owe to customers, the costs of these fires will further deplete capital from SFG. Last year, one rating agency downgraded SFG and, with further capital deterioration as a result of the fires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage. With nearly three million policies in force, including more than one million homeowners customers, SFG needs your urgent assistance in the form of emergency interim approval of additional rate to help avert a dire situation for our customers and the insurance market in the state of California.

Nearly a year ago, we shared with you that *"the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings."* (See attached March 2024 letter.) As you are aware, SFG has three rate applications, for four lines of business, that have been pending since last summer.[2] We are requesting that you take emergency action to help protect California's fragile insurance market by immediately approving interim rate increases on these filings, with rates to be effective May 1, 2025, in the following amounts: 22% for Non-Tenant Homeowners, 15% for Tenants – Renters, 15% for Tenants – Condominium Unitowners, and 38% for

[1] As a reminder, SFG is almost exclusively a California insurer, with homeowners insurance being its largest line of business. State Farm products written by affiliates of SFG – such as State Farm branded auto and life insurance – are not the subject of this letter.

[2] See SERFF Filings SFMA-123139896, filed 6/27/2024 for +30.0% for Non-Tenant (Homeowners); SFMA-134139931, filed 6/27/2024 for +52.0% for Tenants – Renters and +36.0% for Tenants – Condominium Unitowners; and SFMA-134139850, filed 7/5/2025 for +38.0% for Rental Dwelling (RDP). We note that these three applications were all originally based on Variance 6, a solvency-related adjustment to what is otherwise the maximum permitted premium under the rate regulations. Because of the upward impact of the Los Angeles fires on the maximum permitted premium, it's possible that SFG's rate increases for some lines may ultimately be supportable without Variance 6, but the financial condition that led to its invocation has only worsened.

Rental Dwelling (RDP). Because all three applications are for rate increases above 7%, and all three have an intervenor, ordinarily they can only be approved after a hearing (if one is requested by the intervenor) or via a three-way settlement. Hearings are historically very rare because of the uncertainty and length of the process, with the last SFG rate hearing not resulting in a final rate order until about 17 months after the notice of hearing was issued. Even resolution through settlement can be very difficult and usually takes months. An emergency *interim* rate approval would allow SFG to start collecting additional premiums much more quickly and possibly begin rebuilding its risk-bearing capacity. A *final* approved rate would subsequently be determined by you after a full hearing, if a settlement can't be reached first. If the final rate (whether after hearing or by settlement) is lower than the interim rate, refunds would be issued by SFG for the difference for any period during which the interim rates were in effect. The interim amounts SFG is requesting are smaller (for most lines) than the full rate need we originally applied for, in the hope that this will facilitate a speedy emergency approval. There is simply too much at stake for SFG's customers and the broader market if any rate increase has to wait on a full hearing or other resolution in the normal course.

While the California Department of Insurance (CDI) has recently approved several smaller SFG rate filings and made progress on your Sustainable Insurance Strategy, the fact is that SFG's capital position continued to deteriorate even *before* the latest fires. By year-end 2024, SFG's Policyholder Protection Fund – i.e. surplus, or capital available to pay claims – was approximately a quarter of what it was in 2016, and its surplus relative to the risk it supports dropped nearly eighty-five percent by one measure, putting the company below certain minimum regulatory Risk-Based Capital requirements. (See attached illustration of SFG's financial deterioration.) Over the nine-year period ending with 2024, SFG will pay $1.26 in claims and expenses for every $1.00 collected in premium, resulting in over $5 billion in cumulative underwriting losses. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period. Meanwhile, SFG's attempts over that same period to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success. This was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties.[3]

In order to better preserve its claims-paying capacity under these circumstances, SFG made the difficult decision in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused. Any of these homeowner policies which had pended non-renewals in Los Angeles County that were on the books on January 7th will have an option to renew with SFG. The high concentrations of risk covered by SFG in the fire footprint will generate a direct loss many times larger than the company's pre-event surplus. SFG's already stressed financial position will be further weakened, even after accounting for billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance

[3] For example, intervenors succeeded in convincing the prior commissioner to order SFG to reduce dwelling insurance rates 7% and issue a $100M+ refund after SFG filed in 2014 for a 7% increase (an annual difference of more than $150M). SFG's legal position in the dispute was later vindicated, but not until 2022 (when the California Supreme Court denied review of the Court of Appeal's decision in SFG's favor).

Company ("State Farm Mutual") as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover. External reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not exist. These fires reinforce why reinsurance is a critically important part of SFG's claims-paying capacity, now and into the future, allowing SFG to write or retain significantly more property insurance in areas with significant risk such as wildfires than would otherwise be possible. The situation also reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – that is irresponsible and simply not true.

The importance of our ask for your immediate help to protect all Californians cannot be overstated. The magnitude of expected claims payments for the Los Angeles fires, along with SFG's participation in FAIR Plan losses[4], puts tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rating agency) measures of financial strength and claims-paying ability, which must necessarily include the potential for *additional* catastrophic loss events in the future. Last March, SFG's financial strength rating was downgraded by AM Best[5] and SFG triggered a regulatory Company Action Level Event after failing to meet the NAIC's Risk-Based Capital ratio requirements based on its year-end 2023 financial position. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile.

As the Insurance Commissioner, you can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Ordinarily, the conditional nature of such a rate approval (i.e. the possibility of refunds if the final approved rate is lower than the interim rate) might not be enough to prevent much more significant and necessary actions by SFG or to assuage solvency regulators and the rating agencies. In this case, however, the enormous losses generated by the Los Angeles fires will soon flow into the CDI rating template and will clearly demonstrate that the interim amounts SFG has requested are supportable.[6] This then is primarily a

[4] SFG is required to book its share of FAIR Plan losses on its financial statements, regardless of whether an assessment is issued. SFG's participation rate for dwelling losses (commercial losses are treated separately) is expected to be around 16%.

[5] The downgraded financial strength rating is below what is acceptable to some mortgage lenders as appropriate insurance cover for mortgage collateral. This had limited impact on SFG policyholders because the company continued to receive an acceptable rating from another rating agency. Additional downgrades have the potential to force hundreds of thousands of SFG policyholders to seek insurance from another company or the FAIR Plan.

[6] We request that the full hearing for final rate amounts be based on fully-updated rate templates using data from the first quarter of 2025. For purposes of determining the interim rates requested, we have calculated an updated rate indication using the standard rate templates included in the filings by changing two inputs: 1) using a 5/1/2025 effective date and 2) a new catastrophe provision that incorporates wildfire loss estimates up through the most recent fires. The following table shows the initial indication prior to the adjustments, the updated indication, and the interim rate request.

Line of Business	**Filed CDI Template Indication (without using Variance 6)**	**Updated CDI Template Indication**	**Interim Rate Increase Request**
Non-Tenant Homeowners	-10.0%	+21.8%	+22.0%
Tenants – Renters	+7.9%	+16.6%	+15.0%
Tenants – Condominium Unitowners	+5.1%	+20.0%	+15.0%
Rental Dwelling	+10.5%	+42.0%	+38.0%

question of timing, and of what could happen to SFG's customers and the larger market if SFG has to wait months for additional premiums to begin flowing to possibly halt the decline of, or even begin to rebuild, SFG's Policyholder Protection Fund.

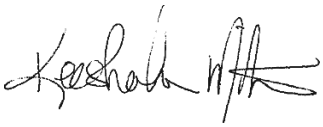
You have noted your desire to have an insurance market where insurers want to invest and protect more Californians. In addition to your other efforts, immediate approval of additional and appropriately supported rate for SFG (even on an interim basis) sends a strong message that the state is serious about reforming its insurance market and allowing insurers to collect sufficient premiums to protect Californians against the risk of loss to their homes. When insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market.

We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. Having said that, your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- March 20, 2024 letter from State Farm General to Commissioner Lara
- Illustration of State Farm General financial deterioration

EXHIBIT IRH-CWD-208

Via email

February 5, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
commissionerlara@insurance.ca.gov

Re: State Farm Request for Emergency Interim Rate Approvals:
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Commissioner Lara:

Consumer Watchdog submits this preliminary response in opposition to State Farm General Insurance Company's ("State Farm") letter request ("Letter Request") for emergency interim rate increase approvals that it addressed to you on February 3, 2025.

In its Letter Request and subsequent communications, State Farm has emphasized that its emergency interim rate requests stem primarily from concerns about its credit rating—not from any immediate or long-term inability to process and pay wildfire claims. But one of the leading credit rating agencies, S&P Global Ratings, gave it a "AA" rating, and noted it was unlikely to change its ratings in the next two years, specifically taking into account risks to State Farm's capital from natural catastrophe losses.[1]

Consumers impacted by the recent wildfires in Los Angeles County should be confident in their ability to focus their limited resources on rebuilding their homes and households—not on propping up State Farm's credit rating. As State Farm itself has acknowledged, only one agency has downgraded its rating.[2] Meanwhile, other credit rating agencies have seen no need for a downgrade. State Farm's

[1] S&P Global Ratings, *State Farm Mutual Automobile Insurance 'AA' Ratings Affirmed*, June 28, 2024 ("S&P Rating"), available at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3205015.
[2] See Letter Request at p. 1.

parent company, State Farm Mutual Automobile Insurance Company ("SFMAIC"), has supported its affiliates following catastrophes before, and there is no reason to expect it will not do so again—just as it did when its Texas affiliate faced financial trouble—given its nearly $200 billion in surplus and reserves.[3]

As an intervenor representing consumers in the pending rate proceedings for State Farm's homeowners, renters/condo, and rental dwelling rate applications, Consumer Watchdog has identified significant issues with State Farm's request for emergency interim rate approvals, which seeks to bypass the statutorily mandated prior approval process. Our concerns focus on the following four critical issues:

Proposition 103 and the Department's Regulations Require State Farm to Justify Its Request Before You Can Approve It.

The Proposition 103 system is designed to prevent unjustified, panic-driven rate increases from being approved, ensuring that any rate adjustments are thoroughly vetted and justified before implementation. Here, State Farm's request for immediate approval of substantial rate increases—22% for homeowners, 15% for renters and condo owners, and 38% for rental dwellings—without prior justification, lacks foundation in California's Proposition 103 regulatory framework. Proposition 103 mandates that the Insurance Commissioner must approve any rate changes before they take effect, ensuring that rates are not excessive and that thorough, impartial reviews are conducted.

Historically, when a rate has been challenged by a consumer advocate, as Consumer Watchdog has intervened here, no Commissioner has approved a rate increase exceeding 7% without a noticed public hearing, except when all parties have agreed to a settlement. State Farm has had ample opportunity since August to pursue or amend its dormant request but has chosen not to meaningfully engage with the California Department of Insurance or Consumer Watchdog in the required public rate review process to demonstrate that its proposed rates are justified.

If State Farm were genuinely concerned about expediting approval, it would follow proper procedure and promptly amend its rate applications—which, even a month after the fires started, it has failed to do. This process can proceed quickly—Consumer Watchdog remains willing to work with all parties on an expedited basis in response to these unprecedented wildfires. However, regulatory decisions must adhere to due process under the existing statutes and regulations and be supported

[3] SFMAIC financial statement as of September 30, 2024.

by evidence and analysis, not by unsupported claims of corporate urgency. In these circumstances, if State Farm is continuing to invoke its financial condition as a justification for its requested rate hikes, such a decision should at a minimum consider whether State Farm has overpaid for reinsurance purchased from its parent company, as well as the $194 billion available to State Farm's parent to support it.

Lack of Justification for Rate Increase

State Farm originally filed its request for an approximate $1 billion per year (30%) rate increase for its homeowners polices on June 27, 2024, invoking a provision of the prior approval regulations that requires demonstrating its "financial condition is such that its maximum permitted earned premium [allowed under the standard regulatory prior approval ratemaking formula] should be increased in order to protect the insurer's solvency" (Cal. Code Regs., tit. 10, § 2644.27(f)(6) ["Variance 6"]). Consumer Watchdog challenged the application, and its intervention was granted on August 14.[4]

Since then, State Farm has taken only minimal steps to advance its homeowners rate application and has failed to provide any valid justification for its requested rate increases in response to requests for information from Consumer Watchdog. For example, it has not disclosed critical information about the reinsurance it purchases from its parent company, SFMAIC, nor has it provided the actuarial data necessary to support its loss projections. Despite having three pending rate applications since last summer, State Farm has made no meaningful effort to meet its burden of proving that its requested increases comply with California's rate regulations, which protect consumers from excessive rates.

Without substantial justification, any emergency approval would be both premature and unwarranted. This shift raises serious concerns about State Farm's credibility, as it seeks preemptive approval, refuses to engage in the required review process,

[4] Also on June 27, 2024, State Farm filed an application for an overall 41.8% ($112 million) per year increase to its California Renters and Condominium Unitowners Programs and on July 5, 2024, filed an application for an overall 38.0% ($119 million) per year increase to its California Rental Dwelling Program. Consumer Watchdog challenged these applications and was granted intervention in both proceedings on September 3 and September 10, 2024, respectively.

and then retroactively attempts to justify its request by changing its rationale months later.

Credit Rating Concerns vs. Claims Distress

State Farm's primary concern, according to its Letter Request, is the risk of a Wall Street credit rating downgrade, which State Farm says would lead some banks to no longer accept its homeowners insurance policies as collateral backing for mortgages. But one of the world's leading credit rating agencies—S&P Global Ratings ("S&P")—does not segregate State Farm as a separate operating entity in its rating of SFMAIC. On June 28, 2024—one day after State Farm requested a rate increase based in part on credit rating concerns—S&P "affirmed the 'AA' insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core subsidiaries," and noted "[t]he stable outlook indicates our expectation that the company will remain the largest U.S. personal line insurer and maintain capital at the 99.99% level."[5]

Furthermore, if State Farm's primary concern is its credit rating rather than its ability to pay claims, this raises serious questions about whether the rate-setting process is the appropriate mechanism to address its problem. State Farm is essentially using credit rating risks as a pretext for an immediate rate increase, asking policyholders to protect it from a speculative downgrade, all while avoiding the requirement to disclose relevant financial data in a rate hearing.

While the Insurance Code grants the Insurance Commissioner a role in monitoring the financial condition and fundamental solvency of insurers, this power is intended to protect consumers' ability to have future claims paid, not to attempt to guarantee uncertain Wall Street credit opinions. Credit ratings are forward-looking assessments of the relative credit risks of an entity's financial obligations, considering factors such as business operations, marketplace conditions, financial ratios, cash flow, debt levels, market position, regulatory environment, management quality, geopolitical factors, peer comparisons, and industry trends. These evaluations go far beyond—and have little in common with—the actuarial risk assessments used in insurance rate-setting. The Commissioner and CDI do not have the expertise—nor should they attempt—to implement a rate increase solely to preserve a particular credit rating for a specific insurer. More importantly, the risk of a temporary credit downgrade, while undesirable for any company, is vastly different from risks of actual insolvency or an inability to pay claims as they come

[5] S&P Rating, *supra* note 1.

due—particularly when here the credit risks are complicated by the available support of SFMAIC.

State Farm Is Responsible for Six Months of Delay

State Farm's suggestion in its Letter Request that intervenors are somehow responsible for delays in the approval process is false. Since submitting its applications for proposed rate increases in June and July 2024, State Farm has made no meaningful effort to engage with Consumer Watchdog or provide the necessary information to justify its proposed homeowners insurance rates. Over the past five months since it was granted intervention, Consumer Watchdog has made at least 14 attempts to encourage State Farm to actively engage in the process and respond to its requests for information on its homeowners rate application, but the company has consistently declined.[6] State Farm's request could have been resolved months ago had it pursued the process diligently. It is State Farm's own inaction—not Consumer Watchdog's involvement—that has delayed this review. Therefore, State Farm should not now be allowed to claim urgency due to its own failure to engage with the required regulatory process.

[6] This includes emails 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 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). The timeline shows repeated delays by State Farm's counsel in responding to requests for three-way calls and responses to requests for information related to their homeowners rate increase proposal. Despite multiple follow-ups from Consumer Watchdog between September 2024 and January 2025, State Farm counsel frequently postponed responses, citing personal and work-related reasons. This pattern indicates a lack of urgency and engagement from State Farm in responding to requests for information and conferences to move its homeowners rate application forward.

State Farm Has Not Proved That Its Reserves Will Not Cover Wildfire Losses

State Farm has yet to fully justify its emergency request. In the Nontenant Homeowners Note to Reviewer submitted in SERFF 2/5/25, State Farm's calculations indicate that $6.4 billion of catastrophe losses for 2025 would be needed to support a 22% increase to its Homeowners insurance rates. However, those calculations also substantially increase the amount of weight given to the latest year of data (2025 in this case), in order to inflate the catastrophe load used in the rate indication. Using the unadjusted weighting scheme from State Farm's latest Homeowners rate filing, Consumer Watchdog's preliminary calculations suggest that State Farm's claims payouts from the recent wildfires would need to be on the order of $10 billion to justify the 22% increase. State Farm has not substantiated that wildfire claims are expected to reach even the lower of these amounts ($6.4 billion). As of the end of September 2024, State Farm held approximately $4.4 billion in loss & LAE reserves and policyholder surplus.[7] Additionally, the company has not provided detailed information regarding the reinsurance it has purchased from its parent company, nor has it explained why none of its parent's substantial resources are available to help protect California consumers, as they were available for Texas consumers in support of SFMAIC's Texas subsidiary.[8]

Given these circumstances, State Farm's request appears to be an attempt to shift speculative Wall Street risks (as opposed to basic solvency or ability to pay claims) onto consumers, rather than addressing a true financial shortfall that impacts its ability to pay wildfire claims. State Farm has not demonstrated why it cannot cover these anticipated claims without immediate premium increases. California consumers should not bear the burden of an unjustified rate hike when the company likely has the financial resources to meet its obligations, at least until it can provide the legally required proof that it needs additional funds.

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[7] State Farm financial statement as of September 30, 2024.

[8] *State Farm Lloyds v. Rathgeber* (Tex. App. 2014) 453 S.W.3d 87, review granted, judgment vacated, and remanded by agreement (Tex., Mar. 6, 2015, No. 15-0023) 2015 WL 13954099 at *10–11 (noting "Amid its losses, there is no dispute that State Farm Lloyds would have been rendered statutorily insolvent absent large cash infusions, and thus it had turned to an affiliate, State Farm Mutual Automobile Insurance Company (State Farm Mutual), and obtained three advances—in November 2001, February 2002, and September 2002—in amounts totaling over one billion dollars.")

* * * *

The bottom line is that State Farm is entitled to a homeowners rate increase only if it can provide actuarial data, subject to public review, that demonstrates the increase is necessary to cover expected claims, reasonable expenses, and a fair profit. As outlined above, State Farm chose not to actively pursue its rate request or engage with the parties involved in the pending proceedings. Instead, it is attempting to use the emergency conditions faced by thousands of Los Angeles-area homeowners to impose an unjustified rate increase on policyholders statewide. This request is based on a rationale unsupported by the Insurance Code. Given these facts, Consumer Watchdog urges the Commissioner and the Department of Insurance to reject State Farm's request for emergency interim rate approval. The Department should follow the existing procedures outlined in the Insurance Code and regulations, allowing this matter to proceed to a hearing or settlement, even on an expedited basis. Approving State Farm's proposed interim rate without sufficient justification and in disregard of the required procedures would set a dangerous precedent and unfairly impact California policyholders.

Sincerely,

WILLIAM PLETCHER
Litigation Director
PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc:

Michael Martinez, Chief Deputy Commissioner
California Department of Insurance

Nikki McKennedy, Assistant Chief Counsel
California Department of Insurance

Vanessa Wells, Esq., Hogan Lovells
Counsel for State Farm General

EXHIBIT IRH-CWD-209

RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

February 7, 2025

VIA ELECTRONIC MAIL

The Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
300 Capitol Mall, 16th Floor
Sacramento, CA 95814

SUBJECT: **Request for Interim Rate Order in *In the Matter of the Rate Applications of State Farm General Insurance Company* (CDI Rate Application File Nos. 24-1271, 24-1273, and 24-1330) (PA-2024-00011, PA-2024-00012, and PA-2024-00013)**

To the Honorable Ricardo Lara, Insurance Commissioner of the State of California:

Enclosed please find a Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Rate (Stipulation) and a [Proposed] Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate (Interim Rate Order), in the above matters. Also, enclosed for your convenience is a Word version of the Interim Rate Order.

The Stipulation responds to the letter you received on February 3, 2025, from Applicant State Farm General Insurance Company (State Farm), requesting that you grant its request for an immediate interim rate increase subject to refunds with interest following a full rate hearing on the above rate applications (the Interim Rate Increase Request). The Stipulation has been executed by State Farm and your staff in the Rate Enforcement Bureau (REB) of the California Department of Insurance. Intervenor Consumer Watchdog has declined to stipulate.

Based upon the Stipulation, the Interim Rate Increase Request, and the updated information that State Farm has publicly provided in support of its request, REB respectfully recommends that you review and approve the Stipulation and execute the enclosed Order, thereby granting State Farm an interim rate increase subject to refunds with interest following a full rate hearing on the rate applications, and that you do so as expeditiously as possible in response to State Farm's urgent situation.

Please copy all parties when responding to this communication, including by issuing the Order or other response to the Interim Rate Increase Request.

Thank you for your attention to this matter.

Very truly yours,

Nikki McKennedy

Nikki McKennedy

#1494546

CALIFORNIA DEPARTMENT OF INSURANCE
PROTECT • PREVENT • PRESERVE
1901 Harrison St., 6th Floor
Oakland, CA 94612
Tel: 415-538-4162
Nikki.McKennedy@insurance.ca.gov

cc: Michael Martinez, Chief Deputy Commissioner
Lucy Wang, Deputy Commissioner and Special Counsel to the Commissioner
Teresa Campbell, Deputy Commissioner and General Counsel
Heather Hoesterey, Assistant General Counsel of the Legal Division
Margaret Hosel, Public Advisor
All parties listed on attached Proof of Service

NIKKI S. MCKENNEDY (SBN 184269)
MELISSA A. WURSTER (SBN 198899)
DANIEL WADE (SBN 296958)
DUNCAN MONTGOMERY (SBN 176138)
CALIFORNIA DEPARTMENT OF INSURANCE
1901 Harrison Street, Sixth Floor
Oakland, CA 94612
Tel: (415) 538-4162
Fax: (510) 238-7829
Email: nikki.mckennedy@insurance.ca.gov
melissa.wurster@insurance.ca.gov
daniel.wade@insurance.ca.gov
duncan.montgomery@insurance.ca.gov

Attorneys for the California Department of Insurance

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **STIPULATION TO INTERIM RATE SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE; [PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE**

STIPULATION TO INTERIM RATE SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE

Applicant STATE FARM GENERAL INSURANCE COMPANY ("Applicant") and the Department of Insurance ("Department") (collectively, "Parties") hereby stipulate and agree to the interim resolution of a factual issue and the applicability of provisions of law material to the pending rate applications. The Parties stipulate to an appropriate interim rate, subject to refunds with interest following a full rate hearing in this matter, as set forth herein. Pursuant to the inherent authority vested in the Commissioner under Proposition 103 and confirmed by the California Supreme Court in *Calfarm Insurance Company v. Deukmejian* (1989) 48 Cal.3d 805 and *20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, the Parties request the Commissioner issue the proposed stipulated interim rate order subject to refunds with interest following a full rate hearing in this matter, as follows:

RECITALS

1. The Applicant is licensed by the Department to conduct insurance business in California and is the largest property insurer licensed in California, writing 20.7% of the written premium in the personal homeowners line in the California market in 2023.

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

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

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

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

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

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

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

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

9. On September 21, 2023, Governor Gavin Newsom of the State of California issued Executive Order N-13-23, requesting the Commissioner of Insurance to take prompt regulatory action in response to more frequent, severe wildfires as a result of climate change, including, without limitation, by: (1) "[i]mprov[ing] the efficiency, speed, and transparency of the Department's rate approval process"; (2) "[t]ailor[ing] the rate approval process to account for all factors necessary to promote a robust, competitive insurance marketplace, including through potential revisions to the way catastrophe risks and insurer costs are accounted for"; and (3) "[m]aintain[ing] the long-term availability of homeowners and commercial property insurance coverage."

10. On January 7, 2025, Governor Newsom issued a Proclamation of a State of Emergency ("Proclamation"), due to the wildfires which had ignited in Los Angeles County and

burned over 1,200 acres as of the time the Proclamation was issued. In the Proclamation, the Governor directed "[a]ll agencies of the state government [to] utilize and employ state personnel, equipment, and facilities for the performance of any and all activities consistent with the direction of the Office of Emergency Services and the State Emergency Plan."

11. On January 9, 2025, California Insurance Commissioner Ricardo Lara ("Commissioner") issued a Moratorium on Cancellations and Nonrenewals in areas affected by the Palisades, Eaton, and several other fires (collectively, the "Palisades/Eaton Fires), and called on all property insurers "to forego any pending nonrenewals and cancellations that are due to take effect on residential properties located within and around these wildfires."

12. On January 13, 2025, the Commissioner issued a Declaration of Emergency Situation to address the effects of the magnitude of the Palisades/Eaton Fires in Southern California.

13. Previously in March 2024, Applicant had announced it would not offer renewals on approximately 30,000 homeowners, rental dwelling, and other property insurance policies and would also nonrenew all commercial apartment policies. On January 15, 2025, Applicant heeded the Commissioner's January 9th call for insurers to voluntarily forego pending nonrenewals and cancellations in areas impacted by the Palisades/Eaton Fires, and paused the notification process on homeowner nonrenewals in not only the areas affected by the wildfires but also the entirety of Los Angeles County, thereby going beyond the Commissioner's call and meaning that homeowners with policies with Applicant that were still in force as of January 7, 2025 in Los Angeles County, would still have the option to renew with Applicant for an additional one-year policy term despite having previously been identified for nonrenewal.

14. On February 3, 2025, Applicant submitted a letter to the Commissioner, requesting the Commissioner approve an immediate interim rate increase of 22% in its homeowners line (File No. 24-1271), 15% in its renter/condo tenant line (File No. 24-1273), and 38% in its rental dwelling line (File No. 24-1330) in the pending Applications (the "Interim Rate Request")[1], subject to refunds with interest following a full rate hearing should the Commissioner ultimately

[1] The Interim Rate Request is attached as Exhibit A and its contents incorporated herein by reference.

determine the Interim Rate increase was excessive. In its Interim Rate Request, Applicant reported that as of February 1, 2025, it has received more than 8,700 claims, has already paid more than $1 billion to consumers, and it anticipates having to pay significant additional amounts as a result of the Palisades/ Eaton Fires. Additionally, Applicant stated its financial strength rating was downgraded in 2024 by rating agency A.M. Best and that some of Applicant's customers might have to find other insurance if further downgrades were to happen, due to mortgage lender requirements surrounding appropriate insurance coverage for mortgage collateral. Based on its initial data from the Palisades/Eaton Fires, Applicant provided updated preliminary template indications, in footnote 6 of the Interim Rate Request, for all lines in the Applications, indicating initial support for its Interim Rate Request, subject to being updated with final data at the end of the first quarter of 2025. Overall, Applicant represents that its financial projections show a continued decline in the surplus it needs to support the writing of its homeowners lines of insurance in California including by continuing to pay the future claims of its policyholders, such that the Commissioner should approve implementation of an interim rate increase during the pendency of a rate hearing on the Applications in order to avoid the danger of insolvency.

15. On February 5, 2025, Applicant filed its updated preliminary rate templates, that support footnote 6 of the Interim Rate Request, in the Applications on the publicly available System for Electronic Rate and Form Filings (SERFF). Applicant also provided information regarding its rating agency concerns.[2] (Collectively, the "Updated Information".)

16. On February 7, 2025, the Intervenor informed the Parties that it declined to stipulate to interim rates subject to refunds with interest in the Applications.

17. Based upon the Applications including the information regarding Applicant's concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, the preliminary information provided by Applicant regarding the devasting impacts of the Palisades/Eaton Fires on Applicant's financial condition, and Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance of a final rate order, and without agreeing here with the Applicant's data, assumptions, or

[2] A copy of the rating agency information submitted by Applicant is attached here as Exhibit B.

methodologies as set forth in the Applications or the Updated Information for purposes of a rate hearing to determine a final rate order, the Department agrees that Applicant has made a preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. The Department further agrees that Applicant has made a preliminary showing of exigent circumstances to justify an interim rate increase, subject to refunds with interest, such that the Commissioner should approve Applicant's request to implement an immediate interim rate increase, subject to refunds with interest following a full rate hearing on the Applications.

STIPULATION AND REQUEST FOR INTERIM RATE ORDER

1. The Parties stipulate and agree that the Commissioner has lawful authority to approve an interim rate pending a final determination of the legality of the rate. (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824-825 ("The power to grant interim relief is necessary for the due and efficient administration of Proposition 103[.]"); *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 245.)

2. The Parties stipulate and agree that, following a rate hearing in this matter, the Commissioner has lawful authority in this proceeding to require Applicant to pay refunds with interest to its policyholders for the difference between the interim rate and the final approved rate if the Commissioner ultimately determines in a final rate order that the interim rate order was excessive. The Parties further stipulate and agree that if Applicant fails to comply with the Commissioner's final rate order, the Commissioner can and will appropriately enforce compliance including without limitation the potential assessment of penalties for noncompliance. The Parties do not intend, by this Stipulation, to in any way impact the right of a Party to seek a stay of a final order pursuant to California Insurance Code § 1858.6.

3. The Parties stipulate and agree that an interim rate order, subject to refunds with interest following a rate hearing, by the Commissioner shall not be considered a final order or decision within the meaning of Insurance Code section 1861.09.

4. This Stipulation is made solely to reach a compromise among the Parties. Other than the Parties' agreement regarding the factual issue of an appropriate interim rate subject to

refunds with interest for the Applicant pending a final determination of its legality and the applicability of provisions of law regarding the Commissioner's lawful authority, the Parties' agreement to this Stipulation shall not represent any agreement regarding any of the other matters at issue in this rate proceeding.

5. Based upon the Applications including the information regarding Applicant's concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, the preliminary information provided by Applicant regarding the devastating impacts of the Palisades/Eaton Fires on Applicant's financial condition, and Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance of a final rate order, and without agreeing with the Applicant's data, assumptions, or methodologies as set forth in the Applications or the Updated Information for purposes of a rate hearing to determine a final rate order, the Department agrees that Applicant has made a preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. Accordingly, the Department believes and thereon alleges that based upon information currently available, an interim rate increase, subject to refunds with interest pending a final determination by the Commissioner of its legality, is appropriate in this instance and would be lawfully issued in support of the due and efficient administration of Proposition 103 by the Commissioner as well as in furtherance of the Governor's Executive Order N-13-23 and the Commissioner's recent Proclamation. The Department further believes and thereon alleges that this Stipulation is in the public interest, in order to maintain maximum availability of homeowners insurance options in California, and that taken as a whole it is fundamentally fair, adequate, and reasonable.

6. Accordingly, based upon all of the foregoing, the Applications, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, and such other information and representations provided by Applicant, the Parties stipulate and agree that Applicant shall implement an overall interim rate increase, subject to potential refunds with interest following a full rate hearing and final determination of the legality of the rate by the Commissioner, to be implemented with an effective date of May 1, 2025 for new and renewal

business, as follows:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+21.8%
24-1273	Overall Renter/Condo Tenant	+15%
24-1330	Rental Dwelling	+38%

7. Additionally, Applicant stipulates and agrees that it will maintain appropriate records of all policyholders charged an interim rate through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds with interest if necessary following a full rate hearing on the Applications. If the Commissioner ultimately determines that the interim rate in effect during the pendency of the rate hearing was excessive and that Applicant is required to issue any refunds with interest, Applicant agrees that (1) it will not contest the Commissioner's authority in this proceeding to issue an order requiring refunds with interest; and (2) it will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, subject to any stay issued pursuant to Insurance Code section 1858.6. Additionally, Applicant agrees that it will report in writing to the Department once any and all such refunds with interest have been paid, and that such report shall be publicly available.

8. Moreover, Applicant stipulates and agrees that, after an interim rate has been ordered but before a full rate hearing has been completed and the Commissioner has issued a final rate order, Applicant will not withdraw the currently pending Applications, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn after an interim rate has been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant stipulates and agrees that it will issue refunds with interest of the entirety of the premiums collected pursuant to

the Commissioner's interim rate order, as soon as practical but in no event later than 180 days following the withdrawal.

9. The Department asserts that at the rate hearing on the Applications to determine whether the requested rates and stipulated interim rate are supportable and not excessive, inadequate, and/or unfairly discriminatory, and should be approved as a final rate order of the Commissioner, Department staff will examine and offer evidence and recommendations regarding, without limitation, whether, based upon the updated data through the first quarter of 2025, or another mutually agreed-upon stipulated updated data cut-off date, the Commissioner should enter findings and an order that Applicant's requested rates are reasonable and not excessive, inadequate, unfairly discriminatory, or otherwise in violation in Proposition 103, as well as such other issues as may be raised in a Notice of Hearing or during a rate hearing on the Applications.

10. The Parties stipulate and agree that for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.

11. The Parties stipulate and agree that the Commissioner shall retain jurisdiction for the purpose of enforcing the provisions and terms of this Stipulation and the Order requested thereon.

12. The undersigned represent and warrant under penalty of perjury under the laws of the State of California that they have full and complete authority to enter into and bind the party on whose behalf they are signing to all of the terms of this Stipulation.

Based on all of the foregoing, the parties respectfully request that the Commissioner issue an Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, based upon the terms of the Stipulation as set forth above to resolve the above-described legal and factual issues.

Dated: February 7, 2025

STATE FARM GENERAL INSURANCE COMPANY

By: _____

Vanessa Wells
HOGAN LOVELLS US LLP
Attorneys for Applicant State Farm General Insurance Company

Dated: February 7, 2025

CALIFORNIA DEPARTMENT OF INSURANCE

By: Nikki McKennedy

Nikki S. McKennedy
Attorneys for the California Department of Insurance

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **[PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE**

INTERIM RATE ORDER ADOPTING STIPULATION

Having reviewed the Applications, Applicant's Request for an Interim Rate, and the Parties' Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, and evidence submitted in support, and good cause appearing, IT IS ORDERED THAT the request of Applicant State Farm General Insurance Company ("Applicant) for an interim rate increase subject to refunds with interest pending a final determination of its legality is GRANTED as set forth herein.

IT IS FURTHER ORDERED THAT Applicant shall implement an interim rate as follows, for new and renewal business with an effective date of _____ , 2025:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+_____%
24-1273	Overall Renter/Condo Tenant	+_____%
24-1330	Rental Dwelling	+_____%

IT IS FURTHER ORDERED THAT this Interim Rate Order is not and shall not be considered a final order or decision by the Commissioner and that the interim rate shall be

implemented subject to potential refunds with interest pending a final determination by the Commissioner of its legality, following a full rate hearing in this matter on the Applications.

IT IS FURTHER ORDERED THAT Applicant will maintain appropriate records of all policyholders charged these interim rates through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds subject to interest if necessary. If the Commissioner ultimately determines that Applicant shall issue any refunds with interest, Applicant will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, and Applicant will report in writing to the Department once any and all such refunds with interest have been paid, and such report shall be publicly available. This Order is without prejudice to any application for a stay under California Insurance Code § 1858.6.

IT IS FURTHER ORDERED THAT Applicant will not withdraw the currently pending Applications before a full rate hearing has been completed and a final rate order issued, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn for any reason after the interim rates have been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant will issue refunds with interest of the entirety of the premiums collected pursuant to the Commissioner's Interim Rate Order.

IT IS FURTHER ORDERED THAT for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.

IT IS SO ORDERED.

Dated: _____

RICARDO LARA
Insurance Commissioner

By: _____

EXHIBIT A

February 3, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. As the largest insurance group in the state, we appreciate all you and your staff are doing to help consumers navigate the aftermath of last month's horrific Los Angeles wildfires. Thousands of State Farm agents, agent team members and employees are on the ground and assisting customers virtually in the wake of this tragedy. As of February 1st, State Farm General Insurance Company[1] (SFG) has received more than 8,700 claims and has already paid over $1 billion to customers. We know we will ultimately pay out significantly more, as these fires will collectively be the costliest in the history of the company. Although reinsurance will assist us in paying what we owe to customers, the costs of these fires will further deplete capital from SFG. Last year, one rating agency downgraded SFG and, with further capital deterioration as a result of the fires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage. With nearly three million policies in force, including more than one million homeowners customers, SFG needs your urgent assistance in the form of emergency interim approval of additional rate to help avert a dire situation for our customers and the insurance market in the state of California.

Nearly a year ago, we shared with you that *"the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings."* (See attached March 2024 letter.) As you are aware, SFG has three rate applications, for four lines of business, that have been pending since last summer.[2] We are requesting that you take emergency action to help protect California's fragile insurance market by immediately approving interim rate increases on these filings, with rates to be effective May 1, 2025, in the following amounts: 22% for Non-Tenant Homeowners, 15% for Tenants – Renters, 15% for Tenants – Condominium Unitowners, and 38% for

[1] As a reminder, SFG is almost exclusively a California insurer, with homeowners insurance being its largest line of business. State Farm products written by affiliates of SFG – such as State Farm branded auto and life insurance – are not the subject of this letter.

[2] See SERFF Filings SFMA-123139896, filed 6/27/2024 for +30.0% for Non-Tenant (Homeowners); SFMA-134139931, filed 6/27/2024 for +52.0% for Tenants – Renters and +36.0% for Tenants – Condominium Unitowners; and SFMA-134139850, filed 7/5/2025 for +38.0% for Rental Dwelling (RDP). We note that these three applications were all originally based on Variance 6, a solvency-related adjustment to what is otherwise the maximum permitted premium under the rate regulations. Because of the upward impact of the Los Angeles fires on the maximum permitted premium, it's possible that SFG's rate increases for some lines may ultimately be supportable without Variance 6, but the financial condition that led to its invocation has only worsened.

Rental Dwelling (RDP). Because all three applications are for rate increases above 7%, and all three have an intervenor, ordinarily they can only be approved after a hearing (if one is requested by the intervenor) or via a three-way settlement. Hearings are historically very rare because of the uncertainty and length of the process, with the last SFG rate hearing not resulting in a final rate order until about 17 months after the notice of hearing was issued. Even resolution through settlement can be very difficult and usually takes months. An emergency *interim* rate approval would allow SFG to start collecting additional premiums much more quickly and possibly begin rebuilding its risk-bearing capacity. A *final* approved rate would subsequently be determined by you after a full hearing, if a settlement can't be reached first. If the final rate (whether after hearing or by settlement) is lower than the interim rate, refunds would be issued by SFG for the difference for any period during which the interim rates were in effect. The interim amounts SFG is requesting are smaller (for most lines) than the full rate need we originally applied for, in the hope that this will facilitate a speedy emergency approval. There is simply too much at stake for SFG's customers and the broader market if any rate increase has to wait on a full hearing or other resolution in the normal course.

While the California Department of Insurance (CDI) has recently approved several smaller SFG rate filings and made progress on your Sustainable Insurance Strategy, the fact is that SFG's capital position continued to deteriorate even *before* the latest fires. By year-end 2024, SFG's Policyholder Protection Fund – i.e. surplus, or capital available to pay claims – was approximately a quarter of what it was in 2016, and its surplus relative to the risk it supports dropped nearly eighty-five percent by one measure, putting the company below certain minimum regulatory Risk-Based Capital requirements. (See attached illustration of SFG's financial deterioration.) Over the nine-year period ending with 2024, SFG will pay $1.26 in claims and expenses for every $1.00 collected in premium, resulting in over $5 billion in cumulative underwriting losses. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period. Meanwhile, SFG's attempts over that same period to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success. This was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties.[3]

In order to better preserve its claims-paying capacity under these circumstances, SFG made the difficult decision in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused. Any of these homeowner policies which had pended non-renewals in Los Angeles County that were on the books on January 7th will have an option to renew with SFG. The high concentrations of risk covered by SFG in the fire footprint will generate a direct loss many times larger than the company's pre-event surplus. SFG's already stressed financial position will be further weakened, even after accounting for billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance

[3] For example, intervenors succeeded in convincing the prior commissioner to order SFG to reduce dwelling insurance rates 7% and issue a $100M+ refund after SFG filed in 2014 for a 7% increase (an annual difference of more than $150M). SFG's legal position in the dispute was later vindicated, but not until 2022 (when the California Supreme Court denied review of the Court of Appeal's decision in SFG's favor).

Company ("State Farm Mutual") as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover. External reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not exist. These fires reinforce why reinsurance is a critically important part of SFG's claims-paying capacity, now and into the future, allowing SFG to write or retain significantly more property insurance in areas with significant risk such as wildfires than would otherwise be possible. The situation also reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – that is irresponsible and simply not true.

The importance of our ask for your immediate help to protect all Californians cannot be overstated. The magnitude of expected claims payments for the Los Angeles fires, along with SFG's participation in FAIR Plan losses[4], puts tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rating agency) measures of financial strength and claims-paying ability, which must necessarily include the potential for *additional* catastrophic loss events in the future. Last March, SFG's financial strength rating was downgraded by AM Best[5] and SFG triggered a regulatory Company Action Level Event after failing to meet the NAIC's Risk-Based Capital ratio requirements based on its year-end 2023 financial position. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile.

As the Insurance Commissioner, you can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Ordinarily, the conditional nature of such a rate approval (i.e. the possibility of refunds if the final approved rate is lower than the interim rate) might not be enough to prevent much more significant and necessary actions by SFG or to assuage solvency regulators and the rating agencies. In this case, however, the enormous losses generated by the Los Angeles fires will soon flow into the CDI rating template and will clearly demonstrate that the interim amounts SFG has requested are supportable.[6] This then is primarily a

[4] SFG is required to book its share of FAIR Plan losses on its financial statements, regardless of whether an assessment is issued. SFG's participation rate for dwelling losses (commercial losses are treated separately) is expected to be around 16%.

[5] The downgraded financial strength rating is below what is acceptable to some mortgage lenders as appropriate insurance cover for mortgage collateral. This had limited impact on SFG policyholders because the company continued to receive an acceptable rating from another rating agency. Additional downgrades have the potential to force hundreds of thousands of SFG policyholders to seek insurance from another company or the FAIR Plan.

[6] We request that the full hearing for final rate amounts be based on fully-updated rate templates using data from the first quarter of 2025. For purposes of determining the interim rates requested, we have calculated an updated rate indication using the standard rate templates included in the filings by changing two inputs: 1) using a 5/1/2025 effective date and 2) a new catastrophe provision that incorporates wildfire loss estimates up through the most recent fires. The following table shows the initial indication prior to the adjustments, the updated indication, and the interim rate request.

Line of Business	**Filed CDI Template Indication (without using Variance 6)**	**Updated CDI Template Indication**	**Interim Rate Increase Request**
Non-Tenant Homeowners	-10.0%	+21.8%	+22.0%
Tenants – Renters	+7.9%	+16.6%	+15.0%
Tenants – Condominium Unitowners	+5.1%	+20.0%	+15.0%
Rental Dwelling	+10.5%	+42.0%	+38.0%

question of timing, and of what could happen to SFG's customers and the larger market if SFG has to wait months for additional premiums to begin flowing to possibly halt the decline of, or even begin to rebuild, SFG's Policyholder Protection Fund.

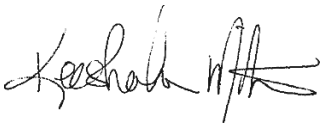
You have noted your desire to have an insurance market where insurers want to invest and protect more Californians. In addition to your other efforts, immediate approval of additional and appropriately supported rate for SFG (even on an interim basis) sends a strong message that the state is serious about reforming its insurance market and allowing insurers to collect sufficient premiums to protect Californians against the risk of loss to their homes. When insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market.

We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. Having said that, your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- March 20, 2024 letter from State Farm General to Commissioner Lara
- Illustration of State Farm General financial deterioration

March 20, 2024

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: Restoring the financial condition of State Farm General Insurance Company

Dear Commissioner Lara,

Thank you for your recent meeting with us and the candid conversation. On behalf of State Farm General Insurance Company (SFG)[1], we write to reinforce our need, and express hope and appreciation, for the role the Department of Insurance must play in our financial recovery, to the benefit of California consumers.

As we discussed, SFG's capital position has severely deteriorated, and we are increasingly concerned about its financial well-being. SFG's policyholder surplus was $2.2 billion and $1.3 billion at year-end 2022 and 2023 respectively, in contrast to $4.1 billion at year-end 2016. Although there haven't been significant wildfire losses for several years, windstorm catastrophes in early 2023 and increasing trends in non-catastrophe water losses and liability claims (especially commercial lines and personal umbrella policies), without the additional premium needed to support those cost increases, have generated large underwriting losses. SFG has managed its policy growth by limiting writing in high-risk areas for many years, and more recently by ending all new policy sales. However, SFG's risk exposure grew tremendously in the last few years, with construction cost inflation being a major driver. Taken together, these trends have resulted in surplus of less than 50 cents for every dollar of risk (as measured by net written premium) we face today, which makes SFG's financial strength less than a quarter of what it was at year-end 2016. With that drop in surplus and increase in exposure, the company necessarily has to rely increasingly on reinsurance cover, the cost of which puts further downward pressure on surplus without the needed additional premium to support this cost.

As also noted, external measures of SFG's financial strength are also becoming increasingly concerning. AM Best already had a negative ratings outlook for SFG and continues to review the financial condition of SFG to determine if additional action is needed. At certain financial strength rating levels, acceptance of SFG policies as appropriate insurance cover for mortgage collateral may diminish. This has the potential to affect existing SFG policyholders across California. Additionally, to comply with solvency regulations, SFG is required to file a Company Action Plan by April 15th with the Illinois Department of Insurance (SFG's solvency regulator) to explain the company's plan to restore its financial condition.

[1] As a reminder, SFG is almost exclusively a California-only insurer.

As we look to continue to serve the insurance needs of Californians, we seek the Department's assistance in helping to rebuild the company's financial strength. We recognize and appreciate the positive impact of the Department's recent homeowners rate approval. Of course, the full effect of that new rate on SFG's surplus position won't begin until March 2025, since the rate is applied to policies as they renew on a rolling 12-month basis. And it's clear more rate is still needed, as market conditions have not remained static since we made our last filing supporting the recently approved increase in February of 2023. Insurance is not insulated from inflationary trends affecting goods across the entire economy. In fact, construction cost increases have been among the highest inflationary categories over the last five years. Short of emergency rate regulations being issued very soon, the limitations of CDI's current rate template may necessitate the next homeowners rate filing to rely on one or more variances. While there will undoubtedly be novel issues to work through, rapid review and approval of a new rate appropriate to the circumstances – along with all other upcoming and pending SFG rate filings – will be critical to SFG's survival, especially in light of potential intervenor delays.

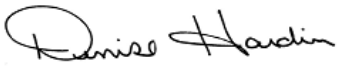
As shared with the Department prior to the February 2023 filing, rate increases alone would likely be insufficient to restore SFG's financial strength. We must now take action to reduce our overall exposure to be more commensurate with the capital on hand to cover such exposure, as most insurers in California have already done. We have been reluctant to take this step, recognizing how difficult it will be for impacted policyholders, in addition to our independent contractor agents who are small business owners and employers in their local California communities. Rebuilding capital, even with higher rates, will take some time. We are striving to minimize the impact of the necessary actions that must be taken. We will continue to be transparent with you and your staff regarding these actions.

You and your Department are an indispensable part of broader market reforms that could eventually allow SFG to resume its normal place in that market. As you have pointed out, California residents are best served in the long run by a fair and well-functioning insurance market, a key component of which is that consumers bear the economic reality of the true costs to insure their property. California homeowners insurance premiums are still below the national average, and far below other disaster-prone states. We understand the impact of higher prices on consumers. At the same time, we are even more concerned with availability of insurance.

We recognize the Department's ongoing efforts to pursue implementation of your Sustainable Insurance Strategy, including the allowance for catastrophe modeling and reinsurance costs in ratemaking and improving rate filing procedures and timelines. Along with addressing the uncapped financial exposure of FAIR Plan assessments, such reforms could materially improve the health of the market, particularly if they allow for more nimble insurer pricing in response to sudden changes in market conditions. We are acutely aware of the political challenges that the actions needed to improve SFG's financial position pose to broader reform efforts. Please know that we have an ongoing desire and commitment to collaborate with you and your staff, as well as the Governor's office, to achieve these reforms as quickly as possible. We cannot overstate, and we agree with your public plea for, the need for regulatory modernization.

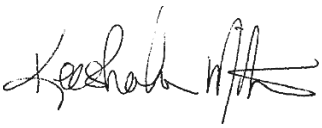
The swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings. We take very seriously our responsibility to be there for customers who experience a claim and our actions are with that goal at the fore. A financial failure of SFG will detrimentally impact the entire market, an outcome we are all trying to avoid. We look forward to working with you and your staff to rebuild the financial health of SFG and to create a firmer foundation on which this market can thrive.

Sincerely,



Denise Hardin
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company

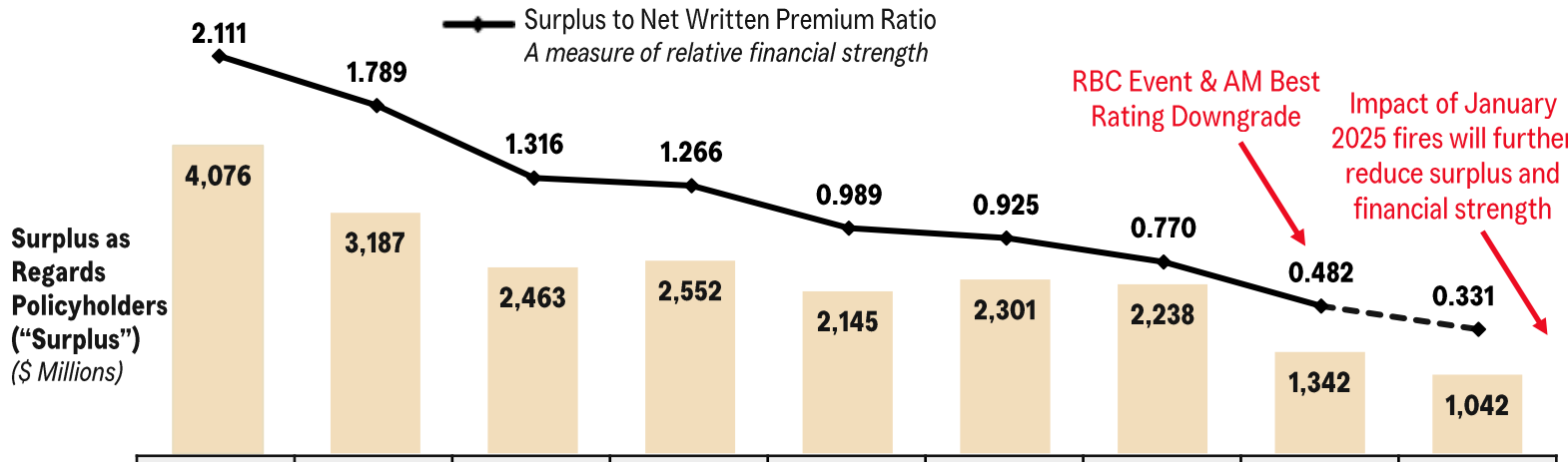


Keesha-Lu Mitra
General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner

State Farm General Insurance Company

Financial Results 2016 – 2024[1]



	2016	2017	2018	2019	2020	2021	2022	2023	2024[1]
Combined Ratio	103.4	184.5	160.8	102.8	127.2	101.0	108.9	137.4	119.2

[1] Year-end 2024 represents a preliminary result. All other values sourced from annual financial statements filed with insurance regulators on or by March 1 of each year. The combined ratio is based on net results and calculated by taking incurred losses plus incurred expenses and dividing that sum by earned premium (a number above 100 represents an underwriting loss with the underwriting gain/loss calculated by subtracting incurred losses and incurred expenses from earned premium).

Financial Strength Deterioration

State Farm General (SFG) is almost exclusively a California insurer, with homeowners insurance being its largest line of business.

The surplus of SFG continued to deteriorate in 2024. SFG's already stressed financial position will be further weakened by the financial impact of the January 2025 fires, including SFG's participation in FAIR Plan losses. This is even after accounting for the billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance Company ("State Farm Mutual") as the primary reinsurer.

Year-end 2024 surplus is estimated at $1.04 billion **– a quarter of its value compared to year-end 2016 and less than half its value since just year-end 2022.** The year-end 2024 surplus to net written premium ratio is estimated to be 0.331 with the first quarter 2025 ratio expected to fall below the NAIC range provided by the Insurance Regulatory Information Systems (IRIS) manual.

The cumulative underwriting loss for 2016 – 2024 is $5.3 billion with a cumulative combined ratio of 125.7% – meaning SFG will pay $1.26 in claims and expenses for every $1 of premium collected. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period ending December 31, 2024, and is clearly not sustainable.

Risk Based Capital (RBC) – RBC is a uniform capital standard prescribed by the National Association of Insurance Commissioners (NAIC) and used by insurance regulators, including the California and Illinois Departments of Insurance. The RBC framework requires various corrective actions on the part of the insurer and its domestic regulator should the insurer's capital fall below certain defined trigger points. As a result of SFG's 2023 financial position, the **company triggered a Company Action Level Event after failing to meet the NAIC's RBC ratio requirements**, which dictated that a plan be filed with the Illinois Department of Insurance ("IDOI" is SFG's domestic financial solvency regulator) specifying corrective actions that would address the event. Based on the further deterioration in surplus during 2024, SFG expects to again fail to meet the RBC standard and will be required to file an another / updated RBC Plan with the IDOI. The net (after-reinsurance) impact of the January 2025 fires, along with SFG's participation in FAIR Plan losses, puts further strain on an already strained financial position resulting in the expectation of further deterioration of the company's RBC. The NAIC is considering inclusion of wildfire catastrophe risk into RBC as it is not currently included – its inclusion will put even greater pressure on the SFG RBC ratio. SFG must meet solvency and regulatory requirements, including RBC requirements, on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity.

AM Best Financial Strength Rating – In March 2024, credit rating agency AM Best **downgraded** SFG's Financial Strength Rating (FSR) to B (Fair) and its Long-Term Issuer Credit Rating (ICR) to bb+ (Fair). AM Best noted the following in its release[2]: "The Credit Ratings (ratings) reflect State Farm General's balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance…The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company's ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation…and the challenging regulatory environment within California's marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion."

[2] See March 2024 AM Best news release - https://news.ambest.com/pr/PressContent.aspx?refnum=34559&altsrc=2

EXHIBIT B

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MARCH 28, 2024 03:35 PM (EDT)

AM Best Downgrades Credit Ratings of State Farm General Insurance Company

CONTACTS:

Scott Foley
Senior Financial Analyst
+1 908 882 1774
scott.foley@ambest.com

Christopher Sharkey
Associate Director, Public Relations
+1 908 882 2310
christopher.sharkey@ambest.com

Alan Murray
Director
+1 908 882 2195
alan.murray@ambest.com

Al Slavin
Senior Public Relations Specialist
+1 908 882 2318
al.slavin@ambest.com

FOR IMMEDIATE RELEASE

OLDWICK - MARCH 28, 2024 03:35 PM (EDT)
AM Best has downgraded the Financial Strength Rating (FSR) to B (Fair) from A (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) to “bb+” (Fair) from “a” (Excellent) of State Farm General Insurance Company (State Farm General) (Bloomington, IL). The outlook of the FSR has been revised to stable from negative, while the outlook of the Long-Term ICR is negative.

The Credit Ratings (ratings) reflect State Farm General’s balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance, neutral business profile and appropriate enterprise risk management (ERM). The ratings also reflect lift, as defined within Best’s Credit Rating Methodology, from its parent, State Farm Mutual Automobile Insurance Company.

The rating downgrades reflect continued deterioration in State Farm General’s policyholder surplus at Dec. 31, 2023, which resulted in a corresponding decline in overall risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), and weakening balance sheet metrics. A contributing factor to this decline was sharp increases in claim severity affecting the company’s umbrella and commercial multi-peril lines of business.

The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company’s ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation, trending adverse reserve development occurring on prior accident years, and the challenging regulatory environment within California’s marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion. While management is taking corrective actions to stabilize its balance sheet strength, these actions will need time to gain positive traction over the intermediate term.

This press release relates to Credit Ratings that have been published on AM Best’s website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best’s Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Guide to Best's Credit Ratings. For information on the proper use of Best’s Credit Ratings, Best’s Performance Assessments, Best’s Preliminary Credit Assessments and AM Best press releases, please view Guide to Proper Use of Best’s Ratings & Assessments.

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Related Companies

For information about each company, including the Best's Credit Reports, group members (where applicable) and news stories, click on the company name. An additional purchase may be required.

AMB#	Company Name	
002478	State Farm General Insurance Company	CWD-181

002479	State Farm Mutual Automobile Ins Co

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B7-3-01, General Property Insurance Requirements for All Property Types (12/14/2022)

Introduction

This topic contains information on property insurance requirements for insurers, including:

- Overview
- Property Insurer Rating Requirements
- Exceptions to Insurer Rating Requirements
- Other Exceptions to Property Insurance Requirements

Overview

The borrower has the right to select the insurer of their choice to provide property insurance for the subject property, provided that the insurance meets Fannie Mae's requirements. The lender or servicer must ensure that the insurer, policy, and coverage meet Fannie Mae's requirements. In some cases, Fannie Mae may require additional coverage that differs from these requirements.

> **Note:** References to "lender or servicer" include the lender or seller at origination and the servicer for the duration of loan servicing.

Property Insurer Rating Requirements

The property insurance policy for the property securing any first mortgage, including master policies for project developments, must be written by an insurer that meets one of the rating requirements in the following table.

Rating Agency	Rating Category
AM Best Company	“B” or better Financial Strength Rating
Demotech, Inc.	“A” or better Insurance Financial Stability Rating
Kroll Bond Rating Agency	“BBB” or better Insurance Financial Strength Rating (IFSR)
S&P Global	“BBB” or better Insurer Financial Strength Rating

> **Note:** An insurer is only required to meet the rating category requirement for one of the rating agencies, even if they are rated by multiple rating agencies.

Exceptions to Insurer Rating Requirements

The following are exceptions to Fannie Mae's insurer rating requirements:

- **Second Mortgages** — The property insurance policy for a property that secures a second mortgage does not have to be written by an insurer that meets Fannie Mae's rating requirements, unless Fannie Mae also has an interest in the first mortgage.
- **Mortgage Impairment (or Mortgagee Interest) Insurance** — If the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy, and the issuer meets either the AM Best Financial Strength Rating or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements*, Fannie Mae does not require confirmation that the borrower's property insurance coverage is with an insurer that meets Fannie Mae's rating requirements. However, in such instances, the lender should advise the borrower of Fannie Mae's requirements when it originates the loan.
- **Reinsurance Arrangements** — Policies written by an insurer that do not meet Fannie Mae's rating requirements are acceptable provided all conditions outlined in the following table are met.

✓	Conditions for Acceptable Reinsurance Arrangements
	The insurer is covered by reinsurance with a company that meets the AM Best Financial Strength Ratings or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements.*
	The primary insurer and the reinsuring company are authorized (or licensed, if required) to transact business within the state where the property is located.
	The reinsurance agreement has a "cut-through" endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event the primary insurer becomes insolvent.
	Both the primary insurer and the reinsuring company execute an *Assumption of Liability Endorsement (Form 858)*, or any equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice to Fannie Mae of the termination of the reinsurance arrangement. **Note:** Form 858 (or the equivalent endorsement) must be attached to each insurance policy covered by the reinsurance agreement, unless the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy.
	The reinsurance agreement does not allow contributions or assessments to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae's lien.
	The insurance written under the policy cannot exceed any dollar limitation amount specified in the reinsurance endorsement.

Other Exceptions to Property Insurance Requirements

Fannie Mae also accepts the following types of property insurance policies if they are the only coverage that can be obtained at the time of the loan closing or policy renewal:

- policies obtained through state or territory insurance plans, including a state's Fair Access to Insurance Requirements (FAIR) plan, or
- other state-mandated windstorm and beach erosion insurance pools.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021

4703.1

General property insurance requirements

Effective 01/01/2023

For Mortgages sold to Freddie Mac, the Seller must ensure that the Mortgaged Premises are covered by insurance meeting the requirements in this Chapter 4703. The Seller must obtain evidence of insurance meeting the requirements of Section 8202.8.

(a) Licensing of insurer

All insurance companies (insurers) and insurance companies which guarantee coverages provided by other insurance companies (reinsurers) must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the Mortgaged Premises are located.

(b) Assessments

Insurance contracts must provide that no assessment may be made against the Seller/Servicer or Freddie Mac and that any assessment made against others may not become a lien on the Mortgaged Premises superior to the lien of the Freddie Mac Mortgage.

(c) Rating of insurer

The required insurance must be provided by one of the following insurers:

1. An insurer with a current rating that meets the requirements below:
    - For an insurer rated by AM Best Company (AM Best), a minimum Financial Strength Rating of B+, as reported online at **http://www.ambest.com**

- For an insurer rated by Demotech, Inc., a minimum Financial Stability Rating of A as reported online at **http://www.demotech.com**
- For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB as reported online at **http://www.standardandpoors.com**
- For an insurer rated by Kroll Bond Rating Agency (KBRA), a minimum Insurance Financial Strength Rating of BBB as reported online at **https://www.kbra.com**

2. An insurer with coverage that is guaranteed by a reinsurer under all of the following conditions:
   - The reinsurer's current rating meets the requirements below:
     - For a reinsurer rated by AM Best, a minimum Financial Strength Rating of B+; or
     - For a reinsurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB
   - The reinsurer assumes by endorsement 100% of the insurer's liability for any covered loss payable but unpaid by the insurer for reason of insolvency
   - The reinsurer assumes by endorsement to give the policyholder, the Seller/Servicer and insurer 90-day written notice before canceling or otherwise terminating the guarantee
   - The above endorsements are attached to each property insurance policy accepted by the Seller/Servicer on account of the endorsements
3. A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability (such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)
4. A non-admitted insurer with a current rating that meets the requirements below:
   - For an insurer rated by AM Best, a minimum Financial Strength Rating of A, or
   - For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of AA-

5. An insurer with coverage that is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended

Insurers rated by more than one rating company need only meet one of the rating requirements.

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GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

** Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".*

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

Rating Disclosure – Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

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Version 121719

01-Jul-2019 | 05:06 EDT

General Criteria: Group Rating Methodology

(**EDITOR'S NOTE:** On Dec. 17, 2024, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)

OVERVIEW AND SCOPE

1. This article describes S&P Global Ratings' methodology for rating entities that are part of corporate, financial institutions, insurance, and international public finance groups, as well as U.S. public finance obligated groups.

2. These criteria articulate the steps in determining an issuer credit rating (ICR) on group members and their holding companies. This involves assessing the group credit profile (GCP; i.e. the group's overall creditworthiness), the stand-alone credit profiles (SACP) of group members, and the status of an entity relative to other group entities.

3. The criteria also describe how we assess the potential for support (or negative intervention) from group entities, or from other external sources such as a government.

4. These criteria apply to corporate, financial institution, insurance, and international public finance entities that we consider part of a group and U.S. public finance entities that we consider part of an obligated group. For these entities, we believe that their ownership, control, influence, or support by or to another entity could have a material bearing on their credit quality. Examples of entities that are outside the scope of these criteria include project finance and corporate securitizations.

5. These criteria may complement other criteria that address sector-specific support considerations.

6. This methodology follows our request for comment, "Request for Comment: Group Rating Methodology," published Dec. 12, 2018.

Key Publication Information

- Original publication date: July 1, 2019
- These criteria address the fundamentals set out in "Principles Of Credit Ratings," Feb. 16, 2011.

METHODOLOGY

7. These criteria explain how we factor the potential for extraordinary support (or extraordinary negative intervention) into the ICR of an entity that is a member of a group. Such extraordinary support (or negative intervention) is beyond that which we already factor into the entity's SACP, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating."

8. We factor the potential for extraordinary support or extraordinary negative intervention into the ICR even when the need for such support or the possibility for such negative intervention may appear remote.

9. We apply a six-step process for determining the ICR of group members (see chart 1), as follows:

(i) Identify the group parent and the group members (together called the group).

(ii) Assess the creditworthiness of the group (or subgroup) to determine a group SACP and GCP. The potential GCP is based on the group SACP, adjusted for potential external sources of extraordinary support if we believe such support will be extended to the group, or potential extraordinary negative intervention. Finally, we apply any relevant sovereign constraints to determine the GCP (see chart 2). See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."

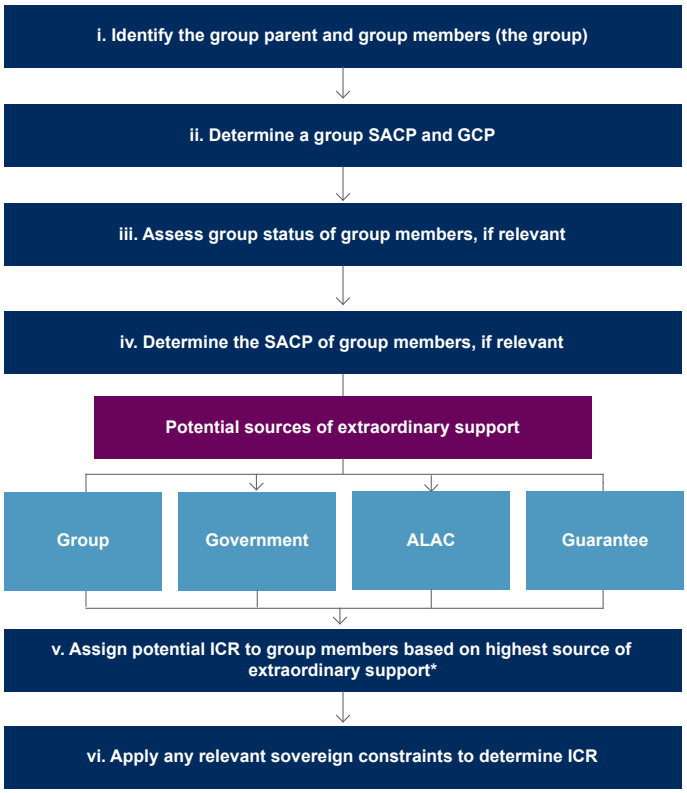
(iii) Assess the group status of each group member to be rated, if relevant.

(iv) Determine the SACPs of group members to be rated, if relevant.

(v) Assign a potential (indicative) ICR to group members. The potential ICR is based on the entity's SACP, if relevant, and the potential for extraordinary support (or extraordinary negative intervention). Extraordinary support is the higher of any group or government influence, or other external support factors (such as additional loss-absorbing capacity (ALAC) support or a guarantee). This step also factors in the degree of insulation, if any, that a group member has from potential negative influence by other weaker group entities.

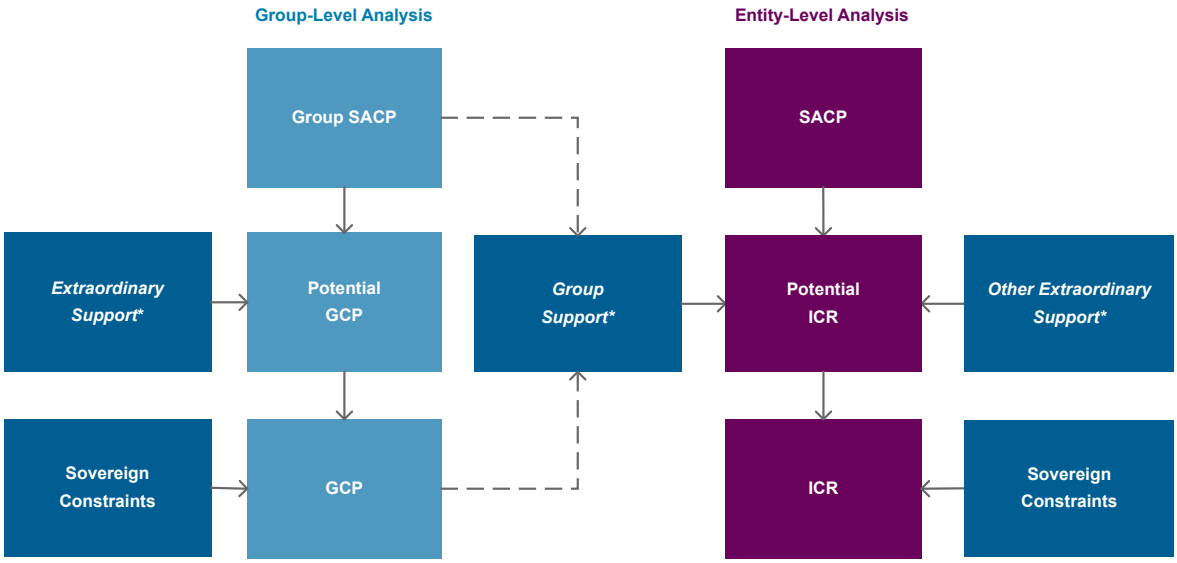
(vi) Assign the final ICR after taking into consideration any relevant sovereign constraints (see "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions").

Chart 1
Determining The Issuer Credit Rating On Group Members



*Subject to any insulation. GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity (applies to certain prudentially regulated entities or groups).ICR—Issuer credit rating.
Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2--Group Rating Methodology Framework



– — → The relevant reference for determining the impact of group support is either the group SACP or GCP.

GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ICR--Issuer credit rating. *Or negative intervention.

Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

10. These criteria define five categories of group status: core, highly strategic, strategically important, moderately strategic, and nonstrategic. These categories indicate our view of the likelihood that a group member will receive extraordinary support from the group (see table 1).

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR

Group status	Brief definition	Potential ICR*
Core	Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances.	GCP

Highly strategic	Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these group members under almost all foreseeable circumstances.	One notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP.
Strategically important	Less integral to the group than "highly strategic" group members. The rest of the group is likely to provide support in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.	Three notches above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP.
Moderately strategic	Not important enough to warrant support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group.	One notch above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP.
Nonstrategic	No strategic importance to the group.	SACP, subject to a cap defined by the GCP.

* The above conventions do not apply where: potential ICRs exceed the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); and when paragraph 42 applies.

11. A potential ICR on a group member that exceeds its SACP reflects our view of the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group or government support (beyond that already factored into the SACP), thereby strengthening its creditworthiness. Examples of support include additional liquidity or capital to the group member, or one-off transfers of risk from the group member.

12. A potential ICR on a group member that is lower than its SACP reflects our view that if the group or relevant government were in a credit-stress scenario, the group or government would draw resources from the group member (an example of extraordinary negative intervention), thereby weakening its creditworthiness.

13. If the GCP is 'ccc+' or lower, the potential ICR on a group member cannot be lower than 'b-' unless the conditions for a potential ICR of 'ccc+' or lower are met (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," henceforth referred to as "CCC criteria"). The potential ICR would include the potential for extraordinary negative intervention from the group or government.

Identifying The Group And Its Members

14. For the purposes of these criteria, the term "group" refers to the group parent and all the entities (also referred to as group members) over which the group parent has direct or indirect control.

15. The group parent is not necessarily the ultimate holding company in the group structure but is the top entity in the structure that we believe is relevant to the group's credit quality. Accordingly, additional holding companies may exist above the group parent, but be excluded from our group assessment if we believe they have no material liabilities or operating assets and therefore no bearing on the group's overall credit quality. The control chain may include several successive layers of controlling or joint-control interest in other entities. We would generally not consider a natural person, or entities such as family firms, foundations, managed fund, or financial sponsors, to be a group parent. Where we determine that an entity (for instance, an investment holding company) does not have control of an investee company, we do not consider that entity to be the group parent.

16. "Control" refers to the ability to direct a group member's strategy and the disposition of its cash flow. Control may be present even if the group owns 50% or less of the group member's shareholder capital.

17. We generally apply this methodology to an entire group, but may also apply it to a distinct subgroup. A subgroup focus may be appropriate when the subgroup and its components have a distinct credit profile that is separate from that of the broader group. This could be due to factors such as jurisdictional location, regulatory oversight, or support factors that

apply only to the subgroup. References to the term "group" in this methodology can apply to either a subgroup or a group viewed in its entirety.

The Group SACP And Group Credit Profile (GCP)

18. The group SACP and GCP are our opinions of a group's creditworthiness as if it were a single legal entity (subject to any potential restrictions on cash flows associated with insulated entities).

19. The group SACP and GCP are not ratings. They are components contributing to the determination of the ICRs on group members. The group SACP does not take into account sources of potential extraordinary support or negative intervention that we consider external to the assessed group. However, the potential GCP incorporates extraordinary external support that we believe is available to the group, or conversely, extraordinary negative intervention. Finally, the GCP takes into consideration any relevant sovereign constraints. See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."

20. Group SACPs and GCPs range from 'aaa' (the highest assessment) to 'd' (the lowest assessment), on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters indicate their status as a component of a rating rather than as a rating. Like ICRs, group SACPs and GCPs can carry the modifier "+" or "-". Typically, a group SACP or GCP is 'd' only in the case of a generalized group default. In the case of a legal entity within a group, we lower the ICR on that entity to 'D' or 'SD' (selective default) only if we determine the entity is in default (see "S&P Global Ratings Definitions").

21. To determine the group SACP and GCP, we assess the consolidated group using the relevant sector methodologies. The assessed group includes all group entities that we believe have a bearing on the group's credit quality (as per the explanation detailed in the section "Identifying The Group And Its Members"), and may potentially deconsolidate insulated entities as per the "Insulated Entities" section. We typically conduct the assessment of the group SACP and GCP as though the group were a single legal entity.

22. For cross-sector groups (including their holding companies), the specific rating methodology applied to assess the group SACP is the one relevant for the operations that most strongly influence the group's credit profile. This influence can reflect the amount of capital employed, level of earnings, cash flow, dividend contribution, or other relevant metric. However, where the analysis of consolidated financial statements using a single sector's criteria framework may not produce a meaningful picture of credit quality, we may apply a combination of rating methodologies to assess the group SACP. This may be done by applying the relevant methodologies to determine SACPs for the different group members. We would then aggregate these SACPs to derive the overall group SACP. The group SACP would also include adjustments to account for any benefits or risks not captured in the aggregation of the component SACPs.

a) Multiple ownership and joint ventures

23. If a group member is under the joint control of at least two parents--for example, a joint venture (JV)--the insolvency or financial difficulty of one parent may have less impact than if the entity had a single parent.

24. For JVs, we may attribute support from one of its owners (JV partner) even if the JV partner does not have majority ownership in the JV. We typically attribute support from the JV partner that would result in the highest potential ICR on the JV. This would apply where we believe the JV partner would support the JV, regardless of the actions of the other owners. This could include situations where that JV partner makes day-to-day business decisions, or the JV is of critical importance to the supporting JV partner's operations or strategy. In such cases, however, the group status of the JV to the JV partner would typically not exceed strategically important. In addition, we would also take the potential resource demands of the JV on the JV partner into consideration when determining the JV partner's credit profile.

25. The analytical approach for a group's jointly owned business operations, such as whether to fully consolidate, partially consolidate, or equity account the operations when assessing the group SACP, is determined by the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types.

26. In cases where a shareholder agreement or similar arrangement exists that we believe would prevent an otherwise controlling parent from directing the strategy and cash flows of a group member, we may assess that control is not present. When we determine control is not present, we would typically treat the member as an equity affiliate and consider only the projected dividend flows from that member in our group SACP assessment.

b) Insulated entities

27. Where we determine that consolidating an insulated group member does not adequately capture the impact on the group SACP of any material restrictions on cash flows or financial resources within the group, we either:

- Adjust the group SACP down (typically by one or two notches); or
- Treat an insulated group member as an equity affiliate, and reflect this deconsolidated approach in determining the group SACP.

28. When assessing a group that has a bank subsidiary with a potential ICR that is above the GCP either because it is of high systemic or moderate systemic importance (as per "**Financial Institutions Rating Methodology**"), in the country where it is domiciled, or because of ALAC support, the group SACP will take into account the impact of any local restrictions on the flow of capital, funding, and liquidity, and any implications for the business and risk positions of the parent.

c) Entities owned by a financial sponsor

29. If the owner of a group entity is a "financial sponsor" (see Glossary), the potential ICR on that group entity does not directly factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the financial sponsor's creditworthiness. However, the financial sponsor's ownership may still affect the potential ICR through the application of the relevant sector-specific criteria.

30. The group SACP for a group owned by a financial sponsor may, however, include one or more intermediate holding companies of the operating entity, but would exclude the financial sponsor's own financials and its other holdings. This approach reflects our view that an intermediate

holding company's primary purpose is to acquire, control, fund, or secure financing for its operating companies, and is generally reliant on those companies' cash flow to service its financial obligations.

d) U.S. public finance obligated groups

31. U.S. public finance obligated groups typically consist of a group of entities that are cross-obligated as security for specific debt. Obligated group structures are most commonly used by not-for-profit hospitals, health systems, and senior living organizations.

32. Obligated groups are created for purposes of securing debt, and do not have operating or governance independence from the larger group. While debt covenants may contain some restrictions, for example limitations on the transfer of assets out of the obligated group, covenants are generally not strong enough to insulate the obligated group from the strategic and operating influence of the group. An obligated group, therefore, is typically not rated higher than the GCP.

33. Individual obligated group members may have separate legal incorporation and varying strategic value to the group. However, since the purpose of the obligated group is to secure debt on a joint and several basis, group status will be determined for the obligated group as a whole, not for its individual members. In applying these criteria, we consider obligated groups a single entity.

34. Most U.S. public finance ratings are issue ratings, although we sometimes assign ICRs. The issue rating could differ from the ICR based on the specific security package for the rated bonds. We expect that, barring subordination or structural enhancement, U.S. public finance issue ratings will generally be the same as the ICR.

e) External support factors in the GCP

35.Government support. The potential for extraordinary government support can be factored into either the ICRs of certain group members or the GCP, depending on the nature of this support (see Rating Government-Related Entities: Methodology And Assumptions [GRE criteria], and Financial Institutions Rating Methodology). We use the group SACP as a basis from which to determine the GCP when using the government support tables in the GRE criteria or bank criteria.

36. The assessment considers whether government support, driven by GRE status or systemic importance, would likely accrue to all or only some members of the group (see table 2).

37. To determine the potential ICR for a particular group member, where the assessment indicates that the government:

- Is likely to extend such extraordinary support directly to that entity (bypassing the group), any uplift for such support is added to the SACP of that entity in determining the potential ICR;
- Is likely to extend such extraordinary support indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP (which would include uplift, if any, for extraordinary government support); or
- Is unlikely to extend such extraordinary support to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Table 2

Rating Government-Supported Entities--Likelihood Of Government Support Versus Group Support

SACP level	If the subsidiary is likely to benefit directly from extraordinary government support *	If the subsidiary is likely to benefit from extraordinary government support indirectly through the group	If the subsidiary is unlikely to benefit from extraordinary government support either directly or indirectly
SACP is lower than the group SACP	Potential ICR = Higher of (i) the SACP plus uplift for government support, or (ii) SACP plus uplift for group support. The outcome is subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP plus uplift for group support (with reference to the GCP)	Potential ICR = SACP plus uplift for group support (with reference to the lower of the group SACP or the GCP)
SACP is higher than or equal to the group SACP	Potential ICR = SACP plus uplift for government support, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	If SACP < GCP, potential ICR = SACP plus uplift for group support (with reference to the GCP). If SACP >= GCP, potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)

No SACP	SACP required, unless subsidiary is a GRE with almost certain likelihood of government support*	If core, potential ICR = GCP. If highly strategic, potential ICR = GCP - 1.	If core, potential ICR = lower of the GCP or group SACP. If highly strategic, potential ICR = lower of the GCP - 1 or group SACP - 1.

* See GRE criteria for further details, including when an SACP is not required for entities with almost certain likelihood of government support. SACP--Stand-alone credit profile. ICR--Issuer credit rating.

38.ALAC support. The potential for extraordinary external ALAC support can be factored into either the ICRs on certain group members or the GCP, depending on the nature of this support (see "Financial Institutions Rating Methodology"). To determine the potential ICR on a particular group member, where the assessment indicates that ALAC support in the GCP:

- Is likely to extend indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP; or
- Is unlikely to extend to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Assigning The Issuer Credit Rating

39. A potential ICR on a group member reflects its SACP (if relevant) and the potential for external extraordinary support (or negative intervention). We then determine the final ICR by applying any relevant sovereign constraints to the potential ICR.

40. We determine the potential ICR as follows, unless paragraph 41 applies:

- Core group entity is equal to the GCP;
- Highly strategic entity is one notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP;
- Strategically important entity is rated three notches higher than its SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP;
- Moderately strategic entity is rated one notch higher than that entity's SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP; or
- Nonstrategic entity is rated the same as that entity's SACP, subject to a cap defined by the GCP.

41. The above conventions do not apply where: the potential ICR exceeds the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); or when paragraph 42 applies.

42. We may apply a one-notch adjustment to determine the potential ICR (as described in paragraph 40) to better reflect our holistic view of potential extraordinary group support. This adjustment is only applicable if we have determined an SACP and the gap between the potential ICRs, based on group status assessments of highly strategic and strategically important, is at least three notches. The adjustment, if applicable, is as follows:

- When the group status is highly strategic, we may apply a negative one-notch adjustment. The potential ICR could, therefore, be two notches lower than the GCP rather than one notch; or
- When the group status is strategically important, we may apply a positive one-notch adjustment. The potential ICR could, therefore, be four notches higher than its SACP rather than three notches.
- For example, if we determine an entity exhibits characteristics consistent with a highly strategic entity, while a change in group status to strategically important could lead to a potential ICR change of three notches, the potential ICR could be two notches below GCP while the group status remains highly strategic; alternatively, if we determine the entity now exhibits characteristics consistent with a strategically important entity, we will revise the group status to strategically important and the potential ICR could be four notches above the SACP.

Group Status Of Individual Members

43. A group member's group status reflects the extent and timeliness of extraordinary support we expect it will receive from the rest of the group when that entity is under credit stress. We may also assess a group member's group status to a subgroup and the group status of a subgroup to a broader group. This section describes the framework that supports the classification of a member's group status into one of five categories:

- Core;
- Highly strategic;
- Strategically important;
- Moderately strategic; or
- Nonstrategic.

44. The determination of an SACP for a group member categorized as core or highly strategic is not necessary unless otherwise required or analytically relevant. A group status is not necessary for insulated entities, unless otherwise required or analytically relevant.

a) Core entities

45. A core entity exhibits features highly consistent with the group's franchise, supports the realization of group strategic objectives, and is expected to attract extraordinary support, if required, under any foreseeable circumstance. A core entity would also generally be expected to exhibit all the following characteristics:

— Is highly unlikely to be sold;

— Operates in lines of business or functions (which may include group risk management and financing) that are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target markets;

— Has a strong, long-term commitment of support from the group in benign and under stressful conditions, or incentives exist to induce such support (e.g., cross-default clauses in financing documents, or the entity plays an integral role in group risk management or financing);

— Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group's specific targets and group earnings norms over the medium to long term;

— Either constitutes a significant proportion of the consolidated group or is fully integrated with the group;

— Is closely linked to the group's reputation, name, brand, or risk management;

— Has typically been operating for about five years or more; and

— Has been established as a separate entity for legal, regulatory or tax reasons, but otherwise operates more as part of a profit center or division integral to the group.

b) Highly strategic entities

46. A highly strategic group entity generally exhibits almost all of the characteristics of a core entity, and differs only narrowly regarding the extent of expected extraordinary support from the group. An entity assessed as highly strategic is generally expected to have a long-term

commitment from the group. There may be situations in which support for the highly strategic entity will be limited, for instance, to preserve the viability of core entities of the group.

c) Strategically important entities

47. We assess an entity as strategically important when we expect it to receive extraordinary support from the group in most foreseeable circumstances; however, there are some doubts about the extent of group support that precludes it from a higher support category. Strategically important subsidiaries would however typically exhibit all the following characteristics:

- Is unlikely to be sold;
- Is important to the group's long-term strategy;
- Has the long-term commitment of the group, or incentives exist to induce such support (e.g., cross-default clauses in financing documents); and
- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to the group's specific expectations or group earnings norms.

d) Moderately strategic entities

48. When an entity does not exhibit the characteristics for a higher level of group support, but we expect it to receive extraordinary support in some foreseeable circumstances, it is typically considered moderately strategic. Moderately strategic entities are also typically important to the group's long-term strategy or are (or are expected to become) reasonably successful at what they do.

e) Nonstrategic entities

49. When an entity does not exhibit the characteristics of core, highly strategic, strategically important, or moderately strategic, it is categorized as nonstrategic.

Captive (re)insurer

50. A captive (re)insurer may also be assessed as core if it sources its (re)insurance business from companies within the group and writes no, or an immaterial amount, of third-party business. A captive (re)insurer may also be assessed as highly strategic if third-party business is a modest portion of its overall business operations.

Captive finance

51. When assessing group status for captive finance subsidiaries, the attributes we examine to determine group status should be considered within the context of all the following unique factors that captive finance subsidiaries typically provide to their group's marketing efforts:

- The percentage of the group's products sold via the subsidiary (penetration rate). For diversified groups, the percentage of total sales may be less important than the percentage of certain specific product lines. In turn, we consider the importance of these products to the overall performance of the group;
- The alternatives available to sell the group's products; and
- The costs and challenges in conducting its own financing. For some entities, funding costs may outweigh the benefits--or it may become difficult to gain access to capital.

Branches

52. For financial services entities, a branch is part of a legal entity that is typically at another geographic location. A branch therefore has the same creditworthiness as the legal entity, unless the branch is in another country and the actions of that sovereign could affect the branch's ability to service its obligations. See "Ratings Above The Sovereign--Corporate And Government Ratings." With respect to financial institutions, see also "Financial Institutions Rating Methodology."

U.S. public finance obligated groups

53. U.S. public finance obligated groups could be considered core if they contain the majority of the organization's primary operating facilities, such as its hospitals or senior living facilities.

Financing subsidiaries

54. A financing subsidiary of a financial institution or corporate group may be assessed as core when it plays an integral role in group financing, its sole activity is to raise debt on behalf of the group, and it is wholly owned. Such subsidiaries often share a related corporate name with their parents.

55. A financing subsidiary of an insurance group, while generally not assessed as core, is typically assigned a rating as if it is a holding company.

Credit-substitution guarantee of group entities

56. When all of a group member's present and future financial obligations are guaranteed, and the guarantor is obliged to pay that group member's obligations even if the group member defaults, we assign a rating to the group member that reflects the higher of two outcomes:

- A rating reflecting the creditworthiness of the group member absent the benefit of the guarantee; or
- A rating reflecting the creditworthiness of the guarantor (see "Guarantee Criteria").

57. Our assessment of the terms of any intragroup guarantees determines whether a payment default on the part of a group entity is viewed as a default by the guarantor (see "S&P Global Ratings Definitions").

Loan participation notes (LPNs)

58. We rate LPNs and equivalent securities (such as trust preferred) issued by a special-purpose vehicle (SPV) on behalf of a corporate, financial institution, or insurance entity (including their holding companies) at the same level as we would rate an equivalent-ranking debt of its underlying borrower (the LPN sponsor) (and treat the contractual obligations of the SPV as financial obligations of the LPN sponsor) provided that all the following conditions are met:

- All of the SPV's debt obligations are backed by equivalent-ranking obligations with equivalent payment terms issued by the LPN sponsor;
- The SPV is a strategic financing entity for the LPN sponsor set up solely to raise debt on behalf of the LPN sponsor's group; and
- We believe the LPN sponsor is willing and able to support the SPV to ensure full and timely payment of interest and principal when due on the debt issued by the SPV, including payment of any expenses of the SPV.

59. As a consequence, we assign a 'D' or 'SD' ICR to the LPN sponsor if the SPV fails to make payments on the debt when due, as we would typically do in case of default on a similarly ranking debt issuance of the LPN sponsor (see also "S&P Global Ratings Definitions").

60. For multiple LPN sponsor SPVs, or SPVs that do not meet all the conditions above, the relevant structured finance criteria apply, which may include "
Asset Isolation And Special-Purpose Entity Criteria—Structured Finance" and "Global Methodology For Rating Repackaged Securities."

Dedicated supplier/purchaser relationships

61. Group members are typically owned or controlled by the group parent. However, a dedicated supplier/purchaser relationship can create an economic incentive for the supplier to support the purchaser, despite having only a minority ownership interest or none at all. We define the group in this instance as the supplier and the purchaser. A supplier may provide support sufficient for the purchaser to be considered moderately strategic to the supplier when the purchaser comprises a meaningful portion of the supplier's sales, cash flow, volume, or other measure. Such relationships typically have all the following characteristics:

- The term of the supplier/purchaser agreement is either perpetual or long term;
- There is evidence of the supplier's willingness and ability to provide financial support to the purchaser. We determine this by looking at prior loans, capital investments, or marketing support given to the purchaser; and
- The purchaser is closely linked to the supplier's reputation, name, or brand.

Entities with interlocking business relations

62. We can apply this methodology to groups of entities with interlocking business relations even in the absence of control, as defined in the criteria. Group membership will be based on meeting at least four of the following conditions:

- Name affiliation;
- Common management;
- Common board composition or common board control;
- Shared corporate history;
- Common business ties;
- Common financing of group entities;
- Shared corporate support functions; or
- Cross ownership holdings.

In such cases, we determine the GCP by determining the group members' SACPs and aggregating them based on the relative importance of each group member, as we do for the cross-sector groups. Members of this type of group can only be assigned a group status of strategically important, moderately strategic, or nonstrategic.

Insulated Entities

63. Financial stress within the group can negatively affect the creditworthiness of group entities. Accordingly, in such cases a potential ICR on an entity is typically limited by the GCP. This is notably because:

— The group could potentially transfer assets from one group entity to another during financial stress, contributing to credit stress at other group entities;

— The distress at the group could trigger business or financial difficulties at the group member. For instance, the group's problems could cause reputational damage of the group member and a loss of business;

— The group member might rely on operational support from the group on an ongoing basis; and

— In some jurisdictions, a bankruptcy petition by one group entity could include or cause other group entities to go into bankruptcy or similar measures.

64. Some entities (which for the purposes of this section, could also apply to a subgroup) may be insulated, segmented, or ring-fenced from their group, from a credit risk perspective. Such insulation may lead to the rating on the entity being higher than the GCP. The lower the likelihood that the creditworthiness of the entity would be impaired by a credit stress scenario for the group, the greater the potential difference between the potential ICR on the entity and the GCP. That said, we would typically not apply insulation to a group member when group entities above the group member, including the group parent, have debt but do not have significant other assets, either directly or indirectly. In such a case, the financial resources of the group member (where insulation is being contemplated) would be the only source of repayment for debt issued by group entities above it.

65. The potential ICR of an insulated entity is one notch higher than the GCP in cases where the entity is operationally separated from the group and the entity's SACP (or the SACP plus the potential for government

support or ALAC) is at least one notch higher than the GCP. Key characteristics of an operationally separated entity would generally include all of the following:

- The entity holds itself out as a separate entity, its financial performance and funding are highly independent from the group, it has no significant operational dependence on other group entities, and it maintains its own records and funding arrangements and does not commingle funds, assets, or cash flows with them;
- There is a strong economic basis for the group to preserve the entity's credit strength; and
- We do not expect a default of other group entities to directly lead to a default of the insulated entity.

66. The potential ICR of an insulated entity is two notches above the GCP if, in addition to being eligible for one notch of insulation, the group's control of the entity is limited by independent parties, and the entity's SACP (or the SACP plus the potential for government support or ALAC) is at least two notches above the GCP. Limited control would generally be characterized by at least one of the following:

- There are significant minority shareholders with an active economic interest;
- Independent directors have effective influence on decision making, including dividend policy and bankruptcy filings; or
- There are strong legislative, regulatory or similar restrictions that would inhibit the entity from supporting the group to an extent that would unduly impair the entity's stand-alone creditworthiness.

67. The potential ICR on an insulated entity is three notches above the GCP if, in addition to the entity being eligible for two notches of insulation, there are material structural safeguards to protect the entity from group influence, and the entity's SACP (or the SACP plus the potential for

government support or ALAC) is at least three notches above the GCP. Structural safeguards that protect the entity from group influence would generally include at least one of the following:

- The regulator or appropriate legislative body is expected to act, or has acted, to protect the credit quality of the entity, for example to prevent the entity from supporting the group to an extent that would in turn impair its stand-alone creditworthiness;
- There are both: protective governance arrangements (such as independent directors with an effective influence on decision making); and either significant minority shareholders or joint venture partners, with an active economic interest;
- There is an independent trustee or equivalent governance arrangement that can enforce the rights of third parties, and we expect the trustee (or equivalent) to act upon that right; or
- The government or other governmental agency (i) has the authority to change ownership of the entity via existing legislation or other legal powers to separate it from a troubled group; and (ii) we expect it to act upon that right, based, for example, on a statement of intent to do so, or a track record of proactive stress management under similar circumstances.

68. The potential ICR of an insulated entity could be de-linked and therefore not constrained by the creditworthiness of the group if the conditions in either (a) or (b) are met:

(a) In addition to being eligible for three notches of insulation as described in the preceding paragraph:

- We believe that the parent company doesn't exert control due to substantial creditor protections and as a result is unable to adversely impact the entity's credit quality; and
- The entity benefits from governance constraints that severely limit the influence of the parent, preventing it from determining matters such as strategy, material change of business, dividend payments and other material cash flows, and bankruptcy filings. These may arise, for example, due to statutory powers or contractual constraints.

(b) We determine that there is sufficient evidence that significant group credit stress has had minimal impact on the entity's credit profile, and that we do not expect it to have a material negative influence going forward.

69. With respect to our assessment of insulation of captive finance subsidiaries, we could view a captive finance entity as operationally separated from the group when it is able to stand on its own by taking over or subcontracting certain functions previously provided by other group entities. Given the nature of a captive finance entity's business model, we would expect it to retain commercial ties with its group.

70. The potential ICR of a bank subsidiary is typically not subject to a cap linked to the GCP where either: (i) the entity's SACP plus the potential for government support is above the GCP because it is of high systemic or moderate systemic importance (according to "Financial Institutions Rating Methodology"), in the country where it is domiciled; or (ii) the entity's SACP plus the potential for ALAC support is above the GCP (see "Financial Institutions Rating Methodology"). However, where we expect the nature and extent of extraordinary negative group intervention could impact the entity's creditworthiness, although to an extent sufficiently limited that a cap linked to the GCP would not apply, we

may apply a one-notch negative adjustment when determining the potential ICR. This adjustment is to better capture our holistic view of potential extraordinary negative group intervention.

Holding Companies

71. For holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the GCP. For intermediate holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the rating on its core operating entities.

Holding companies of prudentially regulated financial services groups

72. Holding companies are typically reliant on dividends and other distributions from operating companies to meet their obligations. The rating of holding companies of prudentially regulated financial services groups reflects the difference in their creditworthiness relative to the group's operating entities. The rating differential is mainly due to the increased credit risk that arises from possible regulatory constraints to upstream resources and potentially different treatment under a default scenario.

73. For holding companies of prudentially regulated financial institution groups, the ICR is generally:

- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
- At least two notches lower than the GCP if the GCP is 'bb+' or lower.

74. For holding companies of insurance groups, the ICR is generally:

— Two notches lower than the GCP if potential regulatory restrictions to payments are considered low in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company; or

— Three notches lower than the GCP if potential regulatory restrictions to payments are considered high in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company.

75. The notching from the GCP to derive the ICR of a holding company of a financial services group may be narrower than the standard notching in paragraphs 73 or 74, or potentially eliminated, if:

— The holding company directly controls multiple material operating units that are sufficiently diverse and independent such that the suspension of cash flows from any of its operating entities would not substantially weaken the holding company's financial position;

— The potential for regulatory restrictions to payments is significantly lower than we typically observe for prudentially regulated entities and is not adequately reflected in the standard notching;

— The holding company generates sufficient cash flows from its own business activities or from unregulated operating subsidiaries to meet its obligations; or

— The potential for regulatory restrictions on distributions from operating entities is mitigated by our expectation that the holding company will regularly maintain significant unencumbered cash or high-quality liquid fixed-income investments to meet its obligations.

76. The notching from the GCP to derive the ICR on a holding company of a financial services group may be wider than the standard notching in paragraphs 73 or 74 if:

- The holding company itself carries significant asset or liability risks that are not fully captured in our standard notching;
- There are elevated liquidity risks at the holding company, most notably when it has significant debt maturities and other financial obligations relative to its unencumbered cash and liquid assets held or to which is has ready access. For example, high double leverage for a financial institution can reflect elevated liquidity risks;
- There are heightened risks of regulatory constraints or other material restrictions to payments that are not adequately captured in the standard notching; or
- The GCP is higher than the group SACP owing to external extraordinary support that is not expected to accrue to the holding company. In this case, we apply the typical notching from the group SACP rather than the GCP.

77. If the GCP is 'b-' or lower, or if notching would otherwise result in a rating of 'CCC+' or lower, the ICR on a holding company is no lower than 'B-' unless the conditions for an ICR of 'CCC+' or lower are met (see "CCC criteria").

78. We typically notch down the ICR on an intermediate holding company of a financial services group or subgroup from the rating assigned to its core operating entities by applying the same notching we would to a holding company of the group. We may, however, narrow the notching or potentially eliminate the notching if we expect the group to provide extraordinary support for the subsidiaries of the intermediate holding company by investing in the intermediate holding company. We may widen the notching if there are additional risks relating to cash flows from its operating entities or risk relating to the expected extraordinary support from the group.

Rating Group Entities Above The Sovereign

79. The general criteria for rating a group member above the relevant sovereign rating, which is usually the country of domicile of the group member, are in ratings above the sovereign criteria (see Related Criteria).

80. The ICR on a group member is the lower of the potential ICR derived from these criteria or the relevant foreign currency sovereign rating. This would not be the case, however, in the situations outlined below, where we determine the group member's ICR as the highest of a, b, or c:

(a) If the group member passes the appropriate sovereign stress test (without considering group or government support), the result from the combination of the potential ICR derived from these criteria (excluding uplift for group or government support) and the provisions in our ratings above the sovereign criteria;

(b) For a group member where the relevant foreign currency sovereign rating is lower than 'B-', the ICR is no lower than 'B-' (unless T&C restrictions in Ratings Above the Sovereign criteria are applicable) if the conditions for an ICR of 'CCC+' or lower are not met (see "CCC criteria"); or

(c) If we believe the group is willing and able to sufficiently support the group member during the stress associated with a sovereign default, the highest of (i) to (v) below:

- (i) For a group member that has a potential ICR based on a guarantee that meets our credit substitution criteria, the potential ICR;
- (ii) For a financial institution or insurance group member that has less than 10% exposure to the jurisdiction of domicile and we consider the risks (e.g. a deposit freeze or monetary-union exit) associated with that jurisdiction are immaterial, the potential ICR;
- (iii) For core group members of financial institution groups, the lower of the potential ICR derived from these criteria, or up to two notches above the relevant foreign currency sovereign rating;
- (iv) For core group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or three notches above the relevant foreign currency sovereign rating; or
- (v) For highly strategic group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or two notches above the relevant foreign currency sovereign rating.

GLOSSARY

81. ALAC: Additional loss-absorbing capacity. These are securities issued by certain prudentially regulated entities (see Related Criteria) that can absorb losses at or near non-viability--for example, in the event of a bank resolution, in a way that reduces the risk of the bank defaulting, according to our definitions, on its senior unsecured obligations.

82. Captive finance subsidiary: A captive finance subsidiary (as opposed to a financing subsidiary) provides financing for the purchase of the group's products. (For a full definition, see "
The Impact of Captive Finance Operations On Nonfinancial Corporate Issuers
").

83. Captive (re)insurer: A member of an insurance, corporate, or financial institutions (FI) group that mainly insures risks of other group entities. Captive (re)insurers typically show a very high degree of integration with a group's financial and risk management strategy.

84. Double leverage (for financial institutions only): We define double leverage (DL) for FI groups as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholder equity. Holding companies often issue hybrid capital securities that build regulatory capital. They invest the proceeds in operating subsidiaries as equity or as similarly structured hybrid securities. We calculate DL in two ways: (1) with a common equity double-leverage measure that treats hybrid capital as debt, and (2) with a total equity double leverage measure that treats hybrid capital as equity.

85. Equity affiliate: Also defined in our corporate criteria as "unconsolidated equity affiliates." These are entities that are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the affiliate are not typically included in our primary metrics (see "**Corporate Methodology**").

86. Extraordinary negative intervention: Potential extraordinary negative intervention by one or more members of a group. Examples include the extraction of unexpected extraordinary dividends or asset or cash stripping the issuer at the behest of the group to service other obligations of the group.

87. Extraordinary support: We consider support as extraordinary when it is entity specific, nonrecurring, and typically related to financial stress at the entity. Examples include but are not limited to recapitalization with common equity or hybrids, liquidity injections to the group member, or one-off transfers of risk from the group member.

88. Financial institution: Entities that are in-scope for our bank and nonbank FI methodologies.

89. Financial services sector: Consists of financial institutions and insurance companies.

90. Financial sponsor: We define a financial sponsor as an owner that does not have a long-term strategic interest in a company. Rather, the financial sponsor is a financial investment firm primarily motivated to increase the value of its investment by improving its management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include, but are not limited to, private-equity firms, hedge funds, and venture capital firms.

91. Holding company (may also be referred to as a group parent): A legal entity that is the owner of at least one group member that conducts business activities, though it may not carry out its own business activities (e.g. a non-operating holding company). A holding company may also provide services to subsidiaries such as investment and treasury management.

92. Insurance company (or insurers): Entities that are in scope for our insurance ratings methodologies.

93. Intermediate holding company: A legal entity that is a group member and legal owner of at least one other group member that conducts business activities, though it may not carry out its own business activities.

94. Parent: An entity with controlling or joint-control interest in another entity or a joint venture.

95. Prudentially regulated: This refers to the regulation of a financial services entity by one or more regulatory authorities who set standards for, among other things, capital adequacy and potential restrictions on distributions. We generally regard banks and insurers as prudentially regulated sectors.

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APPENDIX

103. This appendix provides additional information and guidance relating to the analytical application of these criteria.

Extraordinary Support In The Group Credit Profile

104. Table 3 gives examples of how we determine uplift for group support when the group credit profile (GCP) includes extraordinary support. In the example, the group stand-alone credit profile (group SACP) is 'bbb+', and we determine there is a high likelihood of potential extraordinary government support to the group from an 'A+' rated sovereign (both local and foreign currency). Under our bank criteria, we determine the potential

GCP is 'a', which includes two notches of uplift for potential extraordinary government support. The GCP is 'a' as the relevant sovereign rating of 'a+' does not constrain the GCP below the potential GCP.

Table 3

Determining Uplift For Group Support--GCP Includes Extraordinary Support

	Financial Institutions Group	Bank Entity A	Bank Entity B	Insurance Entity C	Asset Management Entity D
Group Analysis					
Group SACP	'bbb+'				
Extraordinary support	+2 notches				
Potential GCP	'a'				
Relevant sovereign rating *	'a+'				

Passes sovereign stress test	N.A.				
Impact of sovereign constraint	0				
GCP	'a'				
Entity Analysis					
SACP		N.A.	'bbb'	'bbb-'	'a-'
Group status		Core	Strategically important	Strategically important	Strategically important
Relevant reference point for group support uplift		GCP	GCP	Group SACP	Group SACP
Uplift for group support		N.A.	+2 notches	+1 notch	0
Potential ICR		'a'	'a-'	'bbb'	'a-'

Relevant sovereign rating *	'a+'	'a+'	'a+'	'a+'
Passes sovereign stress test	N.A.	N.A.	N.A.	N.A.
Impact of sovereign constraint	0	0	0	0
Issuer credit rating	'A'	'A-'	'BBB'	'A-'

N.A.--Not applicable. *The relevant sovereign rating is in lowercase to indicate that it is being used as a component of the determination of GCPs and ICRs and is determined in accordance with our "Ratings Above The Sovereign" criteria.

105. The financial institution (FI) group in the example has four group members comprising a bank with core group status and three subsidiaries assessed as strategically important. In the case of bank A and bank B the reference point for determining uplift for group support is the GCP of 'a' because we expect extraordinary government support in the GCP would extend to the bank entities. As a core group member, the issuer credit rating (ICR) on bank A is 'A', equal to the GCP. The ICR on Bank B, a

strategically important group member, is 'A-' because we cap the uplift for group support at one notch below the GCP. For the insurance and asset management entities, the relevant reference point for determining potential uplift for group support is the group SACP of 'bbb+' because we expect extraordinary government support in the GCP is not likely to extend to these entities. The ICR of strategically important insurance subsidiary C is 'BBB' because we cap the uplift for group support at one notch below the group SACP. Given the SACP of asset management subsidiary D is higher than the group SACP, the ICR is 'A-' since we do not constrain the ICR at the level of the group SACP. Had the SACP of subsidiary D been above the GCP, we would need to determine that it is an insulated entity for subsidiary D's ICR to exceed the GCP.

106. The approach laid out in the example applies if the expected extraordinary support in the GCP was from additional loss-absorbing capacity (ALAC) rather than from government support. If we determine that ALAC support in the GCP extends to the banking entities, the relevant reference point for determining any uplift for group support is the GCP. If we determine the ALAC support in the GCP is unlikely to extend to the insurance and asset management entities, the relevant reference point for determining any uplift for group support is the group SACP.

Impact Of Sovereign Constraint On GCP

107. Consider an example where the potential GCP is 'a-' and the relevant sovereign rating is 'bbb'. The GCP would be 'bbb' (assuming the group does not pass the sovereign stress test) because the GCP is the lower of the potential GCP ('a-') or the relevant sovereign rating ('bbb'). We determine the relevant sovereign rating by applying "Ratings Above the Sovereign" criteria and consider, at a group level, the relevant foreign currency sovereign rating, the sovereign stress test (if relevant), the maximum rating

differential above the relevant sovereign rating, and any transfer and convertibility constraints that are relevant for the group's local currency ratings (for example, cross-default clauses).

Determining The Potential ICR

108. The potential ICR includes any adjustment defined in sector criteria to determine the ICR. In our analysis of insulated entities, the SACP plus the potential for government support or ALAC includes any adjustment defined in sector criteria to determine the ICR.

Impact Of Sovereign Constraint On ICR

109. A financial institution group might provide a bank group member with hybrid capital instruments that can absorb losses of the entity at or near nonviability in a way that reduces the risk of the entity defaulting, according to our definitions, on its senior unsecured obligations (we generally refer to such instruments as group internal loss absorbing capacity). In applying our Group Rating Methodology (GRM), we consider such instruments to be ALAC support for the entity instead of extraordinary group support, if the entity and the instruments otherwise meet the conditions detailed in our ALAC criteria. We generally consider such ALAC instruments in determining whether the entity passes the sovereign stress test, if we assume that the entity's host regulator would enforce loss absorption by these instruments in a sovereign default scenario.

Identifying The Group And Its Members

110. To determine the identity of the group parent for purposes of conducting GRM analysis, we assess both the existence of control along with our judgment as to the relevance of the entity to the group's overall credit quality.

111. As a result, the group parent can be, but is not necessarily, the ultimate holding entity in the group structure. Any number of holding companies above the group parent may have been established for a variety of purposes (for example, tax considerations, regulatory requirements, or prefabricated platforms for future equity partners). If they do not hold material liabilities or operating assets (directly or indirectly), we may consider them inconsequential to the group's overall creditworthiness. As such, we may exclude these holding companies from our group analysis.

112. There are several types of owners that may control an entity we are rating but that we may not recognize as group parents because of our judgment as to their irrelevance to the group's overall creditworthiness. For example, we generally do not consider natural persons who directly hold controlling shares in an entity to be group parents. However, natural persons or families may control their businesses through one or more holding companies. Such holding structures may include several successive layers of holding corporations, the relevance of which to the group's overall creditworthiness we will assess as described above.

113. There may be other structural holding variations where a person or family holds controlling shares through a holding vehicle that may itself hold other minority or controlling shares in other companies with meaningful business operations. Such family-owned holding companies

would not qualify as "family firms" because we expect "family firms" to be devoid of (directly or indirectly held) material assets or liabilities--with the exception of the controlling shares in the rated company. Alternatively, such family-owned holding vehicles may not have other material direct or indirect business activities, but may carry a meaningful level of debt or other liabilities. Where structural holding variations exist and we view them as material or meaningful, as described above, we may consider such holding companies to be relevant to the group's overall creditworthiness and, as a result, they could qualify as group parents because of their potential relevance to the credit risk of the entity.

114. Our consideration of nonprofit organizations (including nongovernmental organizations [NGOs]), cooperative organizations, certain funds (for example, those that do not have asset management fees as a key component of their business model), and investment holding companies as potential group parents depends on our view of both their control and relevance to the group's overall credit quality. When we expect such parents to play an active role in the group, including during times of credit stress, we may consider them a group parent. For example, the determination of whether to define nonprofit organizations (including NGOs) and cooperative organizations as the group parent largely depends on their role, which includes charter mandates, track record, and relevant local regulations.

115. We may consider a mutual or cooperative group in the regulated financial services sector as a group even in the absence of a group parent or equity shareholdings between entities. For example, there may be legal, contractual, regulatory, or governance considerations that lead us to conclude that control is present and the entities collectively form the economic equivalent of a group. An example of such a group is a cooperative where all the entities in the group enter into a joint and several guarantee, the regulator and tax authorities view the entities as a single

group, and there is a central body that exercises control such that we conclude that the entities form a group for purposes of defining the group and group members.

Identifying The Group And Its Members--BNDES

116. We consider an entity a group member and include it in the GCP where it is part of an "economic group" owing to "cross-default" clauses on borrowings from Brazil's Banco Nacional de Desenvolvimento Economico e Social (BNDES).

Identifying The Group And Its Members--Subgroups

117. We may determine there are two or more entities within a group that have common characteristics, or features, that are sufficiently unique or distinct from the larger group that warrants an evaluation of this group of entities as a separate group (also referred to as a subgroup).

118. The inclusion of entities within a subgroup is notional and can be separate from how a company operates or reports, and may change over time. Notionally grouping entities through the determination of a subgroup could, for example, be based on entities' location in a particular country.

119. Classification and recognition of group support for a subgroup will reflect our evaluation of the likelihood of the subgroup benefiting from extraordinary group support, similar to our evaluation of group entities. For example, we may capture a number of legal entities in a particular country that, while small relative to the larger group, are expected to receive support. Collectively, the entities may provide diversification and growth prospects within a larger group supporting a subgroup assessment.

120. A complex group can have more than one GCP where we determine a subgroup analysis is analytically relevant. For example, a subgroup analysis may be analytically relevant where there are material liabilities at the intermediate holding company of a subgroup. For an entity that is part of a subgroup, we may also consider (i) the extent of insulation of the entity from the subgroup, and (ii) whether group support would flow directly to the entity from the wider group or through the subgroup.

The Group SACP And GCP--Extraordinary Support

121. Potential sources of extraordinary external support to a group include ALAC support or support coming from a government. To determine the GCP of a subgroup, we also consider support from the wider group as a form of extraordinary external support. Similarly, the potential sources of extraordinary negative intervention can also emanate from a government or from a wider group (in the case of subgroups).

The Group SACP And GCP--Cross-Sector Groups

122. We could derive the group SACP using more than one sector rating methodology if we determine that no single sector rating methodology adequately captures our view of overall creditworthiness. We may combine the SACPs derived from various sector rating methodologies to determine a preliminary group SACP. We could modify this preliminary group SACP to reflect our holistic view of credit quality. This would include taking into consideration factors such as diversification, other group debt, and other positive or negative credit factors that may not be reflected in the underlying SACPs.

123. For instance, suppose there is a group parent that owns one corporate entity and one insurance entity where we believe no single sector rating methodology will result in a group SACP that reflects our view of overall creditworthiness. If, in this case, the individual SACPs are 'bb' and 'a', respectively, and we consider both to have equal influence on the overall creditworthiness of the group, we could average the SACPs resulting in a group SACP of 'bbb'. We could then adjust this according to our analytic judgment to derive the group SACP. For example, we may view diversification benefits as sufficient to raise the group SACP to 'bbb+'.

124. Alternatively, if we determine that the two entities above do not equally influence the overall creditworthiness of the group, but their influence comprises 75% and 25%, respectively, this would suggest a group SACP of one to two notches (representing the weighted average of the six-notch differential) above the 'bb' SACP. This would indicate a group SACP of 'bb+' or 'bbb-'. We may further adjust our result on the basis of analytic judgment to determine the group SACP.

Government-Related Entities

125. There can be specific circumstances where we may choose to apply our Government Related Entities (GRE) methodology, rather than a combination of GRE and GRM, when analyzing an entity classified as a GRE (see the "Rating GRE Subsidiaries" section in our GRE criteria.) For instance, this may occur when a GRE is ultimately owned by the government through a holding company or asset management company, and we believe that the GRE is controlled by the government. In such circumstances, we may not view the holding company or asset management company as a group parent because we don't view it as relevant to the analysis.

Assigning The Issuer Credit Rating

126. Consider the following example that illustrates the potential ICR outcomes where we determine the SACP of a group member is 'bb' and the relevant reference point for determining uplift for group support is the 'aa-' GCP.

Table 4

Potential ICRs

Group Status	--Potential ICR--	
Core	GCP	'aa-'
Highly strategic	GCP -1 or GCP -2	'a+' or 'a'
Strategically important	SACP +3 or SACP +4	'bbb' or 'bbb+'
Moderately strategic	SACP +1	'bb+'
Nonstrategic	SACP	'bb'

127. In this example, the one-notch adjustment to determine the potential ICR is applicable since we have determined an SACP and the gap between the potential ICRs based on group status assessments of highly strategic ('a+') and strategically important ('bbb') is at least three notches (in this case there is a four-notch gap).

128. We may apply the one-notch adjustment to better capture our holistic view of potential extraordinary group support. If we assess the group member as highly strategic, we may determine the potential ICR is 'a+' or apply a negative one-notch adjustment such that the potential ICR is 'a'. If we assess the group member as strategically important, we may determine the potential ICR is 'bbb' or apply a positive one-notch adjustment such that the potential ICR is 'bbb+'.

Group Status Of Individual Members--Potential Sale Of An Entity

129. We may include uplift for group support, even if there is the potential for the sale of the entity, if we have sufficient information to believe the entity would be sold to a group that would be supportive of the entity's current creditworthiness. For example, if a leasing company were for sale and it was responsible for financing a significant portion of transportation assets in a given country, we could maintain the existing group status if we believe that the creditworthiness of the entity would be no lower following a sale. This underscores that we consider the impact of the potential sale on the entity's creditworthiness to the extent possible.

Group Status Of Individual Members--Determining An SACP

130. Determining an SACP is necessary for group members that have strategically important, moderately strategic, or nonstrategic group status. Determining an SACP is not typically necessary for core or highly strategic group members. However, assessing an SACP for a core or highly strategic group member can be required or analytically relevant in situations such as:

- In the event that group status diminishes;
- To determine the group SACP of a diverse group;
- When the group member is insulated;
- When the SACP (or the SACP + ALAC uplift) is above the group SACP and the group SACP is the relevant reference point for group support uplift;
- When rating hybrid instruments that are issued by the group member and we determine group support in the ICR does not benefit the hybrid instrument;
- When uplift for group support is limited by sovereign-related risk but the entity is likely to pass the sovereign stress test; or
- In the case of highly strategic group members that are eligible for a one-notch adjustment to the potential ICR (as described in table 1 and paragraph 42 of the criteria) to better reflect our holistic view of potential extraordinary group support.

Group Status Of Individual Members--Core Entities

131. A core group entity generally either constitutes a significant proportion of the consolidated group or is integrated with the group. An integrated group entity refers to an entity that depends on the rest of the group for its administrative and operational activities and its infrastructure. These operational factors render it highly likely to benefit from group support if required. Examples can include booking or cost centers, captive insurers, captive financing operations, and group entities that exist solely to issue debt or carry on treasury operations on behalf of a group.

132. While a core group entity has typically been operating for about five years or more, there may be cases where a core group member has a shorter operating history because, for example, it has been established to

serve an important customer segment or to comply with regulatory or tax requirements.

Financing Subsidiaries--Financial Institution Group

133. When a financing subsidiary of a financial institution group is wholly owned but its sole activity is to raise debt on behalf of the holding company, it is typically assigned a rating as if it were a holding company. This may be the case, for example, for financing subsidiaries of banking groups where we determine the support flowing to the operating company and reflected in the GCP does not support to the same extent obligations associated with the financing subsidiary.

Financing Subsidiaries--Insurance Group

134. We generally do not assess the group status of a financing subsidiary of an insurance group as core. However, we may assign core group status to a financing subsidiary of an insurance group where all of the following apply:

- It plays an integral role in issuing hybrid instruments that qualify as regulatory capital for the insurer;
- Its sole activity is to raise such capital for the insurer. For example, there is a clear written irrevocable commitment to stand behind the hybrid instruments of the financing subsidiary, thus reducing the importance of the legal separation of the entities;
- It is wholly-owned by the operating insurance company;
- It shares a related corporate name; and
- Issuance by the entity is motivated by regulations in the relevant jurisdiction.

Investment Holding Companies

135. We may consider some investment holding companies (IHCs) (as defined in our article "**Methodology: Investment Holding Companies**") as group parents while we may determine that others are not group parents. This will depend on both the existence of control as well as our judgment as to the relevance of the entity to the group's overall credit quality. For example, IHCs that own a noncontrolling equity stake cannot be group parents because they do not have control, as defined in GRM criteria.

136. Where we determine that an IHC is a group parent, the group status of its investee companies cannot be any higher than moderately strategic, given the nature of the strategic and financing relationship between IHCs and their investee companies (see "Other Rating Considerations" section in "**Methodology: Investment Holding Companies**").

Project Developers

137. Where we determine that a project development company is a group parent (as defined in "**Methodology For Rating Project Developers**"), the group status of its group members is typically classified as nonstrategic or moderately strategic to the developer.

Insulated Entities--Minority Shareholders

138. The presence of significant minority shareholders can place meaningful limitations on the group's control of an entity. These limitations support the insulation of the entity from the rest of the group and contribute to a potential ICR on the entity that is two notches above the GCP. Many jurisdictions have specific regulations in place to protect the

rights of minority shareholders vis-à-vis the ruling majority. Examples of effective rights that limit the control of a majority shareholder include the requirement to attain a majority vote from the minority shareholders, in order to undertake any material changes in the entity's financial or business policies, or to file for voluntary bankruptcy. Even without targeted favorable legislative treatment, an organized minority block with adequate board representation often has sufficient power to prevent dividend payments and to influence decision-making effectively. Such minority shareholders would be unaffiliated with the majority shareholder and would have an active interest and role in corporate governance and the rights to ensure that the entity is adequately capitalized to conduct its business operations with a long-term view.

Insulated Entities--Structural Safeguards

139. To determine whether we expect a regulator to act to protect the credit quality of an entity, we may look to publicly stated policies.

Insulated Entities--Banks

140. We do not apply our typical insulation analysis, as per paragraphs 65-67 of the criteria, if paragraph 70 of the criteria applies to determine insulation. In addition, we consider the impact of the insulation on the group SACP (see paragraphs 27 and 28 of the criteria).

Holding Companies of Corporate Groups--Notching

141. As stated in paragraph 71 of the criteria, the ICR on holding companies of corporate groups and nonregulated nonbank financial institutions is typically the same as the GCP. However, we may rate a

holding company below the GCP if we believe that tight regulatory oversight of its operating subsidiaries increases the credit risk of the holding company, vis-à-vis that of their regulated operating subsidiaries. This may happen, for example, in the regulated utilities, regulated transportation infrastructure, and regulated nonbank financial institutions sectors. In these sectors, there can be significant regulatory constraints on the upstreaming of funds sources to the holding company, at a time when such holding company may be heavily reliant on dividends and other distributions from its regulated operating subsidiaries to meet its obligations. In such instances, to differentiate the credit risk of the holding level from that of the regulated operating level, the ICR on the holding company may be:

— One notch lower than the GCP if the GCP is 'bbb-' or higher; or

— Up to two notches lower than the GCP if the GCP is 'bb+' or lower.

Holding Companies--Insurance Standard Notching

142. To determine the ICRs on holding companies of insurance groups, we consider potential regulatory restrictions to payments. Where we think the regulation of insurance companies results in a higher likelihood of constraints on the movement of cash flows to the holding company, we consider potential regulatory restrictions to payments as high--for example, in the U.S. and Israel. For other jurisdictions, we typically consider regulatory restrictions to payments as low.

Holding Companies--Narrower Notching

143. In determining whether to apply narrower than standard notching for a holding company, we typically assume holding companies of financial institution groups will not retain significant unencumbered cash as their

primary role is to lend or invest cash to generate earnings. For holding companies of insurance groups, we typically expect more than one of the characteristics in paragraph 75 of the criteria to be sustainably present in order to narrow the notching. In determining whether to eliminate the notching for insurance groups and prudentially regulated financial institution groups, we typically expect the holding company to generate sufficient cash flows from its own business activities or from unregulated operating subsidiaries and we consider the regulatory environment. For example, in the U.S., elimination would be unlikely.

144. For some financial institutions, for example those that are rated speculative-grade and whose anchors (see the relevant respective frameworks) are low and already reflect a weak regulatory environment, we may narrow the gap (number of rating notches) between the holding company ICR and the GCP from the standard notching because the assumption of regulatory restrictions to payments typically reflected in the standard gap does not apply.

Holding Companies Of Prudentially Regulated Financial Services Groups--Liquidity

145. For holding companies of financial services groups, we typically include committed undrawn capacity of liquidity facilities available for general corporate purposes when considering the available liquidity resources. We do not include uncommitted facilities, facilities that require encumbrance, or revolvers.

Holding Companies Of Prudentially Regulated Financial Services Groups--Financial Institutions

146. For financial institutions, high double leverage can create elevated liquidity risks for the holding company that may lead us to apply wider than standard notching. In the absence of offsetting liquidity at the holding company, we may consider double leverage as high if, for example, it exceeds 120%. Alternatively, if we view net income as particularly germane to our assessment of the group, we may consider if the nominal amount of double leverage exceeds two years' net income of the group, which would also indicate high double leverage.

Holding Companies Of Prudentially Regulated Financial Services Groups--Intermediate Holding Companies

147. Treatment of intermediate holding companies depends on the role and nature of constraints on the transfer of cash flow across the group. Consider an insurance subgroup headed by an intermediate holding company that is part of a prudentially regulated financial institution group. The GCP is 'a-' and the ICR of the holding company is 'BBB+'. We determine the insurance subgroup is core to the group and its group members are core to the subgroup. The ICRs on the insurance operating entities are 'A-'. The ICR of the intermediate holding company is 'BBB+', because we apply the same notching that we apply to the holding company of the group. Furthermore, we determine there are no additional considerations to widen or narrow the notching.

148. Consider another example, an insurance subgroup that is part of a corporate group. We determine the group status of the insurance subgroup is nonstrategic, and it is eligible for three notches of insulation from the group. The GCP is 'bbb', the ICR on the holding company is 'BBB', and the

insurance subgroup GCP is 'a'. The ICRs on the insurance operating entities are 'A' because we have determined that they are core to the subgroup. Although the ICR of the holding company is at the same level as the GCP, we conclude that wider notching applies to the intermediate holding company to reflect risks relating to cash flows from its regulated operating entities on which it is reliant. We set the ICR of the insurance intermediate holding company at 'BBB' because we conclude that potential regulatory restrictions to payment are high and determine in this case to widen the holding company notching to three notches, in line with the standard notching for holding companies of insurance groups.

Rating Group Entities Above The Sovereign

149. We may assign ratings to group members above the relevant sovereign rating when specific factors lessen the expected influence of sovereign risk. We apply GRM to determine whether uplift for group support can result in an ICR on a group member being higher than the relevant sovereign rating.

150. We apply the transfer and convertibility (T&C) test in ratings above the sovereign criteria to determine whether to assign a foreign currency ICR on a group member above the T&C assessment. As a result, uplift for group support does not result in a group member's foreign currency ICR being higher than the T&C for the relevant sovereign.

151. When considering whether uplift for group support can result in the rating of a financial institutions core group member exceeding the sovereign in which the group member operates, we consider the willingness and ability of the parent to support the group member such that it will pay its financial obligations on a full and timely basis. We also consider the likelihood of the group member remaining core in case of

major stress in the country of domicile of the group member. When considering the ability of the group to support the group member during the stress associated with a sovereign default, we consider the size of the group member relative to the group, the rating differential between the GCP and the relevant sovereign foreign currency rating for the group member, and the extent of financial resources available at the group. We typically rate a core group member no more than one notch above the relevant sovereign rating. However, we may rate a core group member two notches above the relevant sovereign rating on the basis of group support when the group parent and core group member are based in countries that operate under a single regulatory and supervisory framework, are expected to remain part of a single monetary union, and where we consider that the risks of introduction of a deposit freeze or other controls will not affect the parent's ability to support full and timely payment of financial obligations by the group member.

152. Table 5 lists five examples of how sovereign constraints can affect the ICR on group members.

Table 5

The Effects Of Sovereign Constraints On Group Member ICRs

	Entity A	Entity B	Entity C	Entity D	Entity E
Sector	**Bank**	**Corporate**	**Insurance**	**Corporate**	**Bank**
Group SACP	'a'	'a'	'a'	'a'	'a-'
GCP	'a'	'a'	'a'	'a'	'a'

SACP	'bbb'	'bbb+'	'bbb'	'bbb'	'bbb'
Group status	Strategically important	Strategically important	Core	Highly strategic	Strategically important
Uplift for group support	+2 notches	+1 notch	+3 notches	+2 notches	+2 notches
Potential ICR	'a-'	'a-'	'a'	'a-'	'a-'
Relevant sovereign rating*	'bbb'	'bbb'	'bbb'	'bbb'	'bbb'
Passes sovereign stress test	N.A.	Yes	N.A.	N.A.	Yes
Impact of sovereign constraint	-2 notches	-1 notch	0	-2 notches	-1 notch
ICR	'BBB'	'BBB+'	'A'	'BBB'	'BBB+'

N.A.--Not applicable. *The relevant sovereign rating is in lowercase to indicate that it is being used as a component of the determination of GCPs and ICRs and is determined in accordance with "Ratings Above the Sovereign" criteria.

153. Entity A. The potential ICR is 'a-' (SACP + 3 notches, but capped at one notch below the GCP), and the ICR is 'BBB' as the group member's ICR is the lower of the potential ICR ('a-') and the relevant sovereign rating, which in this case is the foreign currency sovereign rating ('bbb'). Uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating for a strategically important group member.

154. Entity B. In this case, the entity passes the sovereign stress test and the maximum rating differential above the sovereign foreign currency rating is limited to two notches (in this example, the corporate operates in a sector where we view sensitivity to country risk as high). The potential ICR is 'a-' and the ICR is 'BBB+' as the potential ICR on the group member (excluding uplift for group support) is 'bbb+', which is above the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. Ratings uplift for group support does not result in the ICR assigned to the group member being higher than the relevant sovereign rating for a strategically important group member.

155. Entity C. The potential ICR is 'a' (equal to the GCP). As a core group member, uplift for group support can result in the ICR on a group member being higher than the relevant sovereign rating. We determine the group is willing and able to support the group member during the stress associated with a sovereign default. The ICR is 'A' as the ICR on the group member is the lower of the potential ICR ('a') or three notches above the relevant sovereign foreign currency rating (i.e. 'a' which is 3 notches above 'bbb').

156. Entity D. The potential ICR is 'a-' (i.e., GCP - 1 notch). As a highly strategic group member, uplift for group support can result in the ICR on the group member being higher than the relevant sovereign rating. However, we determine that the group is willing but unable to support the group member during the stress associated with a sovereign default. The ICR is 'BBB' as the ICR on the group member is the lower of the potential ICR ('a-') or the relevant sovereign foreign currency rating ('bbb').

157. Entity E. The GCP includes uplift for ALAC support and we expect the extraordinary support in the GCP to extend indirectly through the group to the entity. We also determine the entity is eligible for one notch of extraordinary ALAC support based on group internal loss-absorbing capacity provided from the group parent. The two notches of uplift for group support represent the greatest source of extraordinary support (before considering any relevant sovereign constraints), therefore the potential ICR on the bank is 'a-'. As a strategically important entity, uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating ('bbb'). However, we determine that including the ALAC instruments would enable the entity to pass the sovereign stress test. The ICR is 'BBB+' as the group member's potential ICR (but excluding uplift for group support) is 'bbb+' (SACP of 'bbb' + one notch of uplift for ALAC support), which is itself higher than the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. In this case, uplift for ALAC support is the highest source of extraordinary support, after considering any relevant sovereign constraints.

REVISIONS AND UPDATES

This article was originally published on July 1, 2019. These criteria became effective on July 1, 2019.

Changes introduced after original publication:

— On Aug. 27, 2020, we republished this criteria article to make nonmaterial changes. We deleted a sentence from the first paragraph citing the publication of a guidance article because the reference to the related guidance was included in "Key Publication Information." We also deleted a bullet point referring to the effective date from the section "Key Publication Information" because the criteria are now effective in all markets. In addition, we deleted the "Impact On Outstanding Ratings" section, which was related to the initial publication of the criteria and no longer relevant. We also deleted outdated references from the "Related Publications" section, updated article references in paragraphs 57 and 59, and added a "Related Research" section.

— On Dec. 14, 2021, we republished this criteria article to make nonmaterial changes. We updated related criteria and related research references.

— On Nov. 1, 2022, we republished this criteria article to make nonmaterial changes to clarify the criteria intent in paragraph 62 with respect to how we determine the GCP for interlocking groups.

— On Oct. 31, 2023, we republished this criteria article to make nonmaterial changes. As announced in "Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Reports," Oct. 1, 2021, S&P Global Ratings is phasing out guidance documents. As part of that process, we have archived "Guidance: Group Rating Methodology," July 1, 2019, and included its content--without any substantive changes--in a new appendix of this article, and we updated the paragraph numbers. We also updated the "Related Publications" section and the article references.

— On Dec. 17, 2024, we republished this criteria article to make nonmaterial changes to clarify the criteria intent in paragraph 64 with respect to insulation of group members that are the only cash flow resource for the repayment of debt issued by other group members above. We also updated the Related Criteria section.

RELATED PUBLICATIONS

Superseded Criteria

- Group Rating Methodology, Nov. 19, 2013.

Related Criteria

- Corporate Methodology, Jan. 7, 2024
- Financial Institutions Rating Methodology, Dec. 9, 2021
- Insurers Rating Methodology, July 1, 2019
- Guarantee Criteria, Oct. 21, 2016
- The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Methodology: Investment Holding Companies, Dec. 1, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- S&P Global Ratings Definitions, updated from time to time
- Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Report, Oct. 1, 2021

This report does not constitute a rating action.

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Contact the analysts:

Craig A Bennett

Analytical Contacts, Melbourne

P. + 61 3 9631 2197

E. craig.bennett@spglobal.com

HongTaik Chung, CFA

Analytical Contacts, Hong Kong

P. (852) 2533 3597

E. hongtaik.chung@spglobal.com

Dan Picciotto, CFA

Analytical Contacts, New York

P. (1) 212-438-7894

E. dan.picciotto@spglobal.com

Ivana L Recalde

Analytical Contacts, Buenos Aires

P. (54) 114-891-2127

E. ivana.recalde@spglobal.com

Mark Button

Criteria Contacts, London

P. (44) 20-7176-7045

E. mark.button@spglobal.com

Peter Kernan

Criteria Contacts, London

P. (44) 20-7176-3618

E. peter.kernan@spglobal.com

Nik Khakee

Criteria Contacts, New York

P. (1) 212-438-2473

E. nik.khakee@spglobal.com

Yuval Torbati

Criteria Contacts, RAMAT-GAN

P. (972) 3-753-9714

E. yuval.torbati@spglobal.com

28-Jun-2024 | 11:55 EDT

State Farm Mutual Automobile Insurance 'AA' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Implementing the revised capital model criteria has not affected our view of the financial strength of State Farm Mutual Automobile Insurance Co.
- We affirmed our 'AA' insurer financial strength and issuer credit ratings on State Farm and its core subsidiaries.
- The stable outlook indicates our expectation that the company will remain the largest U.S. personal line insurer and maintain capital at the 99.99% level.

PRINCETON (S&P Global Ratings) June 28, 2024--S&P Global Ratings said today it affirmed the 'AA' insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core

subsidiaries. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- Applying the revised capital model criteria did not materially affect our view of State Farm's creditworthiness.
- Under the revised criteria, the non-deduction of the non-life deferred acquisition cost and a higher non-life reserve discount benefit improved State Farm's total adjusted capital.
- The recalibration of our capital charges to higher confidence levels leads to a higher capital requirement. However, this was offset by the higher diversification benefit because we now capture diversification more explicitly, leading to a reduction in the required capital charges.
- We expect State Farm's consolidated capital adequacy will remain above the 99.99% confidence level during 2024 and 2025, supported by improving property/casualty (P/C) operating performance.

The stable outlook reflects our view that State Farm will maintain its position as the largest U.S. personal-lines insurance carrier, complimented by its diversified business that includes life, annuity, health, and investment planning services. Its considerable capital redundancy supports the ratings, and we anticipate its diverse revenue sources will help it maintain excellent capital adequacy commensurate with the ratings.

We could lower our ratings if State Farm's capital position deteriorates below the 99.99% level and we think the group will not be able to improve its financial condition, or if the group's competitive position weakens.

We are unlikely to raise our ratings in the next two years because State Farm's operating performance has historically underperformed its peers, and we do not expect a material change in its pricing strategy, which is

generally priced above a 100% combined ratio in its auto insurance line.

State Farm's formidable market presence, combined with its multiline product offerings, provides the group with a considerable competitive advantage. It is the largest writer of private-passenger auto and homeowners' multiperil insurance in the U.S. and a major provider of commercial multiperil, along with individual life and health insurance. The company has wide brand-name recognition, a loyal customer base, and a cost-efficient exclusive agent network.

We expect the overall combined ratio, which has been improving recently, to reach 105%-107% in 2024 and 101%-103% in 2025 (under 100% indicates an underwriting profit), with the natural catastrophe loss of around 8%.

In 2023, the combined ratio improved slightly to 116.6% from 117.2% in 2022 owing to management's efforts on profitable underwriting and increases in pricing for the personal lines. However, the higher loss severity, along with the total catastrophe loss of $9.5 billion in 2023, compared with $5.1 billion in 2022, affected operating performance

The company's underwriting performance continued to improve in first-quarter 2024, with a combined ratio of 105.6%, compared with 115.4% in the same period of 2023. This mainly was a result of continued rate increases and lower catastrophe losses in the first three months of 2024.

We believe the company's plan to not write some P/C policies, including new homeowners' policies in California, will have a minimal effect on underwriting performance in the short term. The exposure to this business in California will remain at the current level from the renewal of existing policies. Any performance improvement on this business, therefore, would result from rate increases and possibly policy modifications.

The life operations comprise life, health, and annuity products and are supported by its vast distribution network of exclusive agents. State Farm maintains one of the highest cross-selling rates between its P/C and life customers. The health business consists of disability insurance, supplemental hospital-related coverage, Medicare supplement, and long-term care (closed book).

We view State Farm's capital and earnings as excellent and expect they will remain so. In particular, the company has a significant capital cushion at the 99.99% level based on our capital adequacy analysis. Capital redundancy is key to counterbalance vulnerabilities to material capital impairment amid natural catastrophe losses or capital markets dislocation.

The company's capital position benefits from sound risk management processes. These encompass stress testing to assess capital strength designed to absorb two back-to-back years of extraordinary events.

We regard State Farm's liquidity as exceptional. The company generally holds enough liquid assets in the form of cash and other liquid investments to meet ongoing obligations.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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Contact the analysts:

David S Veno

Primary Credit Analyst, Princeton

P. + 1 (212) 438 2108

E. david.veno@spglobal.com

Patricia A Kwan

Secondary Contact, New York

P. + 1 (212) 438 6256

E. patricia.kwan@spglobal.com

Ronak Chaplot

Research Contributor, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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E.

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of STATE FARM GENERAL INSURANCE COMPANY, Applicant.	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013 **[PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGAILITY OF THE RATE**

INTERIM RATE ORDER ADOPTING STIPULATION

Having reviewed the Applications, Applicant's Request for an Interim Rate, and the Parties' Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, and evidence submitted in support, and good cause appearing, IT IS ORDERED THAT the request of Applicant State Farm General Insurance Company ("Applicant) for an interim rate increase subject to refunds with interest pending a final determination of its legality is GRANTED as set forth herein.

IT IS FURTHER ORDERED THAT Applicant shall implement an interim rate as follows, for new and renewal business with an effective date of _____ , 2025:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+_____%
24-1273	Overall Renter/Condo Tenant	+_____%
24-1330	Rental Dwelling	+_____%

IT IS FURTHER ORDERED THAT this Interim Rate Order is not and shall not be considered a final order or decision by the Commissioner and that the interim rate shall be implemented subject to potential refunds with interest pending a final determination by the

Commissioner of its legality, following a full rate hearing in this matter on the Applications.

IT IS FURTHER ORDERED THAT Applicant will maintain appropriate records of all policyholders charged these interim rates through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds subject to interest if necessary. If the Commissioner ultimately determines that Applicant shall issue any refunds with interest, Applicant will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, and Applicant will report in writing to the Department once any and all such refunds with interest have been paid, and such report shall be publicly available. This Order is without prejudice to any application for a stay under California Insurance Code § 1858.6.

IT IS FURTHER ORDERED THAT Applicant will not withdraw the currently pending Applications before a full rate hearing has been completed and a final rate order issued, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn for any reason after the interim rates have been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant will issue refunds with interest of the entirety of the premiums collected pursuant to the Commissioner's Interim Rate Order.

IT IS FURTHER ORDERED THAT for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.

IT IS SO ORDERED.

Dated: _____

RICARDO LARA
Insurance Commissioner

By: _____

PROOF OF SERVICE
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On February 7, 2025, I served the following document(s):

LETTER TO THE HONORABLE CALIFORNIA INSURANCE COMMISSIONER RICARDO LARA DATED FEBRUARY 7, 2025
and
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 WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE

on all persons named on the attached Service List, by the method of service indicated, as follows:

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If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Cecilia Padua
Cecilia Padua

SERVICE LIST
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

Name/Address	Phone/Fax Numbers	Method of Service
The Honorable California Insurance Commissioner Ricardo Lara Office of the Commissioner **CALIFORNIA DEPARTMET OF INSURANCE** 300 Capitol Mall, 16th Floor Sacramento, CA 95814 CommissionerLara@insurance.ca.gov	Tel: (916) 492-3500 Fax: (916) 445-5280	Via EMAIL
Michael Martinez Chief Deputy Commissioner Office of the Commissioner **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Michael.Martinez@insurance.ca.gov	Tel: (916) 492-3573	Via EMAIL
Lucy Wang, Deputy Commissioner & Special Counsel to the Commissioner Office of the Special Counsel **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 16th Floor Sacramento, CA 95814 Lucy.Wang@insurance.ca.gov	Tel: (415) 538-4377	Via EMAIL
Teresa Campbell, Deputy Commissioner & General Counsel Heather Hoesterey Assistant General Counsel Legal Division **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Teresa.Campbell@insurance.ca.gov Heather.Hoesterey@insurance.ca.gov	Tel: (415) 538-4126 (415) 538-4176 Fax: (510) 238-7829	Via EMAIL

Vanessa Wells Victoria Brown Attorneys for Applicant State Farm General Insurance Company **HOGAN LOVELLS US LLP** 855 Main Street, Suite 200 Redwood City, CA 94063 Vanessa.wells@hoganlovells.com Victoria.brown@hoganloverlls.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Harvey Rosenfield Pamela Pressley Ryan Mellino Attorneys for Intervenor **CONSUMER WATCHDOG** 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org ryan@consumerwatchdog.org	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL

NON PARTIES

Kenneth Allen Deputy Commissioner Rate Regulation Branch **CALIFORNIA DEPARTMENT OF INSURANCE** 300 South Spring Street, 14th Floor Los Angeles, CA 90013 Ken.allen@insurance.ca.gov	Tel: (213) 346-6783 Fax: (213) 897-9051	Via EMAIL
Margaret W. Hosel Attorney and Public Advisor Office of the Public Advisor **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Margaret.Hosel@insurance.ca.gov	Tel: (415) 538-4383 Fax: (510) 238-7830	Via EMAIL

EXHIBIT IRH-CWD-210

Via email

February 7, 2025

Nikki McKennedy, Assistant Chief Counsel
Melissa Wurster, Attorney
Rate Enforcement Bureau
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
nikki.mckennedy@insurance.ca.gov
melissa.wurster@insurance.ca.gov

Re: Consumer Watchdog's Response to Proposed Stipulation For Emergency Interim Rate Approval
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Nikki:

Four days ago, on Monday, February 3, State Farm issued a news release accompanied by a letter it sent directly to the Insurance Commissioner (copying the Department and Consumer Watchdog) asking that he bypass the prior approval rate review process required by California law in the pending rate proceedings and unilaterally take unprecedented "emergency action" to immediately approve, effective May 1, 2025, "interim" rate increases of 22% ($760 million) for the company's homeowners insurance policies, 38% ($122 million) for its rental dwelling policies, and 15% ($39 million) for its renters and condo policies. State Farm's letter request portrayed its financial condition after the Los Angeles wildfires as dire, primarily emphasizing concerns about its credit rating, but it did not provide *any* data or calculations to support its proposed "interim" rates.

On our three-way call with the Department and State Farm later that same Monday afternoon, Consumer Watchdog requested that State Farm submit updated rate templates and financial data that would support its proposed "interim" rate increases. The next day on Tuesday morning, you circulated a proposed draft stipulation under which the Commissioner would immediately approve the "interim" rate increases proposed by State Farm *before* they have been fully justified, and then a hearing would be noticed for State Farm to subsequently meet its burden of proof that it was entitled to the "interim" rates or some potentially higher or lower rates subject to refunds. On Wednesday morning, the company submitted partially updated rate templates that primarily changed the effective date to May 1 and updated and changed its methodology for calculating its provision for projected catastrophe losses, including an "estimated" provision for the January 2025 wildfires of more than $6 billion that was not adequately supported. These

unjustified changes to the catastrophe provision calculation resulted in a more than 100% increase in the catastrophe ratio compared to what was contained in the actual filing submitted by State Farm to CDI last June. State Farm now claims that almost half of its loss payments in California for homeowners insurance will come from catastrophe events, which is completely unrealistic and unsupported. Later on Wednesday afternoon, State Farm provided some additional information about its Wall Street credit rating. You granted Consumer Watchdog's request for 48 hours to review this information and decide whether we would join the Commissioner and State Farm in the proposed stipulation.

After giving very serious consideration to State Farm's unprecedented request for a total of $921 million in "interim" rate increases together with the information provided to date, Consumer Watchdog has determined it cannot agree to the proposed stipulation for the following reasons:

1) State Farm's proposal seeking "interim" rate relief does not comport with the requirements of California law. There has been no showing that State Farm's current rates are inadequate as calculated under the standard regulatory ratemaking formula. In fact, State Farm's own "interim" calculations show that the current rate falls in between the "maximum permitted earned premium" (10 CCR § 2644.2) and the "minimum permitted earned premium" (10 CCR § 2644.3). Therefore, according to the Department's rate review regulations, even using State Farm's updated "interim" rate calculation, the current rates are not inadequate (10 CCR § 2644.1). Furthermore, our actuaries have concluded that the limited information provided to us does not justify *any* increase under the applicable ratemaking regulations for State Farm's homeowners line. Based on our actuaries' preliminary review of the updated templates State Farm provided on Wednesday along with all other data and information provided to date, Consumer Watchdog's calculations of the *maximum* permitted rates under the regulations without any solvency variance (which has yet to be justified) are -0.1% for homeowners, +8.1% for renters and condo, and +30.6% for rental dwelling. (See attached analysis by Consumer Watchdog's actuary Ben Armstrong.)
2) There is no basis for granting interim rate relief and diverting from the statutory requirement to hold a hearing on State Farm's requests for rates exceeding 7% based on its claims of deteriorating financial strength. Despite repeated requests over the last five months, State Farm has yet to turn over any documents requested by Consumer Watchdog that would be necessary to support its claims that it is at risk of becoming insolvent, including information that would show whether State Farm is overpaying for reinsurance purchased from its parent company.
3) State Farm has not explained why its parent company, with $194 billion in reserves and surplus, is unable to help protect California consumers.[1] In contrast to SFMAIC not being willing to assist SFG, SFMAIC provided more than $1 billion to its Texas affiliate—State Farm Lloyds ("SFL").[2]

[1] SFMAIC financial statement as of September 30, 2024.
[2] State Farm Lloyds 2002 Annual Statement, Page 3, Line 31 "Surplus Notes".

4) State Farm says it needs the money to maintain its credit rating, so it can continue to insure mortgages. But State Farm provides no authority or justification for ordering massive rate hikes in order to improve State Farm's Wall Street credit rating. Under California law, State Farm is entitled to rates that are necessary to cover claims, reasonable expenses, and a fair profit. Forcing policyholders to recapitalize the company in order to maintain State Farm's credit rating, without any return on their investment, is improper under the law. This is especially true given that State Farm is a wholly-owned subsidiary of SFMAIC, which has $194 billion in reserves and surplus. Indeed, State Farm's letter request relies on the opinion of only one credit rating agency to the exclusion of contradictory ratings. As noted in our February 5 letter to the Commissioner and the parties, one of the world's leading credit rating agencies—S&P Global Ratings—does not segregate State Farm as a separate operating entity in its rating of SFMAIC and has "affirmed the 'AA' insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core subsidiaries," noting "[t]he stable outlook indicates our expectation that the company will remain the largest U.S. personal line insurer and maintain capital at the 99.99% level."[3]
5) The proposed stipulation does not contain any commitments by State Farm agreeing that it will not immediately file a new or amended rate application seeking even higher rates under new regulations allowing for catastrophe models to project greater cat losses and including reinsurance costs or that it will not challenge the Commissioner's final rate order and any ultimate refund obligation in court.

Under these circumstances, absent a three-way stipulation including petitioner Consumer Watchdog, the Insurance Code requires that the Commissioner must hold a hearing in response to our timely petition on State Farm's requested rates exceeding 7% prior to approval. Any stipulations that the parties may reach in the course of the proceeding must be reviewed by an impartial administrative law judge with the opportunity for objections and a hearing, or the matter can proceed to an evidentiary hearing as required by the Insurance Code, the Administrative Procedure Act, and the Department's rate proceeding regulations.

Sincerely,

Pamela Pressley

PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc:

Vanessa Wells, Esq., Hogan Lovells
Counsel for State Farm General

[3] https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3205015.

Date: February 7, 2025

To: All Parties

From: Ben Armstrong, FCAS, MAAA
Staff Actuary, Consumer Watchdog

Re: Consumer Watchdog's Review of Proposed Stipulation For Emergency Interim Rate Approval
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

In connection with considering the Department's proposed settlement stipulation for emergency "interim" rates requested by State Farm, we have reviewed the above-captioned filings, as well as the updates and additional information submitted by State Farm General Insurance Company (State Farm), along with other information.

The files we received from State Farm on 2/5/25 in support of their proposed 22% interim rate increase for non-tenant homeowners, 38% for its rental dwelling policies, and 15% for its renters and condo policies are problematic for several reasons:

- The partially-updated Rate Templates and Exhibit 9 files are inconsistent with one another from a timing perspective. Exhibit 9, used to calculate the catastrophe adjustment factor, uses actual catastrophe loss data through 2024 along with "estimated" catastrophe loss data for the first weeks of January, 2025. The Rate Template use non-catastrophe loss data through 2023Q4.
- Exhibit 9, page 2 uses an unsupported weighting scheme, which is different than that proposed by State Farm in its original filing, that pushes additional weight to the latest partial year (January 2025 in this case), apparently to leverage the effects of the devastating wildfires in Los Angeles.
- Exhibit 9, page 5 uses the same Projected Annual AIY Trend values as the original filings from mid-2024.
- State Farm's revised catastrophe adjustment factors, along with its original excessive selected trends and development factors result in inflated rate indications in all three filings.

Based on the limited information we have received, Consumer Watchdog has prepared updated rate indications that attempt to initially address, within the severe time constraints imposed by CDI, many of the issues noted above. The following corrections to the State Farm calculations are reflected in this analysis:

- We have reverted to the CAT/AIY weighting schemes used by State Farm in their original filings, to avoid placing an excessive amount of weight on the partial 2025 year.
- In the cat load calculation, we are using a Projected Annual AIY trend derived from the AIY data provided on Exhibit 9, page 2.
- We are selecting trend and development factors that are more actuarially sound and result in a more reasonable rate indication.

Based on my preliminary review of the updated templates State Farm provided on Wednesday along with all other data and information provided to date, my analysis indicates the *maximum* permitted rates under the regulations without any solvency variance (which has not been justified) are -0.1% for homeowners, +8.1% for renters and condo, and +30.6% for rental dwelling. (See attached Rate Templates.)

State of California
Department of Insurance (CDI)

Company: State Farm General Insurance Company
Line: Homeowners Multiple Peril
CDI File # (Department Use Only):

PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES
SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium ($)	Minimum Permitted Earned Premium ($)	Maximum Permitted Earned Premium ($)	Change at Minimum %	Change at Maximum %	Proposed %
Non-Tenant Homeowners	3,430,903,314	2,490,877,162	3,427,122,660	-27.4%	-0.1%	-0.1%
Combined	**3,430,903,314**	**2,490,877,162**	**3,427,122,660**	**-27.4%**	**-0.1%**	**-0.1%**

Combined Total Earned Exposures for Latest Year: 1,241,211

Coverage/Form/Program	Average Earned Premium $ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
Non-Tenant Homeowners	2,764.16	2,006.81	2,761.11	2,761.11	1,241,211
Combined	**2,764.16**	**2,006.81**	**2,761.11**	**2,761.11**	**1,241,211**

Coverage/Form/Program	Latest Year Adjusted Annual Premium ($)	Latest Year Projected Ultimate Loss & DCCE ($)	Latest Year Projected Ultimate Loss & DCCE Ratio
Non-Tenant Homeowners	3,430,903,314	2,130,036,805	62.1%
Combined	**3,430,903,314**	**2,130,036,805**	**62.1%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by:	Ben Armstrong, FCAS, MAAA
Date Completed:	2/6/2025
Prior Effective Date:	9/1/2024
Proposed Effective Date:	5/1/2025
Detailed Line Description:	Homeowners Multiple Peril
Coverage:	Non-Tenant Homeowners

Data Provided by Filer	**20214**	**20224**	**20234**	**Projected**
Prem_Written			2,227,883,896	2,227,883,896
Prem_Earned			2,154,664,657	2,154,664,657
Prem_Adj			1.275	
Prem_Trend			1.248	8.1%
Misc_Fees			0	0
Exposures_Earned			1,241,211	1,241,211
Losses			462,360,937	462,360,937
DCCE			7,077,408	7,077,408
Loss_Devt			1.725	
DCCE_Devt			6.943	
Loss_Trend			1.389	12.3%
DCCE_Trend			1.389	12.3%
CAT_Adj			1.811	
Anc_Income			0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters				
FIT_UW				21.0%
EffStd_Final		***Data as of:***	***2022***	33.2%
LevFact_Final		***Data as of:***	***2022***	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR		***Data as of:***	***2022***	0.52
ResRatio_Loss		***Data as of:***	***2022***	0.87
ROR_RiskFree		***Data as of:***	***April 2024***	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	**20214**	**20224**	**20234**	
Prem_Adjusted			3,430,903,314	3,430,903,314
Losses_Adjusted			2,006,410,076	2,006,410,076
DCCE_Adjusted			123,626,729	123,626,729
LossDCCERatio_Adjusted			62.1%	62.1%
TCRLP_perExp			2,764.16	2,764.16
LossDCCE_perExp			1,716.09	1,716.09
CompLossDCCE_perExp			1,761.34	1,761.34
CredLoss_perExp			1,716.09	1,716.09
Anc_Inc_perExp			0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				3.8%
Comp_Trend				2.5%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				$2,006.81
Max_Premium				$2,761.11
CHANGE_AT_MIN				**-27.4%**
CHANGE_AT_MAX				**-0.1%**

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PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES

SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium ($)	Minimum Permitted Earned Premium ($)	Maximum Permitted Earned Premium ($)	Change at Minimum %	Change at Maximum %	Proposed %
Rental Dwelling	316,197,286	300,031,035	412,803,639	-5.1%	30.6%	30.6%
Combined	**316,197,286**	**300,031,035**	**412,803,639**	**-5.1%**	**30.6%**	**30.6%**

Combined Total Earned Exposures for Latest Year: 268,242

Coverage/Form/Program	Average Earned Premium $ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
Rental Dwelling	1,178.78	1,122.81	1,544.84	1,538.92	268,242
Combined	**1,178.78**	**1,118.51**	**1,538.92**	**1,538.92**	**268,242**

Coverage/Form/Program	Latest Year Adjusted Annual Premium ($)	Latest Year Projected Ultimate Loss & DCCE ($)	Latest Year Projected Ultimate Loss & DCCE Ratio
Rental Dwelling	316,197,286	235,409,726	74.5%
Combined	**316,197,286**	**235,409,726**	**74.5%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by:	Ben Armstrong, FCAS, MAAA
Date Completed:	2/7/2025
Prior Effective Date:	9/1/2024
Proposed Effective Date:	5/1/2025
Detailed Line Description:	Homeowners Multiple Peril
Coverage:	Rental Dwelling

Data Provided by Filer	**20214**	**20224**	**20234**	**Projected**
Prem_Written		250,686,950	264,147,957	514,834,907
Prem_Earned		224,541,727	237,052,820	461,594,546
Prem_Adj		1.116	1.114	
Prem_Trend		1.275	1.197	6.5%
Misc_Fees		0	0	0
Exposures_Earned		269,166	268,242	537,408
Losses		90,011,514	53,841,768	143,853,283
DCCE		2,494,294	1,099,047	3,593,341
Loss_Devt		1.243	1.887	
DCCE_Devt		4.224	9.781	
Loss_Trend		1.588	1.408	12.8%
DCCE_Trend		1.588	1.408	12.8%
CAT_Adj		1.443	1.488	
Anc_Income		0	0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters			
FIT_UW			21.0%
EffStd_Final	***Data as of:***	***2022***	33.2%
LevFact_Final	***Data as of:***	***2022***	0.95
PremTaxRate			2.4%
SurplusRatio			1.05
ResRatio_UPR	***Data as of:***	***2022***	0.52
ResRatio_Loss	***Data as of:***	***2022***	0.87
ROR_RiskFree	***Data as of:***	***April 2024***	4.8%
ROR_Min			-6.0%
ROR_Max			10.8%

Calculations	**20214**	**20224**	**20234**	
Prem_Adjusted		319,723,512	316,197,286	635,920,797
Losses_Adjusted		256,440,065	212,882,274	469,322,338
DCCE_Adjusted		24,145,653	22,527,453	46,673,106
LossDCCERatio_Adjusted		87.8%	74.5%	81.1%
TCRLP_perExp		1,187.83	1,178.78	1,183.31
LossDCCE_perExp		1,042.43	877.60	960.16
CompLossDCCE_perExp		766.77	760.93	763.85
CredLoss_perExp		1,042.43	877.60	960.16
Anc_Inc_perExp		0.00	0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				5.9%
Comp_Trend				3.9%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				$1,122.81
Max_Premium				$1,544.84
CHANGE_AT_MIN				**-5.1%**
CHANGE_AT_MAX				**30.6%**

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State of California
Department of Insurance (CDI)

Company: State Farm General Insurance Company
Line: Homeowners Multiple Peril
CDI File # (Department Use Only):

PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES

SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium ($)	Minimum Permitted Earned Premium ($)	Maximum Permitted Earned Premium ($)	Change at Minimum %	Change at Maximum %	Proposed %
Renters	92,588,089	73,332,284	100,895,675	-20.8%	9.0%	9.0%
Condominium Unitowners	182,031,850	142,445,062	195,985,858	-21.7%	7.7%	7.7%
Combined	**274,619,939**	**215,777,346**	**296,881,533**	**-21.4%**	**8.1%**	**8.1%**

Combined Total Earned Exposures for Latest Year: 707,971

Coverage/Form/Program	Average Earned Premium $ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
Renters	167.67	132.80	182.71	182.71	552,216
Condominium Unitowners	1,168.71	914.55	1,258.30	1,258.30	155,755
Combined	**387.90**	**304.78**	**419.34**	**419.34**	**707,971**

Coverage/Form/Program	Latest Year Adjusted Annual Premium ($)	Latest Year Projected Ultimate Loss & DCCE ($)	Latest Year Projected Ultimate Loss & DCCE Ratio
Renters	92,588,089	62,709,019	67.7%
Condominium Unitowners	182,031,850	121,809,790	66.9%
Combined	**274,619,939**	**184,518,809**	**67.2%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by:	Ben Armstrong, FCAS, MAAA
Date Completed:	2/7/2025
Prior Effective Date:	4/1/2021
Proposed Effective Date:	5/1/2025
Detailed Line Description:	Homeowners Multiple Peril
Coverage:	Renters

Data Provided by Filer	**20214**	**20224**	**20234**	**Projected**
Prem_Written			81,891,624	81,891,624
Prem_Earned			91,684,036	91,684,036
Prem_Adj			1.000	
Prem_Trend			1.010	0.3%
Misc_Fees			0	0
Exposures_Earned			552,216	552,216
Losses			30,203,359	30,203,359
DCCE			348,278	348,278
Loss_Devt			1.610	
DCCE_Devt			8.628	
Loss_Trend			1.116	3.9%
DCCE_Trend			1.116	3.9%
CAT_Adj			1.088	
Anc_Income			0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters				
FIT_UW				21.0%
EffStd_Final		***Data as of:***	***2022***	33.2%
LevFact_Final		***Data as of:***	***2022***	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR		***Data as of:***	***2022***	0.52
ResRatio_Loss		***Data as of:***	***2022***	0.87
ROR_RiskFree		***Data as of:***	***April 2024***	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	**20214**	**20224**	**20234**	
Prem_Adjusted			92,588,089	92,588,089
Losses_Adjusted			59,060,196	59,060,196
DCCE_Adjusted			3,648,824	3,648,824
LossDCCERatio_Adjusted			67.7%	67.7%
TCRLP_perExp			167.67	167.67
LossDCCE_perExp			113.56	113.56
CompLossDCCE_perExp			119.98	119.98
CredLoss_perExp			113.56	113.56
Anc_Inc_perExp			0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				3.6%
Comp_Trend				15.1%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				$132.80
Max_Premium				$182.71
CHANGE_AT_MIN				**-20.8%**
CHANGE_AT_MAX				**9.0%**

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State of California	**Company:**	**State Farm General Insurance Company**
Department of Insurance (CDI)	**Line:**	**Homeowners Multiple Peril**
	CDI File # (Department Use Only):	

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by:	Ben Armstrong, FCAS, MAAA
Date Completed:	2/7/2025
Prior Effective Date:	9/1/2024
Proposed Effective Date:	5/1/2025
Detailed Line Description:	Homeowners Multiple Peril
Coverage:	Condominium Unitowners

Data Provided by Filer	**20214**	**20224**	**20234**	**Projected**
Prem_Written			116,579,826	116,579,826
Prem_Earned			113,491,565	113,491,565
Prem_Adj			1.268	
Prem_Trend			1.265	8.6%
Misc_Fees			0	0
Exposures_Earned			155,755	155,755
Losses			51,217,017	51,217,017
DCCE			1,032,009	1,032,009
Loss_Devt			1.485	
DCCE_Devt			4.644	
Loss_Trend			1.391	12.3%
DCCE_Trend			1.391	12.3%
CAT_Adj			1.083	
Anc_Income			0	0
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				16.0%
Yield				4.3%

CDI Parameters				
FIT_UW				21.0%
EffStd_Final		***Data as of:***	***2022***	33.2%
LevFact_Final		***Data as of:***	***2022***	0.95
PremTaxRate				2.4%
SurplusRatio				1.05
ResRatio_UPR		***Data as of:***	***2022***	0.52
ResRatio_Loss		***Data as of:***	***2022***	0.87
ROR_RiskFree		***Data as of:***	***April 2024***	4.8%
ROR_Min				-6.0%
ROR_Max				10.8%

Calculations	**20214**	**20224**	**20234**	
Prem_Adjusted			182,031,850	182,031,850
Losses_Adjusted			114,589,220	114,589,220
DCCE_Adjusted			7,220,569	7,220,569
LossDCCERatio_Adjusted			66.9%	66.9%
TCRLP_perExp			1,168.71	1,168.71
LossDCCE_perExp			782.06	782.06
CompLossDCCE_perExp			742.60	742.60
CredLoss_perExp			782.06	782.06
Anc_Inc_perExp			0.00	0.00
InvInc_Fixed				4.0%
InvInc_Variable				7.2%
Net_AnnualTrend				3.4%
Comp_Trend				2.2%
Max_Profit				14.4%
Min_Profit				-8.0%
UW_Profit				4.7%
Min_Denom				0.82
Max_Denom				0.60
Min_Premium				$914.55
Max_Premium				$1,258.30
CHANGE_AT_MIN				**-21.7%**
CHANGE_AT_MAX				**7.7%**

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EXHIBIT IRH-CWD-211

RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

February 14, 2025

VIA EMAIL
Dan Krause
Mark Schwamberger
Keesha-Lu Mitra
State Farm Insurance Companies
1201 K Street, Suite 1200
Sacramento, CA 95814

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Dear Mr. Krause, Mr. Schwamberger and Ms. Mitra:

On February 3, 2025, State Farm General Insurance Company (State Farm) submitted a letter request to the Insurance Commissioner (Commissioner) seeking approval for an Emergency Interim Rate on four lines of business based on the concern over their "swift capital depletion." In the request, State Farm seeks an increase for the following, effective May 1, 2025: 22% for Non-Tenant homeowners, 15% for Tenants (Renters), 15% for Tenants (Condominium Unitowners), and 38% for Rental Dwelling. Under the strict review laid out by Proposition 103, the burden is on State Farm to show why this is needed now. State Farm has not met its burden, as I discuss below.

Brief Overview of California Rate Approval Process

In November 1988, California voters passed the Insurance Rate Reduction and Reform Act, better known as Proposition 103, which provides the Commissioner with broad authority over insurance rates, guarantees public rate hearings, and expressly precludes the Commissioner from approving rates that are "excessive, inadequate, unfairly discriminatory or otherwise in violation" of the Insurance Code. Proposition 103 also instituted a system of prior rate approval that requires every property and casualty insurer seeking to change its rates in California to obtain the Commissioner's prior approval. (Ins. Code, § 1861.01, subd. (d).)

The burden is on the insurer to demonstrate and support its rate requests. In the rate change application, insurers must provide the Commissioner with the technical and analytical information necessary to obtain prior approval of an insurer's rate request. Consumer groups

may also participate in a rate change application by intervening under Proposition 103. When an insurer requests a rate increase that exceeds 7% and there is an intervenor, the Commissioner must notice a public rate hearing except when the parties have agreed to a settlement. The Insurance Code and its accompanying regulations permit the settlement of rate proceedings without a rate hearing. In addition to the aforementioned procedure, the Commissioner has the authority to grant interim relief from plainly invalid rates. (*20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, 245; *Calfarm Insurance Company v. Deukmejian* (1989) 48 Cal.3d 805, 824-25.)

Factual Background

In late 2023, I announced my Sustainable Insurance Strategy which included an ambitious package of regulatory reforms focused on streamlining and improving the Department of Insurance (Department) rate review process in order to strengthen the resiliency and sustainability of California's insurance market. To that end, my Department implemented regulations to improve the rate application process with faster rate filing approval times to create more certainty in the insurance market; implemented regulations that introduce climate risk management tools in rate making such as the use of catastrophe models and incorporating the net cost of reinsurance; and enacted intervenor reforms to ensure transparency and accountability for groups that intervene in insurer rate filings. These reforms were completed in 2024.

During this time frame, State Farm alerted the Department to concerns regarding its financial condition. On March 20, 2024, State Farm informed the Department that its capital position had severely deteriorated in 2022 and 2023, despite the fact that it had paid no significant wildfire claims for several years. State Farm acknowledged it had limited writings for California consumers in areas at higher risk of wildfires for many years. In fact, State Farm ceased writing new policies in California in May 2023. And State Farm non-renewed 30,000 homeowners policies in March 2024 – many in areas of high risk including communities affected by Southern California wildfires. Finally, State Farm acknowledged in a letter to the Department in March 2024 announcing those non-renewals that "rate increases alone would likely be insufficient to restore SFG's financial strength." Throughout the above period, the Department approved multiple rate increases for State Farm, including 6.9% in November 2021 (effective January 2022), 6.9% in January 2023 (effective June 2023), and 20% for homeowners and condominiums in December 2023 (effective March 2024). This 20% increase was intervened by Consumer Watchdog (Watchdog), who participated in and approved the settlement of this rate increase and requested compensation for such participation.

State Farm currently has three rate applications filed with the Department since June 27, 2024, seeking increases in the four lines of business noted in the present request for an emergency rate increase, as follows: 30% for Non-Tenant homeowners, 41.8% for Tenants (Renters/Condominium Unitowners) and 38% for Rental Dwelling. These applications included a variance rarely utilized unless an insurer's solvency is at issue, and Watchdog has filed a

petition to intervene in these applications. These applications raise serious questions about State Farm's financial condition, and are still pending before the Department.

Present Request for Emergency Interim Rate

Now, State Farm has requested an emergency interim rate approval. When insurers request a rate change, only the Commissioner has the authority to approve it. However, the Commissioner may receive recommendations from the Department and from public participants such as intervenors, regarding the rate application. Therefore, on February 5, 2025, Watchdog submitted a preliminary response to State Farm's letter disapproving of State Farm's request for an emergency interim rate. On February 7, 2025, the Department submitted to the Commissioner a stipulation and proposed order to provide State Farm with interim rates subject to refunds with interest pending a final decision of the legality of the rate in a rate hearing. Watchdog then submitted a second letter on February 7, 2025, seeking a full rate hearing regarding State Farm's pending applications in lieu of approving an interim rate.

As the elected head of the Department, my primary responsibility is to the people of California. This situation highlights the voters' wisdom in having an independent, elected Insurance Commissioner making decisions to uphold market integrity in response to evolving threats, which today include climate change, rising global reinsurance costs, and a tightening national property insurance market. My commitment to the sustainability of California's insurance market is evident through the implementation of crucial reforms. My strategy addresses years of inaction and neglect, including the long-overdue adoption of catastrophe modeling and reinsurance in ratemaking. Californians suffer when insurance is not widely available, facing fewer options and higher costs. To balance availability, market strength, and sustainability challenges, I have mandated that insurance companies offer policies in high-risk wildfire areas, thereby supporting some of our most climate-vulnerable consumers. I also need to ensure that the affordability of insurance does not come at the price of solvency. In my tenure as Commissioner, I have introduced and implemented unprecedented policy changes aimed at better protecting consumers during the recovery and rebuilding process after catastrophic events.

This leads to State Farm's present emergency request. In examining the information before me, I have additional questions and request the following information:

- What, if anything, has changed for State Farm between June 2024 and now that necessitates emergency relief?
- In the absence of non-wildfire catastrophic losses in 2022 and 2023, how does State Farm explain the significant decrease in its policyholder surplus?
- What has State Farm done to prevent its surplus from further deterioration between May 2023 to present besides shed policyholders through ceased writings and non-renewals?

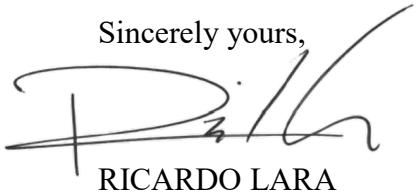
- Has State Farm provided adequate documentation to the Department to support the current rate increase request for each line of business?
- Other than rate increases, what other plans does State Farm have to address its financial challenges? For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm as it has in other similar situations?
- What is State Farm doing to manage and restore its financial position given its statement that rate increases alone will not be sufficient?
- How would granting an emergency rate impact State Farm's business decisions to pause writing of new residential coverage and non-renew policies?

The Commissioner has the authority to approve an interim rate increase, as well as discretion in administering the process. However, the burden is on State Farm to demonstrate that interim relief is warranted under the circumstances. State Farm contends that the recent Los Angeles wildfires have put "tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rate agency) measures of financial strength and claims-paying ability." State Farm's financial condition is of utmost concern for its California customers, and a rate hearing on State Farm's pending applications may be necessary to answer serious questions about its financial condition.

My goal is to make sure policyholders do not have to pay more than is required. In light of the recent Los Angeles wildfires, State Farm's customers need real answers about why they are being asked to pay more and what responsibility the company's leadership is taking to get its financial house in order. State Farm customers who are already paying higher premiums or experiencing policy non-renewals should not be further impacted without these questions being answered. All Californians know from the past 10 years that the risks of wildfire are real and growing. We have experienced first-hand the ravages of a changing climate. We are clear-eyed about the work needed to protect our communities. Our decisions must be guided by transparent data and an honest reckoning with the challenges we all face together.

Based on the foregoing, I request that State Farm, the Department and intervenor Watchdog appear in person before me at an informal conference on February 26, 2025 in the Department's Oakland office at 10:30 a.m. State Farm should be prepared to address the issues raised above. I look forward to our meeting.

Sincerely yours,



RICARDO LARA
California Insurance Commissioner

cc: Michael Martinez, Chief Deputy Commissioner
Teresa Campbell, Deputy Commissioner, Legal Branch
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Branch
William Pletcher, Consumer Watchdog
Pamela Pressley, Consumer Watchdog
David Grow, State Farm
Diane Bauer, State Farm
Vanessa Wells, Hogan Lovells

EXHIBIT IRH-CWD-212

Via email

February 19, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
commissionerlara@insurance.ca.gov

Re: Consumer Watchdog's Response to Proposed February 26, 2025 Informal Conference Re: State Farm General's Request for Emergency Interim Rate Approval
In the Matter of the Rate Applications of State Farm General Insurance Company
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Commissioner Lara:

We write regarding your February 14 letter inviting the parties in the above-captioned rate proceedings to an "informal conference" on February 26, 2025, in your Oakland office. That letter responds to State Farm's request for approval of "Emergency Interim Rate" increases on four lines of business, allegedly justified by its claim of "swift capital depletion."

Consumer Watchdog objects to the closed-door "informal conference" contemplated by your February 14 letter as a violation of the transparency requirements of Proposition 103 (Ins. Code §§ 1861.05, 1861.07). California voters mandated that requests for rate increases be adjudicated in public before a neutral decisionmaker, as CDI rate proceeding regulations reflect, and that a public hearing be held on all personal line rate increases above 7% upon timely request, as here (Ins. Code § 1861.05(c)). Public scrutiny is especially necessary when the state's largest home, renter, and condo insurance company claims, without supplying sufficient justification, that it requires $1 billion *right now,* and furthermore that it cannot obtain funds from its parent company ("SFMAIC"). While Consumer Watchdog intends to participate in the meeting, it does so over this objection, and reserves all rights to seek further relief, if necessary. The significant public policy issues implicated by these proceedings demand openness and public accountability, not closed-door discussions.

Consumer Watchdog also strongly opposes any attempt to circumvent California's prior approval process by unilaterally approving "emergency interim rate" increases of 22% for homeowners insurance, 38% for rental dwelling policies, and 15% for renters and condo policies. Such "emergency action" would be manifestly improper and violate Insurance Code

§ 1861.05 and 10 CCR §§ 2644.1, 2644.2, and 2644.3, among other violations. As stated in Consumer Watchdog's February 7 letter to the Rate Enforcement Bureau (a copy of which was forwarded to you via email the same day), there has been no showing that State Farm's current rates are "plainly invalid" or inadequate as calculated under the standard regulatory ratemaking formula. In fact, State Farm's own "interim" calculations show that the current rates fall in between the "maximum permitted earned premium" (10 CCR § 2644.2) and the "minimum permitted earned premium" (10 CCR § 2644.3). Therefore, according to the Department's rate review regulations, even using State Farm's updated "interim" rate calculation, the current rates are not inadequate (10 CCR § 2644.1).

In addition, as originally discussed in Consumer Watchdog's February 7 letter, State Farm should provide the following information in advance of the February 26 meeting that it has yet to produce:

- Prior Approval Rate Templates and Supporting Exhibits with data updated through year-end 2024, to be generally consistent with the data through early 2025 used in the calculation of the revised catastrophe provision.

- Documents and data necessary to support State Farm's updated catastrophe provision included in the templates it provided in SERFF on 2/5/25 in support of its requested interim rates. As stated in our February 5 letter to you, the calculations in those 2/5/25 rate templates substantially increase the amount of weight given to the latest year of data (2025 in this case), in order to inflate the catastrophe load used in the rate indication. As stated in our February 7 letter, these unjustified changes to the catastrophe provision calculation resulted in a more than 100% increase in the catastrophe ratio compared to what was contained in the actual filing submitted by State Farm to CDI last June.

- To the extent State Farm is continuing to seek any "solvency" variance under the rate regulations (10 CCR § 2644.27(f)(6)) ("variance 6") or otherwise putting its financial condition at issue in seeking "emergency interim relief," documents and data necessary to demonstrate that State Farm is in fact at risk of becoming insolvent, including information that would show whether State Farm is overpaying for reinsurance purchased from its parent company.

- Responses to the discovery requests served in July and August 2024 by Consumer Watchdog in the homeowners rate proceeding that State Farm has yet to respond to substantively.

Further, if you intend to obtain or receive new information or data from State Farm in response to your February 14 information requests, Consumer Watchdog urges you to set a firm deadline of no later than close of business on February 21, 2025, and require that all such information be provided to the parties and made publicly available as required by Insurance Code section 1861.07. This will ensure that all parties, including the Department and Consumer Watchdog, have some time to review the information before the conference and conduct at least a preliminary assessment of State Farm's claims. Depending on the nature and volume of the

materials provided, Consumer Watchdog may need additional time after the conference or a continuation of the conference to fully evaluate the information and data. Nevertheless, it will make every effort to analyze the information as thoroughly as possible within the limited time available.

California law is clear: insurance companies must justify rate increases through a rigorous and public process. No "emergency" exception allows for sidestepping these legal requirements. If State Farm's financial condition is as dire as it claims, it should be prepared to substantiate its assertions with concrete data. Consumer Watchdog maintains its objections to this closed, non-public process, and will vigorously oppose any effort to grant "emergency interim rate" approvals without full compliance with the law.

I appreciate your prompt attention to these concerns and look forward to your response.

Sincerely,

William Pletcher

WILLIAM PLETCHER
Litigation Director
PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc:

Michael Martinez, Chief Deputy Commissioner
California Department of Insurance

Nikki McKennedy, Assistant Chief Counsel
California Department of Insurance, Rate Enforcement Bureau

Melissa Wurster, Attorney
California Department of Insurance, Rate Enforcement Bureau

Vanessa Wells, Hogan Lovells
Counsel for State Farm General

EXHIBIT IRH-CWD-213

RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

February 20, 2025

VIA EMAIL
William Pletcher
Pamela Pressley
Consumer Watchdog
6330 San Vicente Blvd., Suite 250
Los Angeles, CA 90048

Re: Commissioner Request for Informal Conference

Dear Counsel:

I am in receipt of your February 19, 2025, correspondence regarding the upcoming informal conference on February 26, 2025 regarding State Farm General Insurance Company's (State Farm) letter request to the Insurance Commissioner (Commissioner) seeking approval of an Emergency Interim Rate on four lines of business based on concern over their "swift capital depletion."

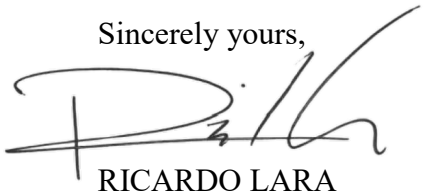
In my position, I am responsible for upholding the requirements of Proposition 103, including its guarantees of transparency and public participation in the process. Holding an informal conference with the Commissioner, State Farm, intervenor (Watchdog) and the Department of Insurance (Department) complies with the transparency requirements of Proposition 103. Informal does not mean secret. In this current situation, no notice of a rate hearing has been issued so there is no rate proceeding. I have directed a court reporter to transcribe this meeting, and a copy of the transcript will be available to the public. As you well know, Watchdog regularly participates in informal conferences with the Department and insurers regarding rate applications in which it intervenes prior to the issuance of a notice of hearing. After previous informal conferences, Watchdog agrees to major rate increases for Californians in exchange for compensation. Importantly, Watchdog, the Department and State Farm have held informal discussions about State Farm's June 2024 rate applications and the request for an emergency interim rate, but have not yet reached a resolution.

State Farm has now taken the unprecedented action of directly requesting emergency interim rate approval from the Commissioner. Under Proposition 103, I carry the responsibility of ensuring that approved insurance rates are not excessive, inadequate or unfairly

discriminatory. I also have the authority to grant the interim relief State Farm seeks. My primary responsibility is to maintain a stable insurance market in California and protect State Farm policyholders. Insurance companies are not legally obligated to provide coverage to everyone, and many Californians are currently facing challenges with insurance availability. State Farm's serious financial situation raises concerns for California's insurance market and its consumers. I have reviewed State Farm's request, along with submissions from Watchdog and the Department. However, I have questions I would like State Farm to address at next week's meeting, and I look forward to your participation.

Thank you for your attention to this matter.

Sincerely yours,



RICARDO LARA
California Insurance Commissioner

cc: Michael Martinez, Chief Deputy Commissioner
Teresa Campbell, Deputy Commissioner, Legal Branch
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Branch
William Pletcher, Consumer Watchdog
Pamela Pressley, Consumer Watchdog
David Grow, State Farm
Diane Bauer, State Farm
Vanessa Wells, Hogan Lovells

EXHIBIT IRH-CWD-214

February 25, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

We look forward to meeting with you tomorrow to answer your questions about our emergency rate request. Financial strength is a prerequisite for State Farm General's ability to support the 2.8 million policies currently remaining on its books. Our rate applications last summer were based on a critical need to shore up that financial strength. As the company's surplus continued to decline in 2024, the need had only become more urgent. Then the Los Angeles fires hit. We have paid $1.75 billion so far on around 9,500 claims filed and expect to ultimately issue approximately $7.6 billion in total claim payments.

While State Farm General remains solvent in the face of these fires thanks to robust reinsurance (with billions of dollars of reinsurance recoveries coming from its parent, State Farm Mutual Automobile Insurance Company), and we will continue to assist our impacted customers with their claims, we urgently need your help going forward. Our initial estimate of the net reduction in State Farm General's surplus, which stood at $1.04 billion at the end of 2024, is approximately $400 million due to the impact of these fires. And the other trends that led to declining surplus *before* the fires – by over $300 million during 2024 – have not gone away. In fact, some will only become more severe because of the company's heightened financial distress.

State Farm General's prospects for returning to financial health and continuing to insure so many California households depend on concrete evidence it can generate ***and sustain*** sufficient capital to support its risk profile. Once fully implemented, we anticipate your Sustainable Insurance Strategy will enhance those prospects into the future, but State Farm General is at an inflection point now. Emergency rate approval at this pivotal moment is the strongest indication you can provide that California is committed to supporting State Farm General's ongoing need to match the prices it charges to the financial risks it covers.

In your February 14 letter to us, you noted that "the burden is on State Farm to show why [this emergency rate increase] is needed now" and that "insurers must provide the Commissioner with the technical and analytical information necessary to obtain prior approval of an insurer's rate request." You have also emphasized the need for "full transparency from all parties in the rate-making process – including insurance companies and intervenors." We agree. We also agree with your Department that –

> [SFG] *has made a **preliminary showing** that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. Accordingly, the Department believes … that **based upon information currently available**, an interim rate increase, subject to refunds with interest pending a final determination by the Commissioner of its legality, is appropriate in this instance and would be*

> *lawfully issued … . The Department further believes* [that an Interim Rate Order] *is* ***in the public interest, in order to maintain maximum availability of homeowners insurance*** *options in California, and that taken as a whole it is fundamentally fair, adequate, and reasonable.*[1] (emphasis added)

We understand you have additional questions, and in light of expected time constraints during tomorrow's meeting we have provided (below our signatures) written responses to each of the questions in your February 14 letter. And we're prepared to participate in the full hearing when that time comes, absent an alternative resolution. We also urge you to act on your staff's recommendation, based on the information we've provided to them throughout the rate application process, to issue an interim rate order now.

Insurance rate increases can of course be a challenge for policyholders. But as more and more Californians would attest, paying much higher premiums with the FAIR Plan – for less coverage – isn't a welcome alternative. As you have pointed out, California residents are best served by a fair and well-functioning insurance market, a key component of which is that consumers understand and bear the economic reality of the true costs to insure their property. These fundamental economic truths must be confronted. For many years now, average homeowners insurance premiums in California have not only been much lower than other high-risk states, but lower even than the national average. The reality is insurance will cost more for customers in California going forward because the risk is greater in California. Without the prospect of rates sufficient to rebuild and maintain capital over the long term, the only meaningful measure remaining for State Farm General is continuing but more drastic reduction in overall exposure.

You have stated: "I … have the authority to grant the interim relief State Farm seeks. My primary responsibility is to maintain a stable insurance market in California and protect State Farm policyholders. Insurance companies are not legally obligated to provide coverage to everyone, and many Californians are currently facing challenges with insurance availability. State Farm's serious financial situation raises concerns for California's insurance market and its consumers."[2] We wish to emphasize that emergency interim rate approval is in the public interest, as it can help stabilize State Farm General's financial condition and the broader insurance market, not least because of what it signals to providers of capital about the state's commitment to solving the insurance crisis. Conversely, further delay sends the opposite signal. At a certain point, emergency approval delayed becomes emergency approval denied, and that point is rapidly approaching.

After your full review of the information we are providing in response to your questions, we urge you to seriously consider and adopt the recommendation of your Department to "grant[] State Farm an interim rate increase subject to refunds with interest[3] following a full rate hearing on the rate applications, and [to] do so as expeditiously as possible in response to State Farm's urgent situation."[4]

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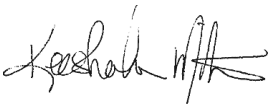
[1] See page 6, stipulation paragraph 5, of attached *Stipulation to Interim Rate*, entered into and fully executed by your Department on February 7, 2025.
[2] See attached February 20, 2025 letter to Consumer Watchdog from the Commissioner.
[3] I.e., if the interim rates were to exceed the final rates approved after hearing.
[4] See attached February 7, 2025 letter to the Commissioner from CDI's Rate Enforcement Bureau.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- February 7, 2025 letter to the Commissioner from CDI's Rate Enforcement Bureau
- February 7, 2025 executed Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate and accompanying [PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE.
- February 20, 2025 letter to Consumer Watchdog from the Commissioner

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WRITTEN RESPONSES TO THE COMMISSIONER'S QUESTIONS FROM FEBRUARY 14

What, if anything, has changed for State Farm between June 2024 and now that necessitates emergency relief?

In short, State Farm General's (SFG) policyholder surplus and financial strength has further deteriorated from an already weakened position, its regulatory based financial solvency metrics have worsened, including its failure to meet the NAIC Risk-Based Capital (RBC) requirements as of year-end 2024, and SFG is currently managing the impact of the devasting and historical fires from January. In our March 2024 letter, we noted that "the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action" – it is now an urgent crisis.

The current estimate of direct losses for State Farm General from the Los Angeles fires stands at approximately $7.9 billion, including loss adjustment expenses, and taking into account both reported and not reported claims. Estimates for SFG's retained losses after reinsurance, and for SFG's share of total FAIR Plan losses, are approximately $212 million and $400 million, respectively. Based on these estimates, and after accounting for reinsurance recoveries, tax impacts and partial recoupment of SFG's allocation of the FAIR Plan's recent $1 billion assessment, the January fires will reduce SFG's surplus, which stood at $1.04 billion at the end of 2024 after a decline of over $300 million from year-end 2023, by approximately $400 million. These initial estimates will continue to be reviewed and updated, if needed, as we continue through the claim adjudication process and more information becomes available.

This is an unfortunate circumstance for our customers and all Californians, and only worsens SFG's financial position and related internal and external measures of financial strength and forward-looking claims-paying ability from what they were last June.

Our February 3, 2025 letter included an illustration of SFG's continuing financial deterioration and, most critically to the issue at hand, its current financial position necessitating emergency relief. SFG will again be required to file a plan with the Illinois Department of Insurance, SFG's domestic financial solvency regulator, due to its failure to meet NAIC Risk-Based Capital (RBC) requirements as of year-end 2024 – a situation that as described above is only worse due to the impact of the January fires. The purpose of RBC requirements is to identify weakly capitalized companies, which facilitates regulatory actions to ensure policyholders will receive benefits promised. Under the RBC system, regulators have the legal authority to take preventive and corrective measures. These preventive and corrective measures are designed to provide for early regulatory intervention to correct problems before insolvencies become inevitable, thereby minimizing the number and adverse impact of insolvencies.

In addition, the year-end 2024 policyholders' surplus to net premiums written ratio of 0.330 translates to an unusual value of 303% according to the NAIC Insurance Regulatory Information Systems (IRIS) manual (Ratio 2 – Net Premiums Written to Policyholder's Surplus). With the first quarter 2025 surplus deterioration from the Los Angeles wildfires, this IRIS ratio will move further beyond the usual range (or threshold) for the ratio.

If no rate increase is allowed until a final rate is approved after a hearing or settlement, which can take months or sometimes even years, SFG risks further downgrades of its financial strength rating because of its severe capital depletion from years of insufficient rates followed by the impact of these wildfires, as well as growing exposure due to inflationary loss trends (both catastrophe and non-catastrophe, including liability losses). As explained in our February 3 letter, "[i]f that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage" and hundreds of thousands of them could be at risk of having to secure insurance from another carrier or the FAIR Plan, without any action on SFG's part. It's very important to here point out that this could not only be very damaging to current SFG policyholders, who may have difficulty finding a policy outside the FAIR Plan – which usually costs considerably more for considerably less coverage – but it could also be very damaging to non-SFG policyholders. To the extent that large numbers of former SFG customers are forced onto the FAIR Plan, this will likely increase the frequency or size of FAIR Plan losses shared by admitted carriers and their policyholders, which could further dampen carriers' willingness to write new business or renew

existing business since FAIR Plan losses are allocated according to market share. In addition, and as stated in our February 3 letter, you as the Insurance Commissioner can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Without rate, SFG must consider much more significant and necessary actions to manage its exposure and attempt to assuage solvency regulators, along with independent rating agencies whose necessary actions may create a much more disorderly impact on SFG and its customers.

If, on the other hand, interim rates *are* approved, there is little harm to SFG's policyholders even if they were to exceed the final rates approved after hearing because policyholders would in that case receive refunds, with interest. Nor is there any harm to the broader public.

The Department posed a similar question in its July 9, 2024 objection, asking "What has changed since the last rate increase (Non-Tenant and Condo rate approval of 20% effective March 2024) that is contributing to the deterioration of capital in 2024?"

SFG's August 27, 2024 response provided significant detail and explanation regarding the main contributors to the deterioration of capital since, and prior to the rate increase:

- The March 2024 20% rate increase (approved in December 2023) was originally filed in February 2023 (requesting 28%), and from there approved rate increases take a period of 2 years to be fully earned (i.e. not until March 2026 in this case).
- Material surplus growth during the years following the 2017/2018 wildfires has not been possible due to insufficient rates.
- The primary driver of capital deterioration, specifically in 2023, was an unexpected surge in high liability losses across multiple lines of business and the cost of rapidly increasing exposure as evidenced by a significant increase in reinsurance premium with no ability to fully reflect this cost of the increased risk in our rates.

SFG has also provided an updated rate indication using the Department's standard rate templates which included a new catastrophe provision that included estimates up through the most recent fires. Based upon the Department's rate template, the revised Non-Tenant Homeowners indication was +21.8%. For the Renters and Condominium Unitowners lines the revised indication was +16.6% and +20% respectively, and for the Rental Dwelling line, +42% was the revised indication. We expect first quarter 2025 loss data (once available) to support the interim rates even without any solvency-based adjustments to the rating template, due to the impact of the recent wildfires.

In the absence of [wildfire] catastrophic losses in 2022 and 2023 how does State Farm explain the significant decrease in its policyholder surplus?

The Department requested similar information in its November 22, 2024 objection, asking SFG to "Please explain what lines of business and perils were impacted [by "worse-than-average non-wildfire catastrophe loss amounts.]" SFG's response of December 13, 2024 reiterated information submitted in previous

objection responses that showed the non-wildfire catastrophe experience over time. Wind and rain events, especially in early 2023, as well as increased liability claim costs in core product lines, including PLUP and commercial lines, were all referenced as drivers of surplus reduction in 2023.

In addition, as we noted in our March 2024 letter, due to SFG's continuing "[deterioration] in surplus and increase in exposure, the company necessarily has to rely increasingly on reinsurance cover, the cost of which puts further downward pressure on surplus without the needed additional premium to support this cost." This dynamic will only accelerate with the further massive decline in surplus from the impact of the Los Angles fires. These additional reinsurance costs are significant, amounting to hundreds of millions of dollars annually, but SFG has not been permitted to fully factor these costs into its rates through either an appropriate rate of return or as a direct cost component. Of course, as noted below, these very reinsurance costs are what give SFG the chance to remain solvent in the face of catastrophic events on the scale of the Los Angeles fires and allow SFG to insure significantly more property than would otherwise be possible.

What has State Farm done to prevent its surplus from further deterioration between May 2023 to present besides shed policyholders through ceased writings and non-renewals?

In addition to the June 2024 rate filings which are the subject of this interim rate request, State Farm has also requested and CDI has approved several rate increases across multiple lines of business, though the approved rate was often below SFG's requested change and some with significant delays. We are also filing later today for a PLUP rate increase of 39.0%. (Although a PLUP rate increase of 24.9% was approved for SFG on 11/27/2024, the company had requested 53.6% on 7/12/2024 due to increasing frequency and severity of liability losses.)

In addition, and as highlighted earlier, SFG did maintain its appropriate and critically important reinsurance program despite the fact that reinsurance costs were not permitted to be considered in the filed rates either through an appropriate rate of return or as a direct cost component. At present (i.e. considering the January fires), SFG would be insolvent without the benefit of its reinsurance recoveries. However, due to the existence of SFG's reinsurance program, most of these losses will be absorbed by State Farm Mutual as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover – providing it at a fair price that is well below what is available from external reinsurers and at an amount of coverage that external reinsurers wouldn't provide. In fact, SFG's reinsurance broker confirmed that external reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not currently exist. This reinforces the significant support already provided by State Farm Mutual via this reinsurance program. Over the last 10 years and including the reinsurance recoveries projected based on current estimates for the January 2025 fires, SFG has benefited significantly from the totality of its reinsurance program. This financial benefit is in addition to the fact that this reinsurance program has allowed SFG to serve more Californians by insuring significantly more property in areas with significant risk such as wildfires than would otherwise be possible. As noted in our letter of February 3, this situation reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – again, that is an irresponsible assertion and simply not true.

Has State Farm provided adequate documentation to the Department to support the current rate increase request for each line of business?

SFG's initial rate filings in June and July of 2024 included hundreds of pages of support for the requested rate. Further, every set of objections raised by the Department has been responded to with dozens of additional exhibits and pages of narrative. All questions by the Department have been responded to, including the Department's inquiry of September 30, 2024 which asked whether numerous financial documents would be "made publicly available in a complete and unredacted form." As seen in SFG's October 21, 2024 response, for those documents that SFG advised were confidential and trade secret, SFG attempted to provide relevant information and invited the Department to identify any specific items of additional needed information so that SFG could attempt to provide that information in a manner that maintained the confidentiality of the document but was still responsive to the Department's request. There has been no further correspondence from the Department on that issue since that response.

In that same September 30, 2024 objection, the Department clearly stated that while State Farm had "provided a substantial amount of filing support relating to its Variance 6 request," it had not, in the Department's view, satisfied a showing of financial condition or its plan to restore the financial condition.

SFG's October 21, 2024 response reminded the Department that the initial filing from June 2024 included a plan to restore the company's financial condition through a combination of reductions in exposure and increasing rate levels. Further, SFG's March 2024 letter explained the drastic drop in surplus and pointed to the tremendous growth in risk exposures in the last few years, with construction cost inflation being a major driver, along with unanticipated growth due to the rapidly tightening California market.

In addition to information about the Los Angeles fires, SFG's February 3 letter also provided an updated rate indication using the Department's standard rate templates which included a new catastrophe provision that included estimates up through the most recent fires. Using the Department's rate template, the revised Non-Tenant Homeowners indication was +21.8%. For the Renters and Condominium Unitowners lines the revised indication was +16.6% and +20% respectively, and for the Rental Dwelling line, +42% was the revised indication. SFG subsequently provided those templates and updated Exhibit 9 in all three filings in SERFF on February 5, 2025.

In that same February 3 letter, we also provided information regarding credit rating agency downgrades (including AM Best's March 2024 downgrade of SFG to B (fair) https://news.ambest.com/pr/PressContent.aspx?refnum=34559&altsrc=2) and the potential market impacts of further or other agency downgrades.

Other than rate increases, what other plans does State Farm have to address its financial challenges? For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm [General] as it has in other similar situations?

As it relates to the first question, we would reinforce the point that matching price to risk (i.e. securing adequate rates for the exposure) is a core fundamental SFG must adhere to in order to ensure it has the

financial strength to stand behind its promises. Claim-related costs and growth in underlying exposures are the core challenges SFG faces. We cannot escape those economic realities because they are what led us to where we are today. As we shared in our last letter, SFG's financial distress results from macroeconomic changes and market trends, including construction cost inflation and litigation, and the fact that "SFG's attempts … to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success." And "[t]his was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties."

Beyond rate, other plans or actions alone would simply not suffice to restore SFG's financial condition. Without rate, SFG is prevented from maintaining a capital position sufficient to support its current book of business. Therefore, without the necessary financial strength or the demonstrated capacity to improve it, the only meaningful measure remaining is continuing but more drastic reduction in overall exposure. Consequently, the most effective remedy – and the surest path to the eventual restoration of general availability in the market – is to allow SFG to collect sufficient premiums to rebuild its capital.

In addition, and as we previously noted, a lack of approval for needed rate sends a strong message to SFG about the support it will receive to collect sufficient premiums in the future to protect Californians against the risk of loss to their homes, property, and other claims. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile. Without this concrete evidence, it creates a situation and an insurance market where insurers, reinsurers and other capital providers, including State Farm Mutual, are reluctant to invest. However, when insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market. We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. SFG is committed to continued engagement on these issues. Having said that, SFG remains acutely focused on the immediate need to rebuild its financial strength to ensure it remains viable. Your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

What is State Farm doing to manage and restore its financial position given its statement that rate increases alone will not be sufficient?

The statement that rate increases alone would likely be insufficient to restore SFG's financial strength was included in our March 2024 letter. We noted the critical need for rapid review and approval of currently pending and future rate filings given SFG's financial position, which also necessitated our then current need to take action to reduce our overall exposure to be more commensurate with the capital on hand to cover

such exposure, as most insurers in California have already done. In taking that March 2024 action, we recognized how difficult it will be for impacted policyholders, in addition to our independent contractor agents who are small business owners and employers in their local California communities. However, we also recognized that rebuilding capital, even with higher rates, will take time and we were striving to minimize the impact of the necessary actions that must be taken. SFG's financial position has worsened since that time, and we continue to be faced with very difficult decisions.

The Department posed several related questions in its July 10, 2024 objection, asking "what is SFG's capital shortfall remediation plan other than rate and underwriting" as well as a request for SFG to "list any other capital generation initiatives." SFG's August 27, 2024 response explained that there were no plans to seek financial support from State Farm Mutual based on the previously stated and communicated position of the State Farm Mutual Board as well as the tenet that SFG is an independent and self-sustaining legal entity within the State Farm group and is managed to meet solvency requirements on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity. Just as the Department is acting to ensure that no California customer would pay for out-of-state reinsurance costs under its new Net Cost of Reinsurance regulation, SFG recognizes that State Farm Mutual must ensure that out-of-state customers do not subsidize California customers.

More specifically, SFG must have a reasonable opportunity to timely collect sufficient premiums to protect Californians against the risk of loss to their homes, property, and other claims. This allows SFG to prospectively demonstrate its ability to generate sufficient capital to support its risk profile. Without this concrete evidence, it creates a situation and an insurance market where insurers and other capital providers, including State Farm Mutual, are reluctant to invest.

Finally, SFG's February 3 letter further discussed the difficult decisions in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused.

How would granting an emergency rate impact State Farm's business decisions to pause writing of new residential coverage and non-renew policies?

The Department posed a similar question in its September 30, 2024 objection, asking "Is State Farm able to support its rate need using the assumption that they would open up to new business?" SFG's October 21, 2024 response explained that, based on current assumptions, the projected surplus growth would not adequately support the larger book of business (including new business) and that the rate needed to support adequate surplus growth would be even higher than what is contemplated in the current rate filing, were SFG to open up to new business. On the other side of that question, it is worth noting that granting our requested emergency rate increase may preserve coverage for many more existing policies than any accommodation or agreement to write new business would allow.

EXHIBIT IRH-CWD-215

Date: February 26, 2025

To: Insurance Commissioner Ricardo Lara
All Parties

From: William Pletcher, Litigation Director
Pam Pressley, Senior Attorney
Ben Armstrong, Staff Actuary, FCAS, MAAA
CONSUMER WATCHDOG

Re: Consumer Watchdog's Review of Proposed Emergency Interim Rate Approval
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

INTRODUCTION

Consumer Watchdog submits this memorandum, which is based on the limited information State Farm has produced in this matter to date and its publicly available financial statements, to help identify the flawed justification behind State Farm General's (SFG) "emergency interim rate" approval request for homeowners, renters, and rental dwelling policies.

Consumer Watchdog has previously outlined its objections to State Farm's so-called "emergency interim rate" increase request in its February 5 and 19 letters to the Commissioner and in its February 7 letter to the parties (also provided to the Commissioner) with its accompanying actuarial analysis and rate templates indicating the *maximum* permitted rates under the regulations without any solvency variance (which has yet to be justified) are -0.1% for homeowners, +8.1% for renters and condo, and +30.6% for rental dwelling. As detailed in those letters, which this memorandum supplements, State Farm's proposed process, including this closed-door, non-public informal conference, violates Proposition 103's prior approval and public rate transparency requirements. California law does not allow an insurer to obtain a rate increase above 7% on its personal lines without a hearing upon a timely request, as here, absent a stipulation of all parties. While the "the commissioner has the power to grant interim relief from plainly invalid rates," (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824–825), as we stated in our February 5 and 19 letters, there has been no showing that State Farm's current rates are "plainly invalid" or inadequate as calculated under the standard regulatory ratemaking formula. In fact, State Farm's own "interim" calculations show that the current rate falls in between the "maximum permitted earned premium" (10 CCR § 2644.2) and the "minimum permitted earned premium" (10 CCR § 2644.3). Therefore, according to the Department's rate review regulations, even using State Farm's updated "interim" rate calculation, the current rates are not "plainly invalid" or inadequate (10 CCR § 2644.1). Any "emergency interim rate" increase granted through this improper process would thus be unlawful.

That said, Consumer Watchdog, as an intervenor, stands ready to work with all parties on an urgent basis to evaluate SFG's rate applications, including any updated Rate Templates and Supporting Exhibits, which would need to be fully updated with data through at least year-end 2024 to be generally consistent with the data through early 2025 used in SFG's calculation of the revised catastrophe provision. This process must follow the law, requiring a properly noticed, expedited rate hearing and full cooperation and participation from SFG in both informal and formal discovery—something it has failed to demonstrate thus far. Even if conducted on an accelerated timeline, this approach would comply with Proposition 103, ensuring both due process and transparency for California consumers.

ACTUARIAL ANALYSIS

A thorough review of SFG's limited information produced to date in association with these rate applications and publicly available financial statements reveals that its supposed financial distress is largely self-inflicted. The company's reinsurance arrangements—structured to benefit its parent company at the expense of the California affiliate and California policyholders—resulted in unfavorable financial outcomes during high-loss years, such as the 2017 and 2018 wildfires. Instead of ensuring that policyholders' premiums were used to protect them, SFG funneled nearly $1 billion of subrogation recoveries to its parent company, State Farm Mutual Auto Insurance Company, rather than using those funds to offset California losses. There is no explanation why this $1 billion payment cannot be returned to SFG from among the parent company's over $134 billion in reserves – as State Farm has done for other catastrophes in other states – rather than require a sudden emergency bailout now.

Moreover, SFG insists that inadequate rates are the primary cause of its financial struggles, yet this claim does not withstand scrutiny. Despite receiving multiple rate increases in recent years—amounting to a cumulative 52.1% hike since 2014—SFG's surplus has continued to decline. This raises serious concerns about whether the company is mismanaging its reserves, engaging in financial manipulation to justify excessive rate hikes, returning excessive returns to its parent company through above-market rate reinsurance policies, or all of the above. Either way, there is absolutely no justification for treating this as an "emergency" when these rate filings have been pending since June of last year. If SFG were truly facing a financial crisis, it had ample opportunity to act with urgency. Instead, the company delayed, failing to diligently pursue its requested increases—including ignoring Consumer Watchdog's requests for information in the homeowners rate proceeding for over six months—and now seeks emergency relief with limited and inadequate scrutiny of its request to make up for its own inaction. The lack of timely action on its part undermines any claim that immediate rate hikes are necessary.

Granting an "emergency interm rate" increase under these circumstances would set a dangerous precedent, effectively allowing insurers to circumvent Proposition 103's prior approval requirements. It would encourage companies to strategically delay rate filings—or worse, transfer funds to parent companies to manufacture a financial crisis—only to later declare an "emergency" when their balance sheets show a disadvantageous condition. Regulators must not reward this kind of regulatory gamesmanship at the expense of California consumers.

Consumer Watchdog urges regulators to reject SFG's attempt to shift the burden of its financial mismanagement onto California policyholders. Before any further rate increases are considered, State Farm must provide full transparency regarding its reinsurance arrangements, subrogation recoveries, and surplus depletion. Anything less would amount to an unjustified bailout at the expense of consumers.

REINSURANCE

Historical reinsurance is addressed by SFG in their responses to CDI Objection D.3.d in the document NT 7-10-24 Objection Response part 2. Exhibit Q has the 2015-2024 reinsurance data for SFG. Note that "[f]or the occurrence reinsurance program, there is one prepaid reinstatement included in the coverage terms and premium." Also for Exhibit Q, "…Losses Recovered reflect any subrogation recoveries received. Considerable losses were recovered from the occurrence program following the 2017 and 2018 wildfires which were later subrogated with recoveries starting in 2020."

SFG's financial statements indicate that approximately $1.4B in subrogation was received by the company during calendar year 2020 for accident years 2017 and 2018. But almost $1B of that went to the parent company to reimburse them for reinsurance coverage paid out to SFG—only $400M reduced SFG's retained loss position.

Further, it is unclear how SFG is showing $126M of reinsurance recoveries for the 2018 treaty year on Exhibit Q, while their 2023 Schedule P shows only $54M in ceded loss & LAE for accident year 2018. Presumably treaty year 2018 includes some accidents occurring in 2019, but Schedule P has only $20M of ceded loss & LAE for accident year 2019 in total. If it were a risks-attaching treaty spanning a full year beginning sometime in 2018, theoretically some losses from the 2020 accident year could be included in that $126M figure, but it still seems suspicious.

Prospective reinsurance (i.e. for the period during which the proposed rates would be in effect, and beyond) is addressed by SFG in their responses to CDI Objection C.3 in the document NT 7-10-24 Objection Response part 2.

The following table summarizes ceded loss results (reinsurance) for several major CA homeowners insurers. Note that for the bolded, high wildfire loss years of 2017 & 2018, SFG showed a positive value for net minus direct & assumed in the rightmost column, indicating that their reinsurance arrangement was unfavorable to them (and thus favorable to their main reinsurer, the parent company State Farm Mutual Auto Insurance Company). In other words, SFG would have been better off financially in 2017 & 2018 had they not purchased reinsurance. This is in contrast to the other insurers shown, who have negative values for 2017 & 2018, indicating that their reinsurance arrangements operated as expected, i.e. resulting in a favorable financial outcome for them.

Countrywide Data for All Lines of Business from 2023 Annual Statements, Schedule P, Part 1

			Incurred Loss & Loss Expense Ratio			
Company	State of Domicile	Calendar/ Accident Year	Direct & Assumed	Ceded	Net	Net minus Direct & Assumed
State Farm General	CA	2014	59.2%	6.9%	63.5%	4.3%
State Farm General	CA	2015	69.7%	5.3%	74.9%	5.2%
State Farm General	CA	2016	67.3%	8.0%	71.7%	4.4%
State Farm General	**CA**	**2017**	**138.2%**	**99.1%**	**141.4%**	**3.2%**
State Farm General	**CA**	**2018**	**105.4%**	**32.3%**	**112.1%**	**6.7%**
State Farm General	CA	2019	76.4%	10.1%	83.3%	6.9%
State Farm General	CA	2020	115.4%	49.6%	123.5%	8.1%
State Farm General	CA	2021	76.0%	10.6%	86.6%	10.6%
State Farm General	CA	2022	71.0%	15.7%	81.0%	10.0%
State Farm General	CA	2023	76.5%	4.7%	94.9%	18.4%
CSAA Insurance Exchange	CA	2014	71.2%	32.2%	72.3%	1.1%
CSAA Insurance Exchange	CA	2015	79.3%	2.3%	80.2%	0.9%
CSAA Insurance Exchange	CA	2016	74.8%	21.9%	76.0%	1.2%
CSAA Insurance Exchange	**CA**	**2017**	**94.3%**	**423.3%**	**82.8%**	**-11.5%**
CSAA Insurance Exchange	**CA**	**2018**	**93.0%**	**434.3%**	**80.2%**	**-12.8%**
CSAA Insurance Exchange	CA	2019	72.0%	27.5%	73.1%	1.1%
CSAA Insurance Exchange	CA	2020	63.5%	15.7%	65.1%	1.6%
CSAA Insurance Exchange	CA	2021	71.7%	0.1%	73.1%	1.4%
CSAA Insurance Exchange	CA	2022	74.5%	0.0%	76.1%	1.6%
CSAA Insurance Exchange	CA	2023	87.5%	4.1%	89.2%	1.7%
California Automobile Insurance Company	CA	2014	81.5%	996.8%	81.1%	-0.4%
California Automobile Insurance Company	CA	2015	81.0%	145.7%	80.7%	-0.3%
California Automobile Insurance Company	CA	2016	77.4%	81.5%	75.9%	-1.5%
California Automobile Insurance Company	**CA**	**2017**	**83.6%**	**96.3%**	**79.0%**	**-4.6%**
California Automobile Insurance Company	**CA**	**2018**	**88.8%**	**107.6%**	**77.7%**	**-11.1%**
California Automobile Insurance Company	CA	2019	76.5%	67.1%	84.2%	7.7%
California Automobile Insurance Company	CA	2020	67.7%	49.2%	79.5%	11.8%
California Automobile Insurance Company	CA	2021	73.1%	69.5%	76.6%	3.5%
California Automobile Insurance Company	CA	2022	72.3%	72.0%	72.5%	0.2%
California Automobile Insurance Company	CA	2023	76.1%	68.3%	81.5%	5.4%
Fire Insurance Exchange (Farmers)	CA	2014	64.4%	61.2%	65.5%	1.1%

Fire Insurance Exchange (Farmers)	CA	2015	67.5%	63.3%	68.5%	1.0%
Fire Insurance Exchange (Farmers)	CA	2016	70.2%	68.6%	70.7%	0.5%
Fire Insurance Exchange (Farmers)	**CA**	**2017**	**78.7%**	**103.1%**	**69.7%**	**-9.0%**
Fire Insurance Exchange (Farmers)	**CA**	**2018**	**71.7%**	**80.2%**	**67.7%**	**-4.0%**
Fire Insurance Exchange (Farmers)	CA	2019	68.1%	67.8%	68.2%	0.1%
Fire Insurance Exchange (Farmers)	CA	2020	67.2%	71.3%	65.5%	-1.7%
Fire Insurance Exchange (Farmers)	CA	2021	73.8%	75.3%	73.0%	-0.8%
Fire Insurance Exchange (Farmers)	CA	2022	76.0%	72.3%	78.1%	2.1%
Fire Insurance Exchange (Farmers)	CA	2023	73.6%	68.2%	76.5%	2.9%

SURPLUS/RESERVES

SFG stated the following in NT 7-10-24 Objection Response part 2: “The surplus of State Farm General after the 2017/2018 wildfires was in a tenuous position. The subsequent years following the wildfires was a critical time for State Farm General to replenish the surplus drain of these events. Despite relatively light catastrophe loss amounts in 2019-2022 (including subrogation recoveries), surplus decreased an additional $225 million from year-end 2018 to year-end 2022. Rate levels have been insufficient to result in any material surplus growth (see D.2 response for additional details).” The reference “D.2 response” points to Exhibit M, which shows 10 years of rate history. For the Homeowners line in total, the following is given:

Effective Date	Requested Rate	Approved Rate
5/15/2014	+6.9%	-1.2%
12/8/2016	+6.9%	-7.0%
7/15/2018	+6.7%	+6.7%
10/15/2020	+6.7%	+6.7%
4/1/2021	+6.0%	+6.0%
2/1/2022	+6.9%	+6.9%
6/1/2023	+6.9%	+6.9%
3/15/2024	+28.1%	+20.0%

Even with the decreases shown in the first two rows, SFG’s rates have increased 52.1% since 5/15/2014. Despite SFG’s claim that “rate levels have been insufficient to result in any material surplus growth”, it must be taken into account that rate levels are not the only (and arguably not the primary) means of generating surplus. SFG should have received positive net gains from their reinsurance contracts in accident years 2017 and 2018, and subrogation amounts corresponding to those accident years should have primarily benefited SFG, not their main reinsurer SFMAIC.

Further, surplus is not the first line of defense for an insurer’s claims payments—it’s the amount left over after liabilities (including reserves) are subtracted from assets. Surplus acts as a backstop in the event that reserves, reinsurance, and subrogation recoveries are not sufficient to pay the entirety of claim amounts. If SFG’s surplus position is tenuous, it is imperative to fully understand why the company’s loss reserves, reinsurance arrangements, and subrogation

recoveries were insufficient to the point that surplus was continually depleted over a period of years.

EXHIBIT IRH-CWD-216

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

RICARDO LARA

CERTIFIED COPY

TRANSCRIPTION OF PROCEEDINGS

State Farm Emergency Interim Rate Approval

Wednesday, February 26, 2025

Reported by:

CHRISTINA L. RODRIGUEZ
Hearing Reporter

Job No.:
53795 INS

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

RICARDO LARA

TRANSCRIPTION OF PROCEEDINGS, taken at 1901 Harrison Street, 3rd Floor, Oakland, California, commencing at 10:30 a.m. and concluding at 11:52 p.m. on Wednesday, February 26, 2025, reported by Christina L. Rodriguez, Hearing Reporter.

APPEARANCES:

CALIFORNIA DEPARTMENT OF INSURANCE:	RICARDO LARA Insurance Commissioner
	LUCY F. WANG Deputy Commissioner and Special Counsel
	NIKKI MCKENNEDY Senior Staff Attorney
	MICHAEL R. O. MARTINEZ Chief Deputy Commissioner
	KEN ALLEN Deputy Commissioner
STATE FARM INSURANCE:	KEESHA-LU M. MITRA SVP and General Counsel
	DAN KRAUSE CEO and President
	MARK SCHWAMBERGER Treasurer and Chief Financial Officer
	VANESSA WELLS Attorney
	DAVID GROW Associate General Counsel
CONSUMER WATCHDOG:	PAMELA PRESSLEY Senior Staff Attorney
	WILLIAM PLETCHER Litigation Director
	BEN ARMSTRONG Staff Actuary

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10:30 a.m.

THE COMMISSIONER: Thank you, and good morning. I want to be respectful of everyone's time. Thank you for coming. We are going to begin with our meeting. Again, thank you for joining me to discuss State Farm's General Insurance Company's request for approval of an emergency interim rate.

Today's meeting differs from the informal conferences that you all randomly and routinely participate in that typically occurred during the rate filings which are closed to the public. Unlike those discussions, everything shared here will remain public.

We have a court reporter to my left present to transcribe our meeting, and this transcript will be accessible to everyone. We have requested an expedited transcript, but it may take up to two days to receive it.

I ask that everyone please state their names and company affiliation for the court reporter. I am Insurance Commissioner Ricardo Lara, and to my right is Commissioner -- Deputy Commissioner Lucy Wang. Several employees from the Department will also be present in

the back of the room to observe.

Can State Farm please state their appearances for the court reporter this morning. Thank you.

MS. MITRA: Certainly. Good morning, Commissioner. Keesha-Lu Mitra, State Farm.

MR. KRAUSE: I'm Dan Krause, CEO and President of State Farm General.

MR. SCHWAMBERGER: Mark Schwamberger, State Farm General.

MR. GROW: David Grow. State Farm.

MS. WELLS: I am Vanessa Wells. I am outside counsel representing State Farm, as I've done rate hearings for the last three years.

THE COMMISSIONER: Thank you.

From the Department of Insurance.

MS. McKENNEDY: Good morning, Commissioner. Nikki McKennedy of the Rate Enforcement Bureau.

MR. MARTINEZ: Michael Martinez, Chief Deputy Commissioner.

MR. ALLEN: Ken Allen, Deputy Commissioner of the Rate Regulation Branch.

THE COMMISSIONER: Thank you.

And Consumer Watchdog.

MS. PRESSLEY: Good morning. My name is Pamela Pressley. I'm Senior Staff Attorney for Consumer

Watchdog.

MR. PLETCHER: Good morning. William Pletcher, Litigation Director for Consumer Watchdog.

MR. ARMSTRONG: Hi. Ben Armstrong, Staff Actuary with Consumer Watchdog.

THE COMMISSIONER: Great. Thank you everybody, again, for being here.

This type of meeting is truly unprecedented, and it's rare for an insurer to reach out directly to the commissioner to request this rate approval. This process typically occurs between the insurer, my department, and, often, with the interveners.

However, as the elected head of this department, I am responsible for overseeing the nation's largest insurance market during these challenging times, and I recognize the importance of this direct communication.

California's insurance market is currently facing the effects of climate change, rising global insurance cost, and a tightening national property insurance market. My department has managed over 100 disaster responses in the past six years, with the most recent events being 14 wildfires in Los Angeles and San Diego County in this month alone -- or January, I should say.

We've held two weekend workshops where we helped over thousands of wildfire survivors understand their insurance benefits, with two more planned this March. I attended both workshops and saw firsthand the critical need to assist consumers understanding their insurance options during these difficult times of loss.

Since the fire started, my department has supported more than 5,000 wildfire survivors through workshops, disaster recovery centers, and our hotline. My priorities remain to protect consumers; my priorities also are to hold insurance companies accountable and ensure stability in our California insurance market.

Throughout this process, I adhere to Proposition 103's mandate that approved rate -- insurance rates and must not be excessive, inadequate, or unfairly discriminatory.

Also, Prop 103 grants me, the Insurance Commissioner, the authority to approve insurance rates, including interim rates. In addition to the challenges mentioned, I face the task of regulating an insurance market operating under outdated regulations that have not been significantly reformed since the passage of Prop 103 in 1988.

This outdated regulatory structure has hindered insurers from actively reflecting the true cost

of doing business in California. As a result, many insurers have paused writing new business and increase annual renewals in recent years.

Over the past year, my department has implemented my sustainable insurance strategy, which updates regulations to allow insurers to use risk management tools such as catastrophe models and re-insurance in rate making; something that all other states permit except California.

We implemented these reforms by requiring insurers to operate in California's high-risk areas where consumers have faced significant challenges due to limited insurance availability. Additionally, we have mandated that insurers depopulate the fair plan. Both of the requirements are unique to our state.

This difficult decisions -- decisions are essentially essential for addressing the ongoing availability issues. Achieving affordable rates is impossible without tackling these challenges, which include preventing insurers from withdrawing from riskier areas and encouraging them to expand their coverage.

So today's meeting focuses on State Farm's request for an emergency interim rate increase due to the alarming capital deterioration. State Farm is seeking a 22% increase for a homeowner policies, a 15%

increase for tenant policies, and a 38 increase for rental dwelling policies.

Additionally, State Farm has three pending rate applications with the Department filed this past June. This request follows a 20% rate increase granted to State Farm in December of 2023, resulting from a stipulation agreement involving State Farm, Watchdog, and the Department which took effect in March 2024.

Given that State Farm is one of the largest insurers in California and holds the most homeowners' insurance policies, I take this emergency rate request very seriously. State Farm's financial concern are (sic) significant not for the company, but for the entire California insurance market.

I have reviewed the recent correspondence from State Farm, the Department, and Consumer Watchdog, as well as State Farm's rate application from June and the latest updates. After reviewing this information, I have some questions for State Farm; questions that I've previously posted or posed in my letter dated February 24th.

Although I call this meeting for my benefit, I want to ensure that the Department and Watchdog have the chance to speak at the end, and only if they've learned anything new from this dialogue. You have all been in

communications with State Farm's June filing for several months now. Today is not a debate. It is not opportunity.

It is an opportunity, however, for State Farm to clarify the need for emergency interim rate on behalf of consumers. I'm really seeking today the facts and answers, so this is not to relitigate anything. I've read all the correspondence. This is only an opportunity to speak if you have any new concerns from what you've learned today from our discussion.

So, State Farm, is there anything you would like to say before we begin with our questions?

MR. KRAUSE: Thank you, Commissioner. Appreciate the opportunity to be here today. You asked us to come here today ready to answer the questions that you put forth in your letter, as you mentioned, and why State Farm General needs more rate and why we need it on an emergency basis, and we're prepared to do that.

At the outset, though, I did want to take a moment just to say thank you and appreciate the work of your staff and reviewing everything we've provided to them that support our interim rate request, and we agree with their assessment that should be granted for all the reasons they noted in their recommendations.

We plan to reiterate information we've shared

with the Department that supported their recommendation and also some new information today that we expect you'll find helpful in line with what we shared in our letter yesterday. State Farm General is at a crucial point, and timing is of the essence. Its ability to continue to provide coverage to customers in the future first depends on sufficient capital to stabilize its financial condition, which this interim rate approval will certainly help to do.

Mark Schwamberger, our Treasurer, is going to address the questions that you've asked.

And without further ado, Mark, we'll allow you to start.

THE COMMISSIONER: Go ahead.

MS. MITRA: Okay. Thank you, Commissioner. And, Mark, just before I turn it over, I just wanted to also ground us, Commissioner, in the fact that since we're discussing the financial solvency of State Farm General, as an Illinois domestic, while Illinois is the financial solvency regulator, I wanted to acknowledge the fact that there have been multiple conversations between the CDI's Financial Analysis Division and Illinois. And just ensure that those -- assure you that those important conversations continue.

THE COMMISSIONER: Thank you. Appreciate

that.

Mark, you'll be answering the questions that we posed in the letter?

MR. SCHWAMBERGER: Most of them, sir.

THE COMMISSIONER: Perfect. Okay. Well, why don't we begin. Let's get to these questions. I want to be mindful of peoples' times.

So what, if anything, has changed for State Farm between your pending rate application filed in June 2024 and now that necessitates this emergency relief.

MR. SCHWAMBERGER: Yup. And thank you, again, for allowing this.

I would say two things: You mentioned in your opening the fact that you're focused on insurance -- insurers' stability and viability, and that's why we're here today. That's why we filed under the Variant 6 back in June, and that's why we're here to reinforce it again.

I would also just very much agree with you on the seriousness of this. We are at a crucial point in terms of the financial stability and viability of State Farm General.

So, now, let me get to your question and give you some information that is new since June of 2024. So first, State Farm General's policyholders' surplus has

continued to decline. It's declined 300 million during 2024, which is a 23% decrease from year-end 2023, and it currently stands just over a billion dollars.

That billion dollars, when you think about our risk-based capital formula -- so this is the NAIC risk based capital formula -- based on that year-end surplus, we will now be at the regulatory action level within -- within -- right at the company action level and right short of the regulatory action level for risk-based capital.

As you think about the fires and the impact of the fires, and we foreshadow into 2025. On a net basis, State Farm General will take on 212 million related to the fires, and then when you bring in the fair plan assessment as well as our share of the fair plan losses, our overall aftertax impact due to the fires is roughly $400,000,000.

So when we think about our year-end surplus, when you think about that $400,000,000 impact from the fires, that puts us very near -- or in -- authorized control level risk-based capital according to your departments and the Illinois departments and the NAIC risk-based capital. In addition, the ratio of our premium to surplus is also considered an unusual value based on the Insurance Regulatory Information Service,

which is an early warning indicator, and that's also at an unusual value at year-end, and that will only further to deteriorate based on the January fires.

So that is the most significant change, and we still sit in a position where we don't have the prospective ability to generate capital. And we obviously have to be there should there be another event, another fire; State Farm General has to be able to be there, so we're operating a much weaker condition.

THE COMMISSIONER: So, Mark, just to clarify. You said -- and my understanding is that you dropped the Variant 6 since -- from June 2024; is that the case or no?

MR. SCHWAMBERGER: So when we filed the new rate for the 22% you mentioned, based on the fires and including those, we would feel that that rate is justifying without Variant 6.

MS. WELLS: And I can add for that as State Farm's Counsel. We anticipate that filing an amended rate application once we get the data from first quarter of 2025. Once we have that data, we don't believe that we will continue to require Variant 6 to get (inaudible).

THE REPORTER: I'm sorry, what was that last part? What was the last thing you said?

MS. WELLS: We anticipate that we will no longer require Variant 6 to get our rate view.

THE REPORTER: Thank you.

THE COMMISSIONER: And just for the court reporter, do you want them to repeat their -- state their name before? Or are you okay with them just --

THE REPORTER: They're okay. Thank you.

THE COMMISSIONER: Okay. Perfect.

MR. SCHWAMBERGER: Commissioner Lara, and one other thing that I would emphasize that's new and since the last filing is yesterday, S&P Global did put State Farm General's rating on credit watch negative.

So that's not a letter downgrade, but it does indicate that as they adjudicate and look at State Farm General's rating and they consider its financial position, they may have a downgrade, and they noted in their release that that downgrade could be multiple notches, so our credit watch indicates near term; it's not a long term. It's near term.

THE COMMISSIONER: So let me ask you this, too: So your decreased surplus doesn't affect the ability to pay claims?

MR. SCHWAMBERGER: Our ability to handle the fires is not in question, and that's due in large part to the very robust re-insurance program we have. So

State Farm General, our estimate -- our current estimate -- for the fires is 7.9 billion. State Farm General will retain 212 million of that, external reinsurers will assume a billion, and State Farm Mutual and one of its affiliates will assume the 6.7 billion of that total loss.

So State Farm General, the legal entity, it has the ability to pay its claims and move forward with the fires. However, it's in a dramatically different and weakened position. So the ability, prospectively, to continue to stay behind our policies --

THE COMMISSIONER: As we enter fire season.

MR. SCHWAMBERGER: -- as we enter fire season, it's in jeopardy sir, and it's a very serious situation. And when you think about risk-based capital, we are just falling into further and further regulatory action levels that also might require action from Illinois and others. And the rating downgrade, that's a situation where a multi-notch downgrade, depending on S&P and how they file and what they do, that could have immediate ratifications as well.

THE COMMISSIONER: Okay. Let's move on to the other question. I appreciate your answers.

In the absence of, you know -- I'm trying to get a grasp here of the answer -- in the absence of the

non-wildfire catastrophic losses in 2022 and 2023, how does State Farm explain the significant decrease in its policyholder surplus?

You can see what we're trying to look at. We're trying to understand that you have a decrease surplus, but, yet -- you know. Go ahead.

MR. SCHWAMBERGER: Yes, sir. And I think that's a critical point, too, as we look at the last couple years, and we think about our rate adequacy and the ability to generate capital going forward, those couple years are indicative. So let me give you information that helps you understand what drove that policy over surplus.

So first of all, first and foremost, it's just the surplus was driven by underwriting losses. It's not investment losses or others, it's underwriting losses as our premium just didn't keep pace with the escalating loss cost along with the impact of catastrophes. We had the mountain fire and other things, so there was an impact there.

So here's how I would kind of break it down. We experienced a rapid increase of inflation which drove increases in construction and other costs. We had a ligation trends contributing to significant increases in the severity of liability claims. Particularly with our

personal liability and policies and our commercial policies. We had a changing -- and you noted this -- we had changing views of wildfire risk, which was influenced by actual experience, as well as model updates and looking at it prospectively.

And then we had an increase need for re-insurance coverage given the increases in exposure -- that was driven by inflation, changes in view of risk, and, also, a decrease in surplus. So we adjusted our re-insurance program to provide protection for State Farm General. If we had not made those changes, State Farm General could be insolvent right now, and we wouldn't necessarily be sitting here.

So in the face of all of those trends, and you mentioned this in your opening, the outdated regulatory structure just was not able to keep up with these escalating trends. So the structure, you know, in terms of our trying to raise rates restrict growth. In order to keep our risk profile in line with available surplus, those were constrained by the regulatory considerations, and we were met with limited success.

And I think about it this way in terms of the structure: It doesn't necessarily facilitate speed. It's not as responsive to short-term trends, and that's what we saw with inflation and litigation and liability

trends. It doesn't allow, in the past, for the model catastrophe exposure, and it didn't allow us to take that escalating re-insurance cost and fully factor that re-insurance cost into our rates.

THE COMMISSIONER: So then -- okay. I understand that, and even with the current structure, you know, State Farm received a steady rate increase of 6.9 in November of 2021; that was effective January 2022, another 6.9 in in January 2023, and a 20% increase in December 2023 which is effective March 2024.

And this is my question, though, which as even with this current structure, State Farm surplus has been declining since 2016, I believe you said, yet it continues to aggressively write in 2020 in high-risk areas such as Pacific Palisades.

Why was that the case?

MR. SCHWAMBERGER: We have had a -- and we put it in the letter -- we've been robust in managing our risk exposure in the high wildfire risk areas. And I also mentioned there, as we were trying to control growth, control exposure, again, we were met with resistance in terms of nonwithdrawal -- or nonrenewals -- and also the impact on rate, which puts us back into the rate cycle to the degree we tried to do, um, significant nonrenewals, again, to manage our

risk in line with our exposure.

THE COMMISSIONER: Okay. So what was -- what have you all done -- or State Farm, I should say for the record -- to prevent a surplus from further deteriorating, specifically between May 2023 to the present, besides shed policyholders through ceased writings and nonrenewals? I keep going back to a conversation around, you know, and reports and letters that say, you know, rate increases are not enough to deal with what's happening at State Farm.

So what has been going on?

MR. SCHWAMBERGER: Yeah. So I would say two things: In terms of that comment about rate increases, about not being enough, that was a comment we made in our March 2024 filing. We had to make that unfortunate decision because we want to be in the State of California, we want to serve our customers, but we're at a point where our capital and our exposure were out of line, and we had to announce nonrenewals.

So that's why we made that comment that rates weren't enough, and it really kind of reinforces your prior question which is we knew rates weren't enough. We knew our financial strength was being impaired, so we had to reduce our exposure because at the end of the day, our financial strength is the amount of capital we

have to stay behind exposures, so that was the comment.

Now -- go ahead, sir.

THE COMMISSIONER: No, go ahead.

MR. SCHWAMBERGER: So now in terms of what we've been doing is we have been actively, as you know, and there's been rate increases approved -- not always at the amount we ask for and not always as timely as we may be needed -- but we have been actively pursuing rate including taking the proactive position of doing this Variant 6 filing in June of last year to get this moving given the financial condition of State Farm General, and so that's one aspect of what we were doing.

And I think the other aspect of what we have done is we have, in the face of comments about our re-insurance program, which are false and inappropriate and the fact that we weren't able to bring the re-insurance cost in, we still maintain that valuable re-insurance program for State Farm General.

THE COMMISSIONER: I don't mean to interrupt you. You're still just talking about rate.

MR. SCHWAMBERGER: Well, I'm talking about re-insurance. In this case, I'm talking about re-insurance. So we --

THE COMMISSIONER: But your previous comments -- I'm sorry -- was just referring to the rate.

MR. SCHWAMBERGER: Yeah, yeah, yeah. And but -- I agree, but you're asking what we were doing to maintain. Rate has to be part of it, sir. We -- we can't avoid the economic realities of things that you mentioned in the beginning in terms of catastrophe risk, climate change, and the impact on the state. You can see it in the results.

You can see it in the escalating trends that I've talked about in terms of frequency and severity of wildfire. You can see it in liability trends. You can see it in construction costs. We can't escape those economic realities. So at the end of the day, we either have to be able to generate capital in line with our exposures, or we have to significantly rein- -- reduce exposures.

Now, while we continue to work with you in order to secure rate and manage our exposures, we have this -- and this is what I'm saying, is we have this very effective rate insurance program in place that allows us, for the time being, to handle those exposures and handle events like the January -- January fires. Again, without that, we would be in a much different position.

MR. LARA: And, Mark, as you're talking about -- this is a -- a personal pet peeve of mine, not the Department, is when we say, you know, "You're getting the rate" --

"You are getting significantly less of the rate you were asked for," but you have every right to come in with the rate that you need, yet we still saw a 69 -- a 69 (sic) when you clearly needed more.

And so again, this is an ongoing frustration with me that we keep asking, you know, companies to be forthwith about what is the actual rate they need and -- and have that dialogue and conversation as opposed to simply, you know, death by 1,000 cuts here with constant 6.9's; right?

And so again, it's -- it's -- as -- as we have these conversations, not only -- nothing in Prop 103 impedes you from asking for the actual rate that you need. Now, that is whatever you all decide to ask for, that's -- that's -- that's on you, but just to clarify that, in the existing process, you have every right to come for the rate that you, you know, that -- that you want.

MR. GROW: If I could, Commissioner, just point out that, being responsive to that message from you and your staff, we began to work towards those larger rating paces that led to the last rate increase with you, so I acknowledge what you're saying.

MR. LARA: Fair enough. And has State Farm provided adequate documentation to the Department to support the current rate increase request for each of the line of

business? I know this is a point of contention for the intervener and -- and for the Department.

And so we would like to -- given that I haven't been part of these conversations, I want to be able to get some clarity around what has been given and why is there still such, you know, misinformation around "Did you provide information? Have you not? Is it enough?" So if you can please help me understand and answer those questions.

MR. GROW: And if I can speak to that as well, I just want to point out that we have responded to every request or objection that's come through, sir, from the Department, and to acknowledge that, because these applications were based on Variant 6 --

MR. LARA: Can you sit close to the --

MR. GROW: Yeah.

MR. LARA: -- microphone, please? I just want to hear.

MR. GROW: Yeah. I have a soft voice. Because these applications were based on Variant 6, there were a lot of novel issues to work through. And to our knowledge, Variant 6 hasn't been used or approved by the Department in the past, so we worked with your staff trying to work through those -- those questions and issues.

And also wanted to acknowledge that at one point,

we were asked if State Farm General would provide full and un-redacted copies of a long list of documents, many of which we considered trade secret and confidential. We did pull out the portions of information from those documents that we felt were responsive to the Department -- to the issues at play in this application and provided those.

And we invited the Department to identify if there were other points of information that could be shared that would help meet the need. We haven't -- there hasn't been a response to that specific invitation, but we're still open to have that conversation. And then I guess I'll turn it to Vanessa for this next thing.

MS. WELLS: Yes, Commissioner. I am here to respond to the portion of your question that goes to Consumer Watchdog's request. And just for the record, since this is not well-known, I'll identify that there are two types of requests that could come from Consumer Watchdog.

Consumer Watchdog has started sending out what they're calling Requests For Information, or RFI's, in the course of the informal proceedings that proceed a notice of hearing. And while insurers don't have to respond to those, they generally do. They voluntarily respond to those in order to reach an efficient and amicable solution.

So insurers generally will respond to all of the

RFI's except those that request confidential information. In this proceeding, Consumer Watchdog came out of the box prior to there being any notice of hearing, sending out discovery requests, and Deputy Commissioner Wang sent out a letter saying, "There is no right to discovery until there has been a notice of hearing."

She also indicated that the parties could treat these as those informal RFI's if they wish to. I sent a letter to Consumer Watchdog pointing out that those requests are not in the form that we normally see RFI's. There is a difference, that Consumer Watchdog discovery requests asked for a lot of confidential documents.

MR. LARA: Vanessa, give me --

MS. WELLS: Yes.

MR. LARA: Give me -- give me a quick second. I just want to make sure we're not here to continue with the disagreement --

MS. WELLS: Right.

MR. LARA: -- and so -- and -- and we're here to try to get these questions answered. And I've read the correspondence and understand --

MS. WELLS: Right.

MR. LARA: -- the points of contention, so I just want to make sure that, you know -- and we'll have a chance to -- you all will have a chance to continue around that as

well --

MS. WELLS: Yes.

MR. LARA: -- so I just want to make sure we don't -- I'm not here to open up, you know, the discussions that already have been had.

MS. WELLS: Right. And I -- I don't want to do that, either. My concern was the press releases that we've seen from Consumer Watchdog. Short answer is, we've responded to everything from the Insurance Department, which is the regulator.

We have responded to all RFI's that have been sent to us by Consumer Watchdog on the two additional rate applications concerning the lines, other than the non-tenant homeowners, and we plan to respond any requests, any RFI's from Consumer Watchdog that would go to our new situation. Not the Variant 6, the new situation with -- after the fires.

MR. LARA: Okay. Thank you. I -- I know there's a -- you have a comment from the Department?

MS. MCKENNEDY: Yes, Commissioner. If we could just be heard for one moment, I -- I don't want to take up too much time, but I do want to address --

MR. LARA: Let me make sure we just have your microphone --

MS. MCKENNEDY: I don't have control -- there we

go. You asked whether State Farm had satisfactorily responded to all of the Department's questions, and I think the answer is actually, no, we are not currently satisfied that State Farm has proven it is entitled to an overall rate increase at the level that they've requested in their rate applications.

But what we have determined is that they made a preliminary showing that they can get the interim rates subject to refunds with interest, if necessary. So I would also let you know that there are two types of information requests that have been floating out there.

One relates to the Variant 6, and the other kind relates to sort of the general, usual actuarial issues. And we've tried to get both sets of information. One of the things that is impeding the Department's ability to get that information is State Farm's confidentiality concerns.

And so at this point, your staff feels like if we go into a rate hearing, we can come to some sort of confidentiality arrangement in order to fully investigate and determine what information actually needs to be made public in order to support the rate.

So that's why we feel confident that we can go ahead and approve the interim rate, subject to refunds with interest, while we then dig in to a full rate hearing

and fully investigate.

MR. LARA: Thank you. Just cause we gave the Department a chance, why don't you respond?

MR. PLETCHER: Yes. Thank you. If we could just briefly respond to a -- a couple -- We -- we don't want to get into a back-and-forth on -- on the record, but just a couple points.

MS. PRESSLEY: Yeah, I just responded briefly to a couple points made by Ms. Wells. We did serve discovery requests back in July and August, and that was because in the past, we've been told, "Don't wait," right, "Don't wait until the Department calls us for a three-way call. Get your requests out very quickly."

So we thought, okay, this time, Variant 6, we want to ask all of our financial-related questions right upfront; understand, you know, in Ms. Wang's order, she said, "Treat those formal request" -- you know, because we did serve them as formal, and the order said, "Treat them as informal requests for discovery."

So my goal was, since September, let's get on a call. Let's -- let's have, you know, a discussion about which things can be responded to. And it did take, like, four months.

Because I said right up front to both Ms. McKennedy and Ms. Wells, "We need to hash this out.

Like, how -- this is different from other rate proceedings. We're not going to be able to get the financial information that State Farm was claiming was confidential."

And a lot of the issues that they're talking about today, which they say are not now related to Variant 6 but they're using to support, like, the urgency and the emergency, are things that we did ask about: Reports on their risk-based capital issues, all of -- things related to the reinsurance, underlying actuarial reserve reports, and everything, we were told, was confidential.

But I then asked for, "Okay. Let's just get a list of what you can provide, and I -- you're free to make the objections on confidentiality, but you need to tell us, like, which ones you're not going to and which ones you are."

And then Mis- -- Mr. Armstrong, who's their actuary, went through everything that they produced to the Department and made a determination that still none of the documents that we had asked for -- and there's 35 requests, which I can give you copies of, have still not been --

MR. LARA: Okay.

MS. PRESSLEY: -- responded to.

MR. LARA: Thank you.

MS. PRESSLEY: That's all I wanted to say.

MR. LARA: Okay.

MS. PRESSLEY: Yeah.

MR. LARA: And quickly, just so that we can get to the -- to the questions. Go ahead.

MS. WELLS: So, Commissioner Lara, what I am going to do is refrain from responding to those allegations, even though we disagree with all of that, because Your Honor has asked -- I called you "Your Honor" -- because you have asked us not to rehash the past, so I will not rehash the past, but, please, for the record, take it that there's more than one side to that discussion.

MR. LARA: Thank you. I appreciate that.

MS. WELLS: Thank you.

MR. SCHWAMBERGER: Commissioner?

MR. LARA: Go ahead.

MR. SCHWAMBERGER: Can I -- maybe -- maybe let me reiterate something. There's been a lot of discussion and a comment right there about, you know, Variant 6 or not. I think I want to be clear, and I think the team would support this, we're not divorced from the Variant 6.

It's the reason we're sitting here today asking for this interim break under our prior filling, which is under Variant 6, which is why the opening statement, which is: What has changed since June 2024, it's the

significant and continued depletion of State Farm's capital, putting it in an even more precarious position relative to risk-based capital, relative to the ability to stand another event.

So I don't want there to be any confusion about why we're sitting here today. It's because the viability of State Farm General is in question, and it needs rate in order to be able to shore up its financial strength and start moving forward in a way that it has the ability to prospectively generate capital in support of its risk.

Because without this emergency order, without this emergency rate, unfortunately, that subpoena (phonetic) may take actions that were out of both of our control, but yet we may have to take actions that we otherwise don't want to do, either --

MR. LARA: Understood.

MR. SCHWAMBERGER: -- like we said in our March letter. So I just wanted to be clear about that comment; about Variant 6 or not, we're here because of our financial distress, and that's what our letter said, and tat's why we need this emergency order, and that's we need it as fast as possible, sir.

It's -- it is -- it is a precarious situation. When you said this was serious, I could not agree with you more about how serious the financial condition is.

MR. LARA: It's understood.
MR. SCHWAMBERGER: So anyway --
MS. LARA: Understood.
MR. SCHWAMBERGER: And I -- I appreciate that. I know you do, but I just don't believe that --
MR. LARA: No, I understand.
MR. SCHWAMBERGER: -- you made that clear about the --
MR. LARA: Thank you. And just -- and in the spirit of trying to move fast --
MR. SCHWAMBERGER: Yes.
MR. LARA: -- I want to be able to get to these questions. So other than -- other than the rate interest -- the -- the rate increases, you know, I -- I think this is what we -- we are really curious about. What are -- what are the other plans for State Farm to address its financial challenges?
For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm, as it has in similar situations? I know this -- you know, this happened in other states, for example.
MR. SCHWAMBERGER: Yeah. Go ahead, Keesha.
MS. MITRA: So -- yeah, let -- let me just jump in here really quickly. So just for fundamental

understanding in terms of the governance structure from State Farm General to State Mutual, the State Farm Mutual Board is comprised of all external, independent directors except for the State Farm Mutual CEO.

So it's a com- -- almost completely external, independent board, and so their fiduciary duties require them to exercise reasonable care, judgment, and diligence of what is in State Farm Mutual's best interest as an entity and its policyholder group as a whole.

So what we would expect, and this is why I wanted to preface Mark's comments with this, is what we would expect is robust consideration by this State Farm Mutual independent board of any request that may be presented to them for potential assistance on behalf of State Farm General.

MR. KRAUSE: Yeah, I think, Commissioner, that's -- it would be up to me to request that type of assistance. I think, you know, there has to be some sort of positive sign that State Farm General would be able to sustain itself from a capital position to support its risk profile.

I think that's the purpose of the interim rate request. That would give us that type of a positive sign, both to the rating agencies and to any potential investors including State Farm Mutual, and so that's -- that's the

emergency basis of this, because it would help, at least me building a case to go to the Mutual board to ask for consideration.

MR. LARA: So just for the record, it is a possible request?

MR. KRAUSE: It is a possible request, yes.

MR. LARA: Okay. Thank you. Mark, any further --

MR. SCHWAMBERGER: No. That's perfect, sir.

MR. LARA: Thank you. So what is State Farm doing to manage and restore its financial position, given its statement that -- again, I know we've talked about the rate increases were sufficient, so I want delve deeper a little bit in terms of, you know, an interim rate would then just be -- some would say an interim rate would just be a bailout for their own financial problem without any personal benefit for consumers.

What are your thoughts, and what else is being done to be able to -- to get your financial house in order?

MR. SCHWAMBERGER: Well, let me -- let me start by, you know, kind of getting to your first point. I think, again, the reason we're here for this emergency order is because we don't feel State Farm General is rate adequate. So without rate adequacy, we're unable to demonstrate our ability to be self-sustaining.

So when you're in that position where you don't have rate adequacy, you don't believe you can be self-sustaining, that is the emergency need, because any other actions are not going to be sufficient to restore the profit ability and the financial strength that an interim can.

So when you have a situation where your capital is a certain level and your exposure is another level, if you can't grow this capital -- and rate is the most significant and immediate need.

Any other actions, Commissioner Lara, simply aren't going to be enough in order to prevent the unfortunate situation that could arise should we not have positive signs about the prospective ability to be self-sustaining that may allow other considerations.

So, therefore, the only other thing that we could do without rate and without the ability to increase capital, is to substantially reduce exposure. I'm not saying -- I'm not saying that's a decision; I'm just giving you -- you know, putting forward the equation we can't grow capital; we have to reduce exposure significantly in line with that --

MR. LARA: Meaning, you would continue to non-renew or have to cancel policies?

MR. SCHWAMBERGER: At the end of the day, yes, sir.

To the degree you cannot be self-sustaining and you don't have viability and the capital to stand behind promises, there's -- we're left with no other alternative.

MR. LARA: So let me -- let me get to this other question that -- that I think is my final question and one of the most important ones. So how would granting an Emergency Rate Impact impact State Farm's business decision to pause arriving new residential coverage or non-renew policies?

And -- and, for the record, let me -- let me just be clear on what that means and what I'm asking. If I approve an emergency rate, will you rent more business in California?

MR. SCHWAMBERGER: I think the short-term answer to that is: No, in a short-term. Again, the ability to get rate and grow capital takes time, and given our current exposure and where we are, we would not be in a position to fiscally and responsibly starting to re- -- regrow within the California market just because of this rate in the very near term.

It's ju- -- it just wouldn't be fiscally responsible because we could potentially put ourselves in the situation of being back here in front of you, given the continued change in exposure relative to capital. These things take time. And we do look forward -- we're

here in large part because we want to be in the California market.

We look forward to some of the reforms. We literally just want to survive to be able to see that day when the reforms are there and we continue to serve the -- the millions of customers in the State of California. That is absolutely our objective, but we have to be able to get to the other side.

MR. KRAUSE: Commissioner, we have over one million homeowners' policies, so almost 2.8 million policies in total at State Farm General. It is very important to us to take care of our onboard customers. That's why it's very difficult when we have to make those decisions to non-renew current customers. Very difficult.

And we want to put ourselves in a financial position where we would have to minimize that moving forward, and that's what this interim rate would help us do, and I think, you know, obviously we -- we want to support the California market. We've been here for almost 100 years. We want to be here for 100 more, but we've got to be able to have this -- our State Farm General survive this financial piece in order for that to happen.

MR. LARA: So, Don, let me -- let me follow up with that and maybe ask my question differently, as I -- I appreciate your honesty because -- so if I were to approve

this interim rate increase, would you commit to non-renewing your existing customers?

MR. SCHWAMBERGER: To not -- not renew?

MR. LARA: Yeah. English language (indiscernible.)

MR. SCHWAMBERGER: I think that's -- I think that's an appropriate way to think about it. The ability to have that prospective ability to generate capital and be self-sustaining, that is the positive sign that John -- or Dan talked about earlier, which is what we need to see, you know, from the market.

And our ability to be self-sustaining, that ability and that signal allows for other decisions and actions which could prevent significant -- I want to say that -- significant non-renewals or -- and, again, this is -- this is not something we desire, but to the degree that we don't have the ability to grow capital in the future and have rate adequacy to be self-sustaining, we simply can't handle this much exposure.

Because even in a situation -- if you have a situation where you're not rate adequate and you're not self-sustaining, capital support just then becomes a subsidy for the risk, and that just doesn't work over time because other states, right, don't want to subsidize the risk of California, just like, and you've appropriately said, you don't want Californians to subsidize the

catastrophe risk of other states.

So that's why this ability for State Farm General to be rate adequate, to have the ability to be self-sustaining is just so critical looking forward to send that positive signal to allow us to have a bridge to the future.

MR. LARA: As -- as you can imagine, the -- the -- the anxiety that your current customers are facing and those that have been non-renewed or are, you know -- were in the cancellation process is the fact that, you know, here we are, asking for this emergency rate, yet, you know -- and again, they will be faced with higher rates but without any guarantee of keeping their coverage during this difficult climate year that we've already had in 2025.

And, as we pointed out, we haven't even got into the summer fire season, and so that just elevates the level of anxiety from your customers that are currently potentially facing a higher rate but no guarantee that they're going to, you know, maintain their coverage.

And -- and I'll tell you that is -- as somebody who has traveled to every county in this state, and I've met with over hundred of thousand -- hundreds of thousands of consumers, that is their ongoing fear.

Many of them understand the risk of where they live and understand what is happening. They see it and

read the papers, but it's the anxiety of losing their coverage, yet having to pay more without the certainty of being able to keep their coverage puts their entire family budget in turmoil because, you know, people need time to budget this out.

And so I say that as, you know, we've -- we've ad- -- we'll be trying to address this -- these -- these catastrophic wildfires for several years now, and that is the number one question I get from consumers is, you know, "We will figure this out and try to make sure" -- "we don't want to lose our coverage. We don't want to end up in the FAIR Plan."

But the constant fear of being dropped is what really is consternating so many consumers across the country, that many of them are in fear to actually submit a claim because they -- that -- that -- they feel that that's going to trigger some sort of non-renewal or put them on or give them a black mark or red mark that keeps them from, you know, potentially being dropped.

So the last thing I want is somebody who has a legitimate claim, that needs some redress, not obtain it because of the fear of being non-renewed or dropped. Then it becomes -- it goes into a horrific cycle of this fear of not being able to access what you're contractually obligated by their insurer and addressing an issue because

of this -- this fear.

This is why I keep asking the question if, you know, we -- if I am to grant this rate and emergency rate increase, what certainty can I give the consumers -- more importantly, your customers -- of what the future's going to hold, or are they going to have certainty as State Farm customers?

MR. SCHWAMBERGER: Let me -- a couple things that I heard there that I think are important, especially if we have shared agreement that residents understand their risk and we collectively confront the reality of the risk, and, therefore, the premium that has to be paid for that risk.

If we can -- if we can collectively agree on that, that is a huge starting point, because that's what will drive the appropriate rate for the risk that State Farm General has. So confronting that economic reality and having, you know, the collective might, courage to allow that rate, even though I understand the burden's on folks.

But at the end of the day, we have to confront those realities. So if we can start there, and we have a market that is disciplined, it is reactive, it does approve rates and move, and it does allow catastrophe modeling reinsurance costs to be included, I think all of those things will absolutely generate greater stability in

the California market.

And greater stability in the California market creates greater stability for the companies operating in it because they can have degrees of certainty as to what the future holds, how they'll be dealt with from the -- from the regulator, how all those processes would work. That gives us confidence, which allows us to stay in the market, at a 20% market share, as you indicated.

So at the end of the day, and I know it's not lost on anybody in this room, we absolutely insure more Californians than anybody else. We desire to remain within the state and to continue that coverage, but this certainty that we're talking about is confronting the economic realities of the risk that's present.

And allowing the rate that allows us to be self-sufficient over time, I think that's what drives confidence; and, therefore, will drive confidence in the market, and, potentially -- I think this is what you're driving for -- drive more writings from others, other than State Farm in the market, to drive competition, to drive innovation, to drive people competing for customers so there is valuable coverage, and the FAIR Plan can be depopulated over time.

So I think we absolutely share those interests; it's probably the mechanism by which you get there is

maybe what there's been disagreement in this room collectively in the past.

MR. LARA: So I'm curious to see -- I appreciate those comments, but, you know, why can't State Farm, then, just wait to file an application under the sustainable insurance strategy that, as you said, uses catastrophic models and reinsurance, under those regulations that have been just been implemented under the strategy?

MR. SCHWAMBERGER: Yeah, it goes back to time. It goes back to our letter where we sent in March of '24 where we talked about this being our financial condition; at that time, being alarmed, signaling the grave need for action -- for immediate, fast action.

And as we stated, that -- that signal and that alarm has turned into a crisis. So, sir, bottom line, it's time. It's -- we're in a position where post the fires, we are right within the cusp and likely in the -- in the area of being in the authorized control level risk-based capital.

We are faced with a downgrade from S&P, which could make State Farm General's paper not accepted, and that will create disorderly. We -- we want -- the last we want is anything to be disorderly, but there's certain things that are just, unfortunately, outside of our control.

So this immediate rate allows us to start restoring, and it sends a really important -- you send a very important signal to the market about the consideration, the thinking about -- you mentioned insurer viability, and those signals can, therefore, be sent to others in terms of how we're thinking about the California market and our ability to operate in it.

And those signals are not unimportant to capital providers, rating agencies, and the like. We have to be able to get this rate, start restoring, and be able to project it in the future, the ability to be self-sustaining.

MR. KRAUSE: Commissioner, we're excited about sustainable insurance, too. I think it includes a lot of the provisions that we've been asking for for a long time. I think it's about time to get to that place where we can start to operate under that -- you know, have that operational.

We don't have that time. I mean, we're -- we're at a point where we're in a critical state, and we -- you know, I hear from the same -- I hear from customers. I hear from our agents. We have almost 1,900 agents, almost 7,000 of their employees in this state.

And we don't like to part with our customers. We share that concern. We want to take care of our

customers. Our ability to put State Farm General in -- into financial stability allows us to do that, and that's why this interim rate is so important.

MR. LARA: Thank you. In addition, just to further clarify and highlight, in terms of the fact that this would also help you potentially make a successful request to the parent company for additional support.

MR. KRAUSE: It would -- it would allow a positive sign that would show that this is a market that we can compete, generate a return in, and stay in, and give us a chance for consideration for the parent company, yes.

MR. LARA: Thank you. So those were all the questions that we had posed. I -- I want to -- I would like to give the Department and Watchdog a chance to ask just some focus -- focused follow-up questions about, again, anything new that you heard here today.

And please keep in mind, again, I want to reiterate that you have all been discussing these matters amongst yourselves for months without my involvement. So I know this is not any of -- many of these points are not going to be new to you.

So, please, I ask that you avoid reiterating points you've already shared, including any objections submitted and served. We've read those already, and I've seen those, and -- or anything mentioned in previous

communications to me, as I've also received all the letters from all of the parties involved.

I'd like to start with the Department, if there's any additional questions or comments.

MS. MCKENNEDY: Thank you, Commissioner. I don't think we have any additional questions right now. The Department is very interested in seeing that first quarter of 2025 data come in, and we think that will be very instructive.

One additional comment I wanted to make for your assistance, Commissioner, is that as one of the few people who was actually here during the prior State Farm rate hearing during 2015 and '16, I can tell you that at that time, we didn't have the interim rate procedure that's being contemplated here, and so our solution was to try to run that rate hearing as fast as humanly possible.

And it was really hard, and it didn't ultimately end up being that fast, you know, and so that is one of the reasons why your staff is invested in the interim rate, subject to refunds with interest, as a possible solution to combining our ability to fully investigate State Farm's position during a full rate hearing, but at the same time, providing the company with financial protection.

So that's where your staff is coming from, if

that helps you. Is there anything you wanted to add, Michael?

MR. MARTINEZ: I just wanted to add that I've been on this side of the wall, prosecutorial side of the wall, working with the hardworking staff of the Department, your regulation experts and lawyers, and I'd say that we have been in a very aggressive and -- and -- and negotiating with State Farm and providing this recommendation, which the Department, the Department staff, fully support and has continued to stand by here today.

And this is not a final order. This is a provisional order that is subject to a full rate hearing, in which we will be able to get the additional requests for information, including the quarter 1 data of this year and including the more financial -- the more granularity of financial information that we need, again, during a rate hearing that we'll be able to determine whether the immediate emergency -- immediate interim rate increase is valid, or if it's subject to potential refunds to consumers with interest after, again, that full rate hearing.

And so it's something where, you know, I -- I know that we, under -- under your leadership, under all the transformational action that we have done with the sustained strategies these last several years.

We have really, I believe, moved mountains in reforming a lot of the work and -- and regular -- regulatory work and oversight here in the Department of Insurance, and so we just want to thank you for taking the time and due diligence here today for today's informal conference.

MR. LARA: Thank you. Ken, do you have anything you'd like to add? Okay. Thank you. Watchdog, is there anything --

MR. PLETCHER: Yeah. Just -- just -- just want to take a brief moment to thank you for this informal hearing and having us here today. I certainly appreciate this opportunity to hear from everyone.

I just want to take a quick step back, Commissioner, to a point you -- you raised earlier that, you know, there's nothing in Proposition 103 that prevents an insurer from -- from requesting the rate and getting the rate that they want, backing it up with data and justifying it.

And I think what I'm hearing is a significant issue that's arisen here is because this went through the informal process, that the informal process is just really not set up to deal with the sort of confidentiality concerns that arise in a Variant 6 context or concerns about the financial strength of a company.

Our position is, you know, this -- this interim process, we don't think is justified at -- at this time, because when you look at the regulatory framework of when you can go into an interim process, the rate is not inadequate under those formulas, but there's nothing that prevents a new rate application with updated data from being submitted very rapidly.

I appreciate the experiences that folks had in 2015 and 2016 -- I wasn't part of that process -- and the difficulty in doing a rate process on an expedited basis, but I'll also say I've done plenty of complicated federal court litigation in the country on expedited basis when the court sets aggressive deadlines.

And it is possible to do things, you know. It takes long nights. It takes lots of pots of coffee, but it is possible to do it when you have parties that are willing to work cooperatively, to work rapidly through discovery issues and come to reasonable resolutions, and we're certainly prepared and ready to work on that basis.

We think that would, you know, best protect the interests of consumers and comply with Proposition 103. You know, this is -- you've talked, you know, as you've indicated, thousands and thousands of consumers.

Our -- our calculation is that with this -- just the interim rate, we're looking at $600 per household.

This is going to be a huge impact on consumers that are already, as you've noted, struggling with lots of challenges regarding inflation and other issues, and the economy now.

So we see this as a significant issue, but if we're under the Proposition 103 framework of a full rate hearing on a expedited basis, then that will best protect the interests of those consumers with transparency and the ability of participation through that, and, you know, we certainly aren't looking to do anything other than to meet the urgency of the situation, to -- address this in a rapid way. And I'll just turn this over quickly to --

MR. LARA: Yeah, and just to also respond to you, and I hear you. We can still have a rate hearing --

MR. PLETCHER: Yeah.

MR. LARA: I mean, so it's, you know -- we're not shutting the door there. Again, we're here informally to gather that -- to gather the information that we need, but I -- I hear you.

MS. PRESSLEY: I mean, I was going to turn to -- I was going to turn it over to Ben because I know there was some follow-up questions.

MR. PLETCHER: I believe we had a couple follow-up questions that are -- Ben just had to step out for just a moment, so if we could, you know, perhaps continue the

meeting and then return to him as soon as he -- I assume he will return quickly.

MR. LARA: I hope so, because we -- we are at -- at the end of the meeting.

MR. PLETCHER: Okay.

MS. PRESSLEY: I mean, while we're waiting, I would just reiterate that a lot of the information that we're hearing today and that was in the letter that we were provided yesterday, we've been asking for a lot of this, like, the underlying documentation for a long time.

And, you know, I -- I think we would be a lot sooner -- we would be a lot further along in the process if we had gotten some of this information earlier, and I know there were discussions back in November, even if it --

MR. LARA: Sorry. I -- yeah, I get it. I know we've -- we've -- we've said that, and I know you were stalling for Ben. So Ben, you're --

MR. ARMSTRONG: Yeah.

MR. LARA: You're on.

MR. ARMSTRONG: Thanks. I knew I was going to have a coughing fit at some point during when I'm going to talk, so my apologies for having to step out there for a second.

Yeah, I had a couple of numerical questions for State Farm, if you don't mind. One has to do with the

$400 million share of the FAIR Plan assessment, but they have a 20 percent market share. Just curious if you guys have a little more color around of why that is presented as a lineup?

MR. SCHWAMBERGER: Yeah, so what did was, we used publicly available information from the FAIR Plan based on its estimates of its -- of its losses related to the fires, which ultimately led to the assessment, but the assessment, obviously, is not the full impact of the fires.

So the full impact of the fires times our market share, which I know we have a 20 percent market share in homeowners, but effectively, it ended up being 16 percent, is what we took of the FAIR Plan's estimated losses for the fires, which is what generated that $400 million estimate of our share.

MR. ARMSTRONG: Got it. So it's -- it's State Farm share of the FAIR Plan and then also the assessment --

MR. LARA: Ben, you could just -- so I can hear, you can direct your questions to Mister --

MR. ARMSTRONG: Oh, sorry. Yeah, you're right.

MR. LARA: (Indiscernible) microphone. Thank you.

MR. ARMSTRONG: Yeah, yeah. So it's -- it's the combination of State Farm's share of the FAIR Plan losses,

and then also the assessment?

MR. SCHWAMBERGER: So it would be the share of the FAIR Plan losses. The assessment is really just cash flow, so the $400 million, and then we did offset that --

MR. ARMSTRONG: Right.

MR. SCHWAMBERGER: For the impact of getting the recoupment on the 50 percent of $165 million assessment.

MR. ARMSTRONG: Okay. Cool. Thank you. Another one is about the RBC requirements. Is there numerical support for that that you can provide? I mean, obviously that's this new data, 2024.

MR. SCHWAMBERGER: Yeah. And I think that's important, too, to respond to the prior accounting about new data. This is not from lack of sharing in the past. This is data that is just going to be published tomorrow, so you've always had the ability to look at our annual statement, which is publicly available, look at the five-year historical. And you know what our RBC ratio is. You don't need to report, so I think that's the same thing here is, our -- our file will be available tomorrow.

MR. ARMSTRONG: Okay. Is that, like, going to be available through the website?

(Simultaneous cross-talk.)

MR. SCHWAMBERGER: Yeah, yeah. We'll -- yeah, we'll file because -- I apologize. Friday. Today is Wednesday.

It'll be up by Friday morning.

MR. ARMSTRONG: That's great. Okay. So I'll make a note of that. And then so other than reinsurance, are there any agreements between State Farm General and its affiliates, primarily State Farm Mutual, and any evaluations for reasonable -- reasonableness on those?

MR. SCHWAMBERGER: There are many other agreements, you know, cautionary agreements, is -- is probably the primary one. That would probably be the primary one.

MS. WELLS: Just to add -- add to the question of reasonableness, I believe everybody in this room knows that those affiliate agreements have to be submitted to the Domestic Regulator, and I think many of them are also submitted to California as well as commercially domiciled.

MR. LARA: Correct. Thank you for that clarification.

MR. ARMSTRONG: Thanks, Vanessa. And then I think I had a couple more. Yeah, so there's a statement in your letter from yesterday saying that over the last ten years, and including reinsurance recoveries projected for the recent wildfires, that State Farm General has benefitted significantly from the totality of its reinsurance program.

We haven't seen that based on data pulled from ten plus years of annual statements. It really looks like

the reinsurance -- reinsurance agreements with State Farm Mutual has been structured to benefit the parent company and didn't see much, if any, recoveries to State Farm General. So I'm curious if you could provide some context around that and discuss this significant benefit from the totality of the reinsurance program.

MR. SCHWAMBERGER: So the first thing I would say is, just to be clear, I would -- just me, I disagree that this reinsurance program is not arm's length fair and reasonable, and the charges that State Farm Mutual charges for the rate of insurance provided for State Farm General simply aren't available in the external market.

So the price that State Farm General pays for the coverage provided is less than we can otherwise get in the external market, and the amount of coverage provided is also simply not available. So with that said, I know that you guys have in the past looked at Schedule P Part 1(a) to do your analysis.

I think you choose to do it on a pay-basis versus an incur basis, which doesn't necessarily paint the whole picture. I think the other thing, based on your analysis of paid, some of the -- some of those numbers you've chosen to use, you know, they don't really reflect the fact that subrogation recoveries take time.

So back in the 2017 fires, if you would look at

our 2019 Schedule P Part 1(a), you would definitely see the significant reinsurance recoveries from the program that allowed State Farm General to stay viable, so to speak, until that subrogation recovery from PG&E could come into play.

So I would just say that Use and Incurred would probably be more appropriate, which leads me into my -- to my point. So you're correct, over -- over a period of time from 2000 -- by the way, let me be clear here. You're correct in terms of up until 2017, State Farm General did pay more reinsurance premiums than the recoveries it had from 2017.

But obviously reinsurance is there not to be working capital but to be there for, you know, less frequent severe events. So when you bring into account the 2000 -- or the January 2025 fires, State Farm General will have recovered $5.5 billion more in recoveries than they paid in premium. So that --

MR. ARMSTRONG: What about the 2017 and 2018 results? Because I believe that the numbers that we cited were pulled from the 2023 annual statement, which would have included the subrogation recoveries and still the reinsurance agreement benefits State Farm Mutual to the detriment of State Farm General, and those would qualify as a high severity low frequency event with the wildfires

in those years.

MR. LARA: Again, we don't want to get into these repeat arguments, but just be clear for your questions on the microphone so we can capture it, please. Go ahead.

MR. SCHWAMBERGER: You know, my -- my reference to '17 and '18 was really more about the significant subrogation coverage which came later, so the rate insurance projection definitely provided support to State Farm Mutual in '17 and '18, ultimately subrogation.

But let me come back and be very clear. When you go from 2017 through January fires -- and, again, these are based on our initial estimates, our current estimates that we will put in our statements -- State Farm General has benefited to the tune of $5 billion from this reinsurance program.

MR. PLETCHER: But how much of that is from the 2025 fires?

MR. SCHWAMBERGER: All of it.

MR. ARMSTRONG: So -- so we're just talking about the one event?

MR. SCHWAMBERGER: Correct, yeah. Low frequency, high severity event is what the catastrophe reinsurance is meant to cover.

MR. ARMSTRONG: Okay. Thank you.

MR. LARA: Great. Do you want any further

clarification or --

MS. WELLS: No. I was just going to point out that the discussion had gotten into prior issues known, that we know we have to sit down and we're going to have to address them. That was all.

MR. LARA: Correct. Duly noted. Understand. Okay.

MR. PLETCHER: Just one more final thing that we wanted to bring up just in terms of the discussion of other state subsidies to California. If there were to be some sort of assistance from the parent company, State Farm Mutual, since that would be coming out of surplus, that's not a current policyholder premium transaction.

In other words, it isn't like policyholders in other states that are currently paying premiums that would go directly to State Farm General as part of this assistance. It would be the -- the surplus position that the parent company has built up to the tune of $134 billion over a period of multiple years, so I just think it's an unfair characterization to say that it's a multistate subsidization when really it's -- it's just the parent company as -- as a legal entity.

MR. LARA: Got it. Thank you. Would you like to -- okay. Great. Thank you. Again, I want to appreciate your time. I want to keep you all to the hour that we posted, and thank you for participating.

I found this very, very truthful discussion enlightening for me. Just -- I wanted just want to close out with some reflections from, you know -- and to make sure you leave this room understanding that I recognize that my decision will impact millions of Californians, including current State Farm customers and -- and those seeking insurance around the state.

In -- in my roll, I'm going to prioritize the consumer needs to ensure a stable and sustainable insurance market. And therein lies the difficult, often, balance that insurance commissioners across the country deal with on a daily basis, balancing a robust market with effective oversight, holding insurance companies accountable while ensuring that Californians have access to the insurance options that they need and that they deserve.

This approach really defines my work, and I will not -- I'm not going to be rushed into a decision, especially -- and be very clear for all the parties here, this decision is not going to be rushed and -- by insurance interest, misinformation, or any political attacks or pressures.

As you know, my decision I will make will face intense scrutiny. I'm going to be criticized for both acting, and I'm going to be criticized by not acting, and

my decision will always be based on the facts and my obligation to protect consumers in our market.

And I will carefully review the information discussed today before reaching a conclusion or a path forward. I understood, again, and I'll reiterate that a hearing is still an option, and so we're not putting anything off the table.

We just want to make sure that I get all the information first from all of you. And thank you for your correspondence, and thank you for taking the time to enlighten me on the ongoing situation with State Farm and the need for emergency rate. I appreciate everybody who came today and made an effort to have this conversation. So this concludes the meeting, and thank you so much.

MR. PLETCHER: Thank you very much. Just real quickly, among the things that you consider, we sent in a memo this morning around 8:00 a.m. I just wanted to make sure that that would be something that you would consider as well. We sent it all the parties, not -- not just to you.

MR. LARA: I have not seen it myself, but I will definitely take into consideration all the correspondence from all the parties. Thank you. Appreciate your time. Thank you. This concludes the meeting.

(Concluded at 11:52 a.m.)

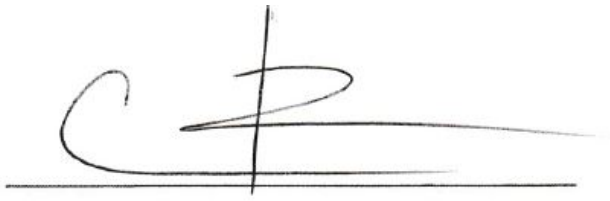
HEARING REPORTER'S CERTIFICATE

I, Christina L. Rodriguez, Hearing Reporter in and for the State of California, do hereby certify:

That the foregoing transcript of proceedings was taken before me at the time and place set forth, that the testimony and proceedings were reported stenographically by me and later transcribed by computer-aided transcription under my direction and supervision, that the foregoing is a true record of the testimony and proceedings taken at that time.

I further certify that I am in no way interested in the outcome of said action.

I have hereunto subscribed my name this 26th day of February.



Hearing Reporter

CHRISTINA L. RODRIGUEZ

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EXHIBIT IRH-CWD-217

Via email

March 6, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
commissionerlara@insurance.ca.gov

Re: Analysis of Information Presented by State Farm at the February 26 Informal Conference Re: State Farm's Request for Emergency Interim Rate Approval
In the Matter of the Rate Applications of State Farm General Insurance Company
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Commissioner Lara:

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

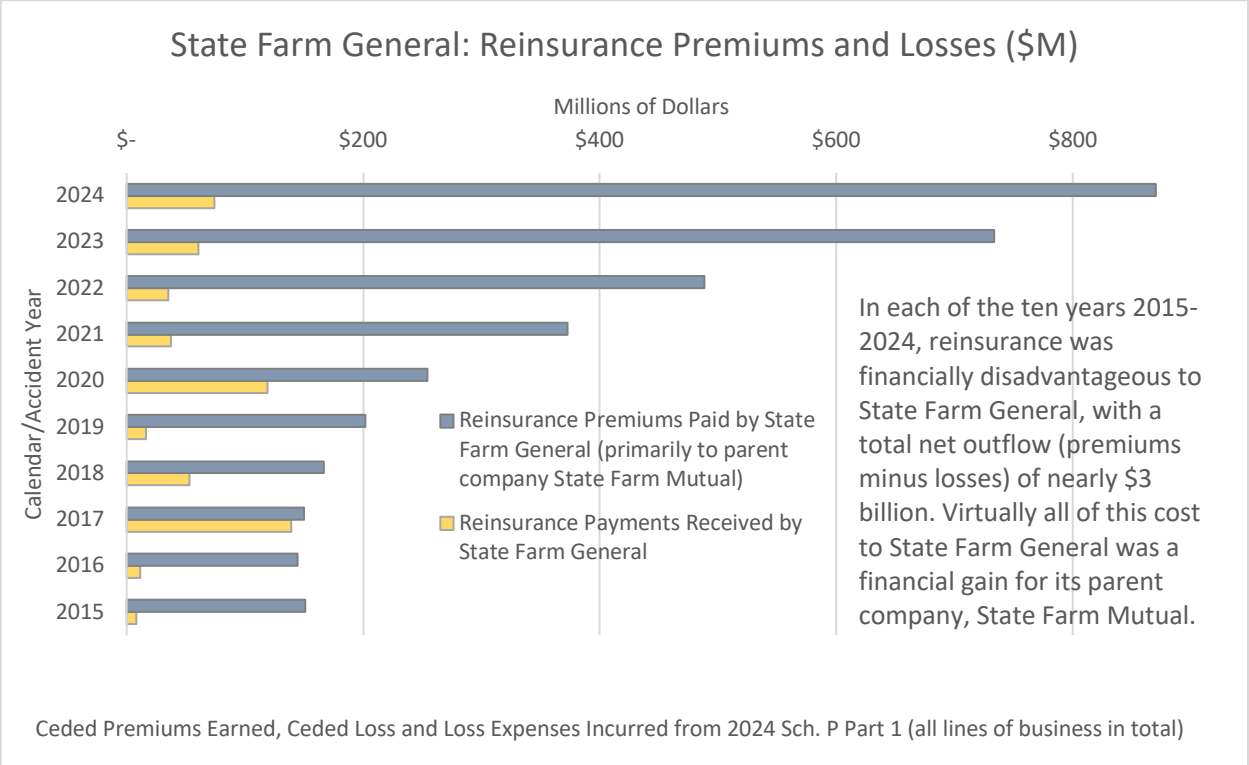
Key Findings from the Meeting

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

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

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

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



[3] Feb. 26, 2025 Transcript at 19:5-15.
[4] Feb. 26, 2025 Transcript at 23:5-13 (Commissioner Lara noting "nothing in Prop 103 impedes you from asking for the actual rate that you need" and "this is an ongoing frustration with me that we keep asking, you know, companies to be forthwith about what is the actual rate they need . . . as opposed to simply, you know, death by 1,000 cuts here with constant 6.9's; right?")
[5] J. Eaglesham & S. Pulliam, "State Farm Was All In on California—Until It Pulled the Plug Before the Fires," WSJ, Feb. 6, 2025.

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

William Pletcher

WILLIAM PLETCHER
Litigation Director
PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc: Michael Martinez, Chief Deputy Commissioner
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Bureau
Vanessa Wells, Hogan Lovells, Counsel for State Farm General

EXHIBIT IRH-CWD-218

Via email

March 6, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
commissionerlara@insurance.ca.gov

Re: Additional Supplemental Information concerning State Farm's Emergency Interim Rate Increase Request
In the Matter of the Rate Applications of State Farm General Insurance Company
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Commissioner Lara:

I write to bring your attention to recent statements[1] made by Mr. Haden Kirkpatrick, Vice President of Innovation and Venture Capital at State Farm,[2] that expose troubling contradictions in the company's stance on policy cancellations in California. His recorded remarks suggest that State Farm is not simply reacting to financial risk but is deliberately using cancellations and the threat of future cancellations to pressure the Department of Insurance for rate increases—directly contradicting the company's public assurances to you and CDI that it will remain in the market if granted an emergency interim rate adjustment.

State Farm is telling you one thing, and an executive, in unguarded moments, admits another. As Insurance Commissioner, you have a duty to uncover the truth and ensure that insurers do not exploit policyholders as leverage to extract rate increases without the full scrutiny required by Proposition 103.

At the recent informal meeting on State Farm's emergency interim rate increase request on February 26, 2025, you directly asked State Farm:

[1] https://youtu.be/DRnLed7wxd4?si=ntYoHCxx4XSuF7Rr
[2] Unconfirmed media reports suggest that Mr. Kirkpatrick's employment may have been recently terminated by State Farm.

> "[I]f I were to approve this interim rate increase, would you commit to [not] non-renewing your existing customers?"[3]

State Farm responded with a lengthy answer, stating "that's an appropriate way to think about it,"[4] and emphasizing that an "ability for State Farm General to be rate adequate, to have the ability to be self-sustaining is just so critical looking forward to send that positive signal to allow us to have a bridge to the future."[5]

But Mr. Kirkpatrick is clear that his job, which he states includes overseeing two companies, including an insurance company[6], is to "future proof the company."[7] And in his recorded conversation, Mr. Kirkpatrick provided a starkly different perspective. He described how State Farm evaluates its financial exposure and approaches the Department for rate increases. He stated:

> "We'll go to the Department of Insurance and say we're overexposed here, you have to let us catch up our rating… and they'll say 'eh' because the Department of Insurance and the Insurance Commissioner is an elected position in California. He'll say 'nah.' And we'll say, 'Okay, then we are going to cancel these policies.'"[8]

These remarks strongly suggest that policy cancellations are being wielded as a strategic bargaining tool rather than as a necessary response to financial risk. This contradicts the impression State Farm sought to convey at the meeting—that it would remain in the market if rate relief were granted, and calls into question the transparency and good faith of State Farm's dealings with both regulators and policyholders.

Additionally, Mr. Kirkpatrick's statements contradict State Farm's position on the alleged regulatory obstacles to obtaining necessary rate increases. When asked whether State Farm's withdrawal from the California market was "orchestrated," on the recording, Mr. Kirkpatrick appeared to agree, attributing the orchestration to regulatory delays and political considerations.[9] Yet at the February 26 meeting, you reminded State Farm:

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[3] Feb. 26, 2025 Transcript at 38:25-39:2.
[4] Feb. 26, 2025 Transcript at 39:5 -10.
[5] Feb. 26, 2025 Transcript at 40:2-6.
[6] https://youtu.be/DRnLed7wxd4?si=ntYoHCxx4XSuF7Rr at approx. time stamp 00:04:26:13 - 00:04:33:19.
[7] https://youtu.be/DRnLed7wxd4?si=ntYoHCxx4XSuF7Rr at approx. time stamp 00:05:23:24 - 00:05:33:03.
[8] https://youtu.be/DRnLed7wxd4?si=ntYoHCxx4XSuF7Rr at approx. time stamp 00:06:42:20 - 00:07:07:17.
[9] https://youtu.be/DRnLed7wxd4?si=ntYoHCxx4XSuF7Rr at approx. time stamp 00:05:51:19 - 00:08:13:10.

> "[N]othing in Prop 103 impedes you from asking for the actual rate that you need."[10]

State Farm responded by acknowledging that message, stating:

> "[B]eing responsive to that message from you and your staff, we began to work towards those larger rating paces that led to the last rate increase with you, so I acknowledge what you're saying."[11]

Despite this acknowledgment, Mr. Kirkpatrick's recorded remarks indicate that State Farm sees policy cancellations as a negotiating tactic, rather than an unavoidable consequence of regulatory constraints.

Finally, at the meeting, State Farm insisted to you that it "want[s] to be in the California market," "to continue to serve the millions of customers in the State of California," and that "we want to support the California market."[12] But Mr. Kirkpatrick's comments suggest a different attitude toward certain California homeowners at State Farm:

> "Like in Marin County and Northern California, or some of the fringe areas, like where the Palisades are, there should never be houses built in the first place"

because Californians are building homes in these locations "where they have natural areas around them for their ego."[13] This statement reflects a dismissive attitude toward large portions of the state, raising further concerns about State Farm's true commitment to maintaining coverage for homeowners in California.

Given the ongoing insurance crisis in California and the vital role of the Department of Insurance in protecting consumers, we urge you to investigate this matter further. State Farm's statements at the February 26 meeting are inconsistent with Mr. Kirkpatrick's more candid remarks, and this discrepancy warrants closer scrutiny. At a minimum, this is yet another reason to give notice of an expedited formal hearing on State Farm's rate application—where company officials can be placed under oath and cross-examined about conflicting statements. California consumers deserve to know whether this insurer is truly committed to serving them or merely using the threat of cancellation of their coverage as a bargaining chip. California consumers should not be threatened with the loss of coverage due to orchestrated strategic corporate maneuvers.

There is no justification for approving an unprecedented interim rate increase request, especially if State Farm intends to pocket the cash and abandon consumers. Consumers should not be forced to fund State Farm's exit strategy from the California market.

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[10] Feb. 26, 2025 Transcript at 23:12-13.
[11] Feb. 26, 2025 Transcript at 23:18-22.
[12] Feb. 26, 2025 Transcript at 38:1-22.
[13] https://youtu.be/DRnLed7wxd4?si=ntYoHCxx4XSuF7Rr at approx. time stamp 00:09:57:13 - 00:10:36:07.

Thank you for your attention to this urgent issue. I appreciate your dedication to ensuring fairness and stability in California's insurance market.

Sincerely,

WILLIAM PLETCHER
Litigation Director
PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc: Michael Martinez, Chief Deputy Commissioner
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Bureau
Vanessa Wells, Hogan Lovells, Counsel for State Farm General

EXHIBIT IRH-CWD-219

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE

Closed Meeting Transcript | Zoom

Follow-up Meeting re. State Farm General Insurance Company Request for Emergency Interim Rate

March 11, 2025

Commissioner Ricardo Lara | 0:17 - 0:20

Lucy, is everybody on, that we know that's supposed to be?

Lucy Wang | 0:21 - 0:23

Is Mr. Krause going to be joining us?

Keesha-Lu Mitra | 0:25 - 0:25

Yes.

Commissioner Ricardo Lara | 0:27 - 0:27

Oh, he's here.

Lucy Wang | 0:28 - 0:30

He's here. Okay.

Dan Krause | 0:28 - 0:30

I'm here. Yep. Thank you.

Lucy Wang | 0:31 - 0:33

Okay, Commissioner, I think everyone is here.

Commissioner Ricardo Lara | 0:35 - 1:12

Perfect. Thank you. Thank you. Good afternoon everyone. Thank you for joining me in this call regarding the State Farm Insurance Company's request for approval of an emergency interim rate. We're going to be recording. I know we're going to be recording this meeting and I have a couple folks from the department that are running the Zoom, which I do not know how to do. So, I hope you don't mind. And again, today I've asked all the parties involved - State Farm, the Department, and Watchdog - to join me because I want to share some additional thoughts and a proposal moving forward.

Commissioner Ricardo Lara | 1:13 - 1:36

And of course, just to remind everybody, we are on a video conference call. The call is being recorded and can be transcribed if needed. So since, and I don't want to take too much of your time because I know we all have a busy calendar. So, since our last meeting, State Farm Mutual and State Farm General released their 2024 year-end annual statements.

Commissioner Ricardo Lara | 1:37 - 2:19

And based on my review of the State Farm's year-end annual statements from 2023 to 2024, there is, in my opinion, indeed a concern regarding its surplus and a need to strengthen, especially, its Risk-Based Capital ratio. And I do note, that this is only one of the indicators that regulators use to evaluate a company. However, State Farm is seeking the interim rate, as we all know. And it goes without saying that State Farm's assertions regarding its financial situation will be fully reviewed and investigated in a full and transparent rate hearing.

Commissioner Ricardo Lara | 2:19 - 2:55

I know this is something that was brought up in our last meeting and something that we all want. And so, I want to reiterate that the situation will be fully reviewed and investigated in a full and transparent rate hearing. You'll hear me say that often because I want to reiterate that point. Because we, I do feel it's important that we have this discussion and based on State Farm's RBC ratio at the end of 2024, as well as its CAT load factors due to the LA wildfires, I believe there is support for an issuance of an interim rate to State Farm.

Commissioner Ricardo Lara | 2:56 - 3:37

Again, pending a full rate hearing. And you know, we know that the CAT load doubled from January, from June 2024 to February 2025. However, you know, this type of request, again is unprecedented. I want to make that very clear. I'm making it more complex than a straightforward request for an interim rate. As I mentioned in our last meeting, California's

insurance crisis, California's insurance market, I should say, I keep saying crisis, is currently facing significant challenges due to the climate catastrophes, rising global reinsurance cost, and a tightening national property insurance market.

Commissioner Ricardo Lara | 3:38 - 4:08

And now, further underscoring these potential trade and tariff wars that we are going to potentially enter into, which are only going to exacerbate the cost to rebuild and the cost for critical materials. As I mentioned in our last meeting, one of the biggest challenges I face as the commissioner is balancing a stable and sustainable insurance market with effective oversight while ensuring that Californians have access to a variety of insurance options.

Commissioner Ricardo Lara | 4:09 - 4:43

So, a significant concern of many consumers is the fear of non-renewal, which often leads to them to forgo filing legitimate claims due to worries that, you know, doing it might result in losing their insurance coverage. This, to me, is completely unacceptable, especially in the largest market in the country. Additionally, this fear continues to fuel misinformation and discourages consumers from accessing the benefits that they're entitled to.

Commissioner Ricardo Lara | 4:43 - 5:26

And many are already anxious about losing their coverage and being forced onto the Fair Plan. And this is why I continue to raise this issue. And in terms of what certainty can consumers expect from State Farm if granted an interim rate, I do appreciate State Farm was the first insurer to voluntarily suspend pending non-renewals and cancellations in areas affected by the Palisades-Eaton fires. Additionally, State Farm paused the notification process for homeowner non-renewals across all of LA County, but I believe that State Farm can and must take further action.

Commissioner Ricardo Lara | 5:27 - 5:59

Therefore, I am proposing granting State Farm's request for an emergency interim rate and I accept my department's recommendation of a 22% interim rate increase, while all parties also prepare for a full rate hearing. Again, let me say that again, while we all prepare for a full rate hearing. This approval would be provisional and will require State Farm to issue full refunds with interest if it fails to substantiate the validity of this rate.

Commissioner Ricardo Lara | 6:00 - 6:34

Additionally, along with the interim rate, I would like State Farm to undertake two specific actions. First, I would like State Farm to agree to pause any pending non-renewals and cancellations for all of its policyholders throughout California through the end of 2025. And second, I would like State Farm to obtain a loan or capital infusion from State Farm Mutual in the amount of $500 million to help strengthen its surplus and improve its RBC ratio.

Commissioner Ricardo Lara | 6:35 - 7:19

And you know, again as made clear from the State Farm documents and comments from last meeting, it needs to shore up its financial strength. Raising rates alone is not going to do it. The Department granted State Farm a 20% increase last year and its surplus continued to decrease to throughout 2024. And this is despite the fact that State Farm ceased writing new business in 2023. So even if I grant State Farm a preliminary interim rate increase of 22%, that is not going to bring your RBC ratio to where it needs to be without additional help in 2025.

Commissioner Ricardo Lara | 7:20 - 7:34

And so, you know, we don't have your financials from the first quarter of 2025. This is why I propose State Farm Mutual provide you with additional capital support and demonstrate that you are also putting some skin in the game.

Commissioner Ricardo Lara | 7:34 - 8:10

And it's not just on the backs of the rate payers in California. This type of support is not without precedent. Between 2000 and 2010, State Farm Mutual made loans to State Farm Lloyd's, its Texas subsidiary, in the amounts of $1.2 billion and $642 million. In the past five years, State Farm Mutual has helped out other subsidiaries such as HiRoad Assurance Company, Dover Bay Specialty Insurance Company and State Farm Classic Insurance Company.

Commissioner Ricardo Lara | 8:11 - 8:41

So, you know, one of State Farm's focus is the ability to be self-sustaining and should be their main focus. Continuing to rate, continuing rate increases alone without capital support is not going to be sufficient. And now I know that Mr. Schwamberger spoke at great length about State Farm's desire to continue serving millions of customers in the state of California and how that cannot happen without a rate increase in order to achieve greater financial stability.

Commissioner Ricardo Lara | 8:42 - 9:20

And then Mr. Krause also stated that granting a rate increase is a positive sign needed in order to be able to continue to non-renew customers and a signal to the State Farm Mutual that California's investing and ensuring that State Farm General is on the path to being self-sustaining. But as you know, as the California regulator, my responsibility is to ensure, yes, a sustainable insurance market. I also acknowledge that State Farm insures more, you know, more Californians, State Farm insures, more Californians than any other insurer that everyone on this call is already aware of.

Commissioner Ricardo Lara | 9:20 - 9:48

It's important to also recognize that other insurers in California cannot absorb State Farm's customers, which raises concerns that these customers may end up on the Fair Plan. Something that we all need to avoid. The situation would undermine one of my main, this situation, if it were to happen would undermine one of my main objectives of the Sustainable Insurance Strategy, which is to reduce reliance on the Fair Plan.

Commissioner Ricardo Lara | 9:49 - 10:20

So, my priority is the welfare of California consumers, including your current consumers who should not face higher rates or uncertainty of losing their coverage. So, for this reason, I fear I'm being fair and asking State Farm to demonstrate its commitment to California by providing a capital infusion from its parent company, State Farm Mutual, and by agreeing to suspend non-renewals for all of Californian through 2025.

Commissioner Ricardo Lara | 10:20 - 10:50

Look, I understand this is a significant request, one that I don't make lightly either because you know, again, our consumers are going to have another rate increase and we need to demonstrate, we need to see, that State Farm is willing to also put some skin in the game. And look, you don't have to respond immediately. I would like to give you at least a day to consider it and have all the parties involved consider the proposal.

Commissioner Ricardo Lara | 10:50 - 11:25

And if you require more time, please let Lucy know. Ideally, I would like to issue my order by the end of the week, but you know, I know I've been talking the entire time, but wanted to kind of put out our proposal and give some justification for that. And if you have any questions, I would entertain those now, but also understand that everybody's just got this information and we could allow for other questions that could be sent to Lucy throughout the next couple hours or the next day.

Commissioner Ricardo Lara | 11:25 - 11:55

Again, I'm committed to getting this done within two weeks. We are down to the last week and want to see if people have any initial reactions or thoughts. Again, this action is going to go hand in hand with the full rate hearing. I feel it's important so that we can have some transparency and really get down to looking at these financials to how do we get State Farm's financial house in order? And I know it's something that the department wanted, something that Watchdog wanted.

Commissioner Ricardo Lara | 11:55 - 12:01

It's something that I feel is very important. So, I'll stop talking now, Lucy, and see if there's any questions.

Dan Krause | 12:07 - 12:43

Thank you, sir. Appreciate the opportunity to think about what you've just proposed. I do think we had talked about, with that rate, we believe we could refrain from any additional non-tenant homeowner block renewals for at least one year. That's something that we would be willing to offer, at least initially. And then I think, what else I would say is our State Farm Mutual board did just conclude their meeting. We did receive confirmation that the State Farm Mutual board is willing to consider capital support if our interim rate request is approved.

Dan Krause | 12:44 - 13:05

While the State Farm Mutual board of directors must approve that support inform and amount, it is our informed belief that State Farm Mutual will approve a SERFF surplus note of at least $250 million. This would position State Farm General well for the short term and creates the opportunity to seek additional capital as the full rate review is completed and risk exposure is being managed.

Commissioner Ricardo Lara | 13:08 - 13:12

Okay, we'll take note of that. I think Pamela, you raised your hand.

Pamela Pressley | 13:21 - 13:47

Sorry about that. Yeah, just a couple questions. You mentioned that you had a concern about surplus and then also, I think you mentioned the CAT load doubled. I, one question was, are you

referring to the CAT load that State Farm calculated in its proposed interim rate or something different?

Commissioner Ricardo Lara | 13:47 - 13:48

Yeah, Lucy, if you can.

Lucy Wang | 13:49 - 14:07

Yeah, we're talking about the CAT load that State Farm put in SERFF. I mean we reviewed what State Farm submitted in SERFF for their June 2024 application and then the updated information is provided after its request on February 3rd.

Pamela Pressley | 14:08 - 14:29

Okay. So that was based on their methodology for doing CAT load. Okay. And then the other question was, is this including the other two policy forms? You mentioned the 22% for homeowners, but is this also including the rental dwelling and the renter's condo request?

Lucy Wang | 14:30 - 14:44

I believe that is the recommendation the department provided. I mean, I think primarily we've always talked about the homeowners. Is it the 22% the department recommendation? I see Nikki nodding her head.

Nikki McKennedy | 14:50 - 15:16

Good afternoon. There were different rates requested for the different lines and it is 22% for the non-tenant homeowners. I think it's 15% for the renters, Vanessa, stop me if I'm wrong. And then was it 11% or 12% for the renters or for the condo rental building?

Commissioner Ricardo Lara | 15:17 - 15:25

My goal was to follow the department's recommendations on all the three rates. But if we can, Nikki, if you can just, for sake of certainty.

Nikki McKennedy | 15:26 - 15:29

I've got it. Okay, so sorry.

Nikki McKennedy | 15:34 - 15:55

It's exactly 21.8% for the homeowners' non-tenant. It's 15% for the overall renter condo tenant line and it's a plus 38% for the rental dwelling. And that's in line with the stipulation that State Farm and the department staff previously submitted.

Nikki McKennedy | 16:00 - 16:09

The biggest chunk of the business is with the homeowners' non-tenant line. So that is the most significant interim rate request.

Commissioner Ricardo Lara | 16:14 - 16:17

Pamela, do you still have a question or is that a legacy handout?

Pamela Pressley | 16:19 - 16:20

No, those were my questions for now.

Commissioner Ricardo Lara | 16:21 - 16:56

Okay. Okay, great. Okay. If nobody has any other questions, I'll give you all a day to circle back and see what your thoughts are. We're really looking forward to trying to close this by the end of the week, but also understand we want to give all the parties an opportunity to ask questions and get their thoughts in order. So, I just wanted to propose that today. And then any further questions or comments, if you could forward that to Lucy and then we can start the ball rolling and see what people think.

Commissioner Ricardo Lara | 16:57 - 16:58

So, I appreciate your time. Thank you.

Lucy Wang | 16:58 - 17:02

Wait, I see Will Pletcher, oh, do you have a question?

William Pletcher | 17:02 - 17:17

Just wanted to thank you for this proposal and you know, for this meeting and we'll certainly consider it and also really appreciate the opportunity to go to a full rate hearing, as well. So just wanted to thank you for that.

Commissioner Ricardo Lara | 17:17 - 17:19

I heard you loud and clear and I agree.

Lucy Wang | 17:21 - 17:22

Thank you everyone.

Commissioner Ricardo Lara | 17:22 - 17:23

Thank you.

Ben Armstrong | 17:25 - 17:25

Thanks.

Nikki McKennedy | 17:26 - 17:26

Thank you.

EXHIBIT IRH-CWD-220

Hogan Lovells US LLP
855 Main Street
Suite 200
Redwood City, CA 94063
T +1 650 463 4000
F +1 650 463 4199
www.hoganlovells.com

March 11, 2025

SETTLEMENT COMMUNICATION[1]

Via Electronic Mail Only

Lucy F. Wang
Deputy Commissioner and Special Counsel
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, California 94612
Email: *lucy.wang@insurance.ca.gov*

Re: State Farm General Interim Rate Request: File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013

Dear Deputy Commissioner:

On behalf of State Farm General Insurance Company (SFG), I am writing to respond to Commissioner Lara's proposal made today during his meeting with the Department, SFG, and Consumer Watchdog. It was evident from the Commissioner's discussion that he has given this matter much thought and recognizes the current risk to the market as well as to SFG and its policyholders, and we appreciate that thorough analysis.

We address the two conditions the Commissioner suggested would be attached to approval of an interim rate, (1) financing from SFG's parent, and (2) an agreement regarding suspension of non-renewals for the Non-Tenant Homeowners line (i.e., owner-occupied residential insurance), and finally we address timing.

(1) Financing from SFG's parent: Subject to approval of the interim rate, SFG will secure a commitment from its parent, State Farm Mutual Automobile Insurance Company, to provide $400 million in capital via a surplus note (which must be approved by the Illinois Department of Insurance), to be issued as soon as possible and before what would now be the effective date of the interim rate (June 1, 2025), and to be repaid with interest in due course. SFG may request additional capital in the future based on need and the prospects for a financial recovery.

[1] This communication is made to resolve State Farm General Insurance Company's request for an emergency interim rate. State Farm General takes the position that Evidence Code § 1152, through Government Code § 11415.60(a), applies to this communication.

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(2) Agreement to suspension of Non-Tenant non-renewals: SFG will agree not to engage in further block non-renewals[2] for the Non-Tenant Homeowners line of business for the remainder of 2025. In considering its response to this component of the proposal, SFG has had to weigh the continuing reality that its California book is overweighted in relation to the resources it has to support the exposure of that book. SFG has concluded that it must complete the non-renewals announced in March, 2024, with the exception of the suspensions to which it has agreed for Los Angeles County. This represents a needed reduction in the book for purposes of aligning California risk to the resources SFG has to protect policyholders against that risk. We heard and understand the Commissioner's concern with policyholder uncertainty; we believe our proposal balances that concern with the need to reduce California risk.

With respect to timing, since making its emergency interim rate request on February 3, SFG has had to plan for alternatives depending upon the result of the request. Most specifically, following the February 26 meeting, SFG planned for alternatives if its request were denied at the two week deadline set by the Commissioner, which is tomorrow, March 12. And SFG had prepared to announce alternate plans on March 13 in the absence of approval. SFG can hold off on alternatives for another day in light of the Commissioner's comments about timing in today's meeting, but would have to know whether it will get the requested approval by Close Of Business on Thursday, March 13, in order to redirect those alternative plans. With all respect, we ask for a decision by that time.

Sincerely,

Vanessa Wells

Partner
vanessa.wells@hoganlovells.com
D 650 463 4022

cc: *(via e-mail)*: Michael Martinez (*michael.martinez@insurance.ca.gov*)
Nikki McKennedy (*nikki.mckennedy@insurance.ca.gov*)
Pamela Pressley (*pam@consumerwatchdog.org*)
David Grow (*david.grow.jhns@statefarm.com*)

[2] The distinction we are drawing is between "block" non-renewals to reduce risk, and non-renewals for failure to pay premium or to meet underwriting guidelines, as always occur in the ordinary course of prudent oversight of an insurance business.

EXHIBIT IRH-CWD-221

March 11, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

Thank you for your time during our February 26 meeting as we answered your questions about State Farm General's Request for Emergency Interim Rate Approval. Throughout the pendency of these rate applications, and since our emergency request, we have been focused on providing you and your staff the information you need to safeguard the public's interests. We strongly believe this is best achieved by emergency approval of an interim rate, which indicates to providers of capital and rating agencies that there is a path for State Farm General (SFG) and the larger homeowners market toward a sustainable future even in the face of recent catastrophes.

Meanwhile, we have refrained from 'relitigating' before you our disagreements with intervenor Consumer Watchdog, as a public hearing is the place for a full and fair airing of relevant matters prior to a decision on a final rate. But as you continue to consider our request, we are compelled to correct the intervenor's ongoing mischaracterizations and misunderstandings. They propound an alternate reality where property insurers are making enormous profits in California but are inexplicably pulling back from the market. As we have said for many months, our aim is to create a path forward for SFG, its customers and the California market. We had hoped that given this crisis, all parties would work toward a solution, but evidently that is not the intervenor's goal.

- **The Commissioner has interim rate authority here.** Contrary to assertions, no one is suggesting there won't be a public hearing prior to a final rate approval absent settlement, fully consistent with Prop 103. And "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, for example. The Commissioner has broad authority and discretion under Prop 103, and nothing in that law forbids him from taking emergency action to protect consumers from an approaching insolvency by granting the insurer an interim rate increase.

- **SFG has pursued needed rate with urgency and transparency.** Since these solvency-based rate applications were originally filed last summer, SFG has maintained continuous communications with the California Department of Insurance (CDI) as together we tried to work through the novel issues presented. We have publicly provided hundreds of pages of data and responded to every request from CDI in SERFF, including providing relevant data from confidential trade secret documents and inviting CDI to advise us what further information from those documents may be needed. And we have voluntarily responded to every Request for Information (RFI) from the intervenor. As counsel for

CDI noted at the February 26 meeting, "we have determined [that SFG has] made a preliminary showing that they can get the interim rates subject to refunds with interest, if necessary."[1] SFG is prepared to further support its rate request in a public hearing, including through full first quarter 2025 data when it becomes available later in the spring.

- **SFG's reinsurance program is structured to protect its own solvency for the benefit of its customers.** It is because of reinsurance that SFG hasn't already been forced to massively reduce its book of business. And it is because of reinsurance that SFG still has a chance to retain much of that business, assuming an emergency rate is approved. The fact that SFG paid more for reinsurance over an arbitrary time period than it received back in recoveries isn't evidence of a 'bad deal' any more than is a homeowner paying for insurance even in years their house didn't burn down – because no one can know in advance when it will. Otherwise, no one would buy insurance at all. Catastrophe reinsurance, even more than primary insurance, is all about coverage for infrequent but very high severity events. SFG's reinsurance premium payments to State Farm Mutual Automobile Insurance Company (its primary reinsurer) have provided SFG with an average of $4.0 billion in annual coverage over the last 10 years, and $8.8 billion in the most recent treaty year. Based on market insights from our reinsurance broker, placing this much coverage with third party reinsurers would be at a rate significantly higher than that charged by State Farm Mutual, if it could be placed at all under today's difficult reinsurance market conditions in which many reinsurers are viewing CA wildfire as too volatile to allocate more capacity to the peril. In any case, the Los Angeles wildfires, for which SFG will retain roughly $200 million while receiving billions of dollars of reinsurance recoveries from State Farm Mutual, illustrate with crystal clarity why SFG prudently administers a robust reinsurance program, and that it is designed to protect SFG's solvency and not to maximize reinsurer profits.

- **Subrogation recoveries have been properly allocated between SFG and its reinsurers.** Another aspect of the intervenor's confusion around reinsurance appears to stem from the treatment and timing of subrogation recoveries from the 2017 and 2018 wildfires. Subrogation recoveries received in 2020 and later years related to these earlier fires were contractually owed to internal and external reinsurers to the extent that the losses from the events exceeded losses SFG was required to retain under its reinsurance contracts. In essence, the reinsurers were reimbursed for their share of the losses that they absorbed in the first place. Without this contractual obligation to pass through subrogation recoveries to reinsurers, the availability and cost of reinsurance would be far more challenging for primary insurers than it is today.

- **Any allegation of "anticompetitive strategy" or "predatory pricing" by SFG is baseless.** The idea that SFG purposely kept its rates artificially low so that it could grab market share is so far from the truth that it's hardly worth responding, but we direct you to a recently published piece[2] from a long-time industry observer who deftly summarizes its preposterous nature. He notes: "State Farm's rapid growth … was the result of being the last insurer standing. This is a common problem for State Farm. When everyone else leaves in a hurry, and they remain, suddenly all the business flows to them. They are guilty of being slow to turn off the spigot and join the others in a panic. If State Farm was a public company, as opposed to a mutual controlled by policyholders, investors would hate this behavior. As a

[1] See Transcript of February 26, 2025 meeting between the parties, at 28:7-9.
[2] See Brian Sullivan, "Setting the Record Straight: State Farm Didn't Burn California," Property Insurance Report, March 6, 2025 (https://df9fd9b6ab64495ad759-f14ba961ae89374e6d5a8ee602c09059.ssl.cf5.rackcdn.com/1919.pdf?i=817248).

regulator, or as a consumer, or a consumer group, this market-stabilizing activity is exactly the kind of thing you hope for out of your market leader." He says that SFG warned of rate inadequacy "very publicly" and "over and over as they requested substantial rate increases." Continuing: "Verifying these claims were financial statements … showing enormous underwriting losses that were draining available capital. … State Farm was not lowballing the market. They were charging the maximum [the historical regulatory approach] would allow. To suggest that State Farm was intentionally charging too little is to ignore the available facts." Finally, it's important to remember that during much of the last decade, the rating regulations were applied (over SFG's objection) to reduce SFG's allowable rate by the imputed investment income of its parent company. That issue was not resolved until litigation upholding SFG's objection finally concluded in 2022, which then allowed SFG additional rate in CDI's rating formula.

- **Any allegation of SFG "manipulating" regulators or the public through its emergency request is likewise baseless.** The intervenor points to recent social media coverage of unofficial comments in a personal setting from an individual no longer associated with any State Farm company. This person was never an officer of SFG, never supervised any officers of SFG and was never involved in or had any responsibility for business decisions relating to SFG or its California operations, including anything to do with our pending rate requests or exposure reduction measures. SFG's actions and communications have been grounded in our attempts to be forthright with you and with the public about the economic realities we face and the difficult choices before us.

- **Writing new policies doesn't make any sense at this time.** Having blamed SFG's problems on growing too much without securing sufficient rate increases, the intervenor suggests the remedy is more of the same. This fails to understand basic economic realities of the business of insurance. Increasing our risk exposure wouldn't be responsible for an insurer that's already struggling to maintain statutorily-required levels of surplus for the exposure it already has.

- **Our rate request isn't about SFG's so-called "Wall Street credit rating."** As the intervenor well knows, SFG is not listed on any stock exchange, nor is its parent, which is a mutual company with no shareholders. SFG does not use any external financing such that its "credit rating" would matter. Rather, we're seeking to prevent an additional downgrade to SFG's "financial strength rating," as determined by independent rating agencies, which is a metric used by mortgage lenders to determine whether policyholders can use SFG insurance to meet the mortgage lenders' insurance requirements. In addition to AM Best's downgrade of SFG's financial strength rating last year, S&P Global Ratings recently announced that it has placed SFG on what it calls a "CreditWatch with negative implications," a review process that "could lead to a rating downgrade by multiple notches."[3] As explained previously, a downgrade of sufficient magnitude could mean mortgage lenders might not accept SFG insurance as adequate protection for their mortgage collateral (i.e. the insured structure). If that were to happen, homeowners with a mortgage might be forced to find other insurance – likely the FAIR Plan - without any action at all on SFG's part. That is, the primary concern here is *for our policyholders*, as SFG has explained to the intervenor from the day it requested an interim rate. This potential impact on consumers is what drives the urgency behind our emergency request.

[3] See https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3328722 ("State Farm General Insurance Co. 'AA' Ratings Placed On CreditWatch Negative On Weakening Capital Position," published February 25, 2025.

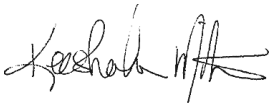
- **Consideration of parental support depends on emergency rate approval.** As we explained on February 26th, "the State Farm Mutual Board is comprised of all external, independent directors except for the State Farm Mutual CEO" and "their fiduciary duties require them to exercise reasonable care, judgment, and diligence [around] what is in State Farm Mutual's best interest as an entity and its policyholder group as a whole." State Farm Mutual has policyholders in all 50 states, including California residents who may not own a home or have any SFG products. It would be imprudent to ask State Farm Mutual's Board of Directors to consider injecting capital into a company whose prospects for repayment are grim without emergency rate approval and continuing transformational reforms to the market. It has been noted that State Farm Mutual has offered capital support to an affiliate in the past, such as in the case of Texas. That example is actually instructive, as the rating environment there has in fact allowed that particular surplus note to be entirely repaid, with interest. Without realistic prospects for an affiliate to be able to stand on its own, parental support would merely temporarily mask whatever is contributing to its financial distress and the affiliate would before too long revert to where SFG is today. That said, we reiterate our assertion at the meeting that an emergency rate approval would be a positive sign in support of a request from SFG to the State Farm Mutual Board of Directors for financial assistance.

In conclusion, Commissioner, in the interest of our customers and the entire California insurance market, we respectfully urge you to grant our emergency interim rate request with immediacy, while leaving any remaining issues to be resolved at a full public hearing if the parties are unable to first reach a settlement.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

EXHIBIT IRH-CWD-222

Via email

March 12, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
commissionerlara@insurance.ca.gov

Re: *In the Matter of the Rate Applications of State Farm General Insurance Company*
PA-2024-00012/SFMA-134139896 – Homeowners;
PA-2024-00011/SFMA-134139931 – Renters and Condo; and
PA-2024-00013/SFMA-134139850 – Rental Dwelling

Dear Commissioner Lara:

Thank you for the opportunity yesterday to further discuss State Farm's "interim" rate request. As you noted during our video teleconference on March 11, 2025, State Farm General's (SFG) request for immediate approval of an over $900 million increase across its homeowners, renters and condo, and rental dwelling policies is a critical issue for California consumers who are increasingly concerned about rising insurance rates and the availability of competitive options in the insurance marketplace.[1]

Consumer Watchdog reiterates its opposition to SFG's request for "emergency interim rate" increases in PA-2024-00012, PA-2024-00011, and PA-2024-00013 to be implemented before State Farm's fully justifies them in a prior approval hearing as required by Proposition 103.

As outlined in our prior correspondence and supporting memoranda, SFG has failed to demonstrate any legitimate justification for such an extraordinary request. It has acknowledged in its presentation to you at the February 26 informal conference that it has the funds to cover losses from the Los Angeles fires. The additional information provided by SFG concerning its general financial condition has not been subjected to the thorough public review that is required by Proposition 103.

You also cited in yesterday's teleconference with the parties your concern that SFG's cat load projection used in its interim rate calculation "doubled" from its original June filing. SFG's projection is based on its own revised methodology and includes an "estimated" provision for the

[1] 22% ($760 million, an average increase of $600 annually per policyholder) for the company's homeowners insurance policies, 38% ($122 million) for its rental dwelling policies, and 15% ($39 million) for its renters and condo policies.

January 2025 wildfires of more than $6 billion that was not adequately supported. Moreover, this means that SFG projects that almost half of its loss payments in California for homeowners insurance will come from catastrophe events, which is completely unrealistic and unsupported.

Additionally, we present two further arguments against granting the interim rate request:

1. **A Capital Infusion from the Parent Company Will Improve RBC Position; Policyholders Must Benefit From Any Capital Infusion They Are Required to Make.**

In its letter response last night, SFG stated its parent company would provide $400 in capital via a surplus note to be repaid with interest, which would be subject to approval by the Illinois Department of Insurance. Additionally, SFG conditioned that $400 million infusion on your approval *of the full amount of the over $900 million in "interim" rate increases* that it seeks without any offset to policyholders in the size of the requested emergency rate increase.

But as you have identified, State Farm Mutual Auto Insurance Company, SFG's parent entity, has the financial capacity to stabilize SFG's RBC position. SFG's parent has over $145 billion in surplus, making the $500 million capital infusion that you proposed at the meeting as a precondition of your decision to grant the company interim rate increases, only approximately 0.34% of its total surplus. Moreover, a $500 million capital infusion from the parent company to SFG would appear to sufficiently improve RBC levels to create a $150 million cushion (according to our analysis of the limited data provided by State Farm), and therefore eliminate the purported need for an immediate rate increase prior to a hearing. 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 the parent company has undertaken similar financial interventions in other states. There is no reason why California policyholders should be treated differently from State Farm policyholders in other states or bear the cost prior to SFG proving up its requested rates as required by Proposition 103 when alternative means of financial stabilization exist within the State Farm corporate structure.

2. **SFG's Non-Renewal and Cancellation Moratorium Should Apply Statewide, to All Existing Policyholders, and Extend Through 2026.**

Your second precondition to granting State Farm unprecedented "emergency interim rate" relief is that the company suspend all currently pending non-renewals and cancellations statewide for the rest of this year, i.e. nine months. During yesterday's teleconference and its March 11 response letter, State Farm countered with a pledge to refrain from "*block* non-renewals" for one year for only its Non-Tenant Homeowners line. Moreover, as stated in its March 11 letter and email communications today, SFG's proposal would allow it to continue the remaining 11,000 nonrenewals under its yet unapproved rule filing submitted in March 2024, with the exception of those in LA County that were pending within 90 days prior to the January 7 fires.

Consistent with your comments emphasizing the need for stability in the California homeowners' insurance market, you should require SFG to extend its current non-renewal and cancellation moratorium for all State Farm policyholders, including the remaining 11,000 under the March 2024 rule filing, and through at least the end of 2026, rather than 2025. Given the substantial rate increases SFG has already received (most recently, 20%) and the significant capital support available from its parent company, extending the moratorium will provide policyholders with

much-needed security and prevent further market destabilization. This commitment would demonstrate good faith on SFG's part while allowing a transparent and properly noticed rate hearing process to proceed without undue pressure on consumers.

In light of these considerations, we urge you to reject SFG's "emergency interim rate" request and instead direct the company to seek financial support from its parent while allowing its full rate application to be evaluated through an appropriate and required lawful hearing process. We stand ready to engage in a thorough and expeditious review of SFG's June 2024 application in accordance with Proposition 103's requirements.

Sincerely,

WILLIAM PLETCHER
Litigation Director
PAMELA PRESSLEY
Senior Staff Attorney
CONSUMER WATCHDOG

cc: Michael Martinez, Chief Deputy Commissioner
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Bureau
Vanessa Wells, Hogan Lovells, Counsel for State Farm General

EXHIBIT IRH-CWD-223

Thursday, March 13, 2025 at 14:58:42 Pacific Daylight Time

Subject: RE: State Farm Letter Responding to 3/11/2025 Proposal
Date: Thursday, March 13, 2025 at 1:13:37 PM Pacific Daylight Time
From: Wells, Vanessa
To: Wang, Lucy
CC: Martinez, Michael, McKennedy, Nikki, Pam Pressley, David Grow

Deputy Commissioner Wang, I have consulted with my client, and State Farm General provides this response to your email of 7:35 this morning:

We understand the difficult decision the Commissioner has to make and all that he is balancing. Your response this morning was surprising and concerning. It is surprising in its assertions and concerning given the implications for our customers and for the insurance market in California. State Farm operates with integrity, and we take great issue with any suggestion to the contrary. State Farm General Insurance Company (State Farm General) stands behind the information we provided directly to the Commissioner; that information clearly demonstrates the significantly weakened financial condition of State Farm General and the need for this interim rate. Your own department agrees with that statement as do other official and respected sources who evaluate State Farm General's financial strength and claims paying ability, including the Illinois Department of Insurance (SFG's domestic solvency regulator) and external rating agencies.

We posit the following unequivocal truths regarding State Farm, which numerous independent entities clearly establish, regarding State Farm General's concerning financial condition. Over the last several months, State Farm General has engaged in conversations with the CDI and State Farm General's domiciliary financial solvency regulator to educate on State Farm General's financial condition. Commissioner Lara himself expressed concern after reviewing State Farm General's most recently filed annual statement; he noted the need to strengthen surplus and the RBC ratio. As we have shared numerous times, State Farm General's RBC ratio has triggered company action level and is on the cusp of triggering regulatory action level. This is despite the RBC ratio being calculated ***BEFORE*** taking into consideration the losses from the California wildfires. The CDI's own Financial Analysis Division is fully aware of State Farm General's financial condition. In fact, CDI staff recommended approval, and Commissioner Lara specifically noted he believed there was support for interim rate pending a full rate hearing. Without rehashing all the information already provided, you are well aware of copious documentation provided through SERFF to justify State Farm General's financial position and externally also well aware of the fact that an independent third party, S&P Global Ratings, who rates the company's financial health, has placed State Farm General's financial strength rating on a credit watch with negative implications. They indicated their review process could result in lowering the current rating by multiple notches. This decision follows an earlier downgrade of State Farm General's financial strength rating by AM Best in March 2024. These official sources and clear transparency on our part strongly refute the assertion about it being hard to determine what is truth and what is fiction.

We understand there may be differences of opinion but we will not accept impugnment of State Farm's credibility, reputation, and character based on a false narrative of a lack of transparency and doubt as to the credibility of our financial statements and related information.

Regarding reported comments by an individual no longer associated with State Farm, we disavow any suggestion of 'manipulation' or using policy renewals as a 'bargaining chip.' As the facts above highlight, State Farm General's actions and communications are grounded in forthrightly explaining economic realities and the difficult choices before us.

We again urge that you adopt the CDI team's recommendation. If the Commissioner's decision has been made, we are similarly situated to move ahead with our necessary actions to address State Farm General's financial stability. Our goal continues to be a sustainable California insurance marketplace, a goal on which we hope we continue to be aligned. We look forward to hearing the Commissioner's decision by close of business today.

From: Wang, Lucy <Lucy.Wang@insurance.ca.gov>
Sent: Thursday, March 13, 2025 7:34 AM
To: Wells, Vanessa <vanessa.wells@hoganlovells.com>
Cc: Martinez, Michael <Michael.Martinez@insurance.ca.gov>; McKennedy, Nikki <Nikki.McKennedy@insurance.ca.gov>; Pam Pressley <pam@consumerwatchdog.org>; David Grow <david.grow.jhns@statefarm.com>
Subject: Re: State Farm Letter Responding to 3/11/2025 Proposal

[EXTERNAL]
Dear Ms. Wells,

The Commissioner is disappointed with State Farm's response, especially in light of the following news he has been reading and inundated with by others. Here is a brief sample:

https://abc7.com/post/state-farm-exec-haden-kirkpatrick-fired-secret-recording-appears-show-discussing-rate-hikes-socal-wildfires/16003843/

ABC Los Angeles: State Farm exec fired after secret recording appears to show him discussing rate hikes

LOS ANGELES (KABC) -- A State Farm executive has been fired after apparently making comments about the insurance company's recent rate hikes following the devastating SoCal wildfires.

In a shocking turn of events, Haden Kirkpatrick was fired after an undercover video appears to show him talking about rate hikes. What's worse -- the comments were made in reference to fire victims in the Pacific Palisades.

"Where the Palisades are, there should never be houses built there in the first place, where people want to be built in areas where they have natural areas around them for their ego. But they're also... its a (expletive) desert," Kirkpatrick is heard saying in the recording.

Kirkpatrick was a vice president for innovation and venture capital at State Farm. According to reporting from the L.A. Times, he was recorded during a Tinder date - saying that a request for rate hikes was "kind of" orchestrated "but not in the way you would think."

In the video, he appears to describe a bargaining situation with the department of insurance. He describes a final bargaining chip of threatening to cancel policies.

https://www.latimes.com/business/story/2025-03-07/state-farm-executive-haden-kirkpatrick-fired-after-saying-rate-hikes-are-orchestrated

https://www.latimes.com/business/story/2025-03-10/state-farm-seeks-emergency-rate-hike-amid-questions-over-finances-fire-response

https://www.sfchronicle.com/california/article/state-farm-insurance-video-20210883.php

At this juncture, given State Farm's continued claims, the reality is it needs to provide stronger documentation of its financial condition. It is hard to distinguish between what is truth and what is fiction. This is the information that the Department has asked for, and not received, since State Farm filed its rate applications in June.

As discussed many times, the Commissioner needs to balance his dual responsibilities to both consumers and a stable insurance market. If State Farm cannot help achieve this balance, then an expedited rate hearing may be the only answer. Please consider the above and let me know if State Farm has any further input before the Commissioner issues his decision. Thank you.

Sincerely yours,

Lucy Wang

Lucy F. Wang

Deputy Commissioner / Special Counsel

California Department of Insurance

1901 Harrison Street

Oakland, CA 94612

Email: lucy.wang@insurance.ca.gov

Office: 415.538.4377

Fax: 510.238.7830

From: Wells, Vanessa <vanessa.wells@hoganlovells.com>
Sent: Wednesday, March 12, 2025 10:09 PM
To: Wang, Lucy <Lucy.Wang@insurance.ca.gov>
Cc: Martinez, Michael <Michael.Martinez@insurance.ca.gov>; McKennedy, Nikki <Nikki.McKennedy@insurance.ca.gov>; Pam Pressley <pam@consumerwatchdog.org>; David Grow <david.grow.jhns@statefarm.com>
Subject: RE: State Farm Letter Responding to 3/11/2025 Proposal

Deputy Commissioner, Thank you for such an immediate response. I have consulted with my client. SFG leadership earnestly and urgently urges that foregoing completion of the announced nonrenewals, given existing dire circumstances as we have worked to explain, would be contrary to the prudent management of the company and would further jeopardize its future in this State. The Commissioner has underscored his interest in the measures SFG is taking to shore up SFG's financial strength. These specifically-tailored non renewals announced in March, 2024 are an essential, indispensable component of those measures, along with additional rate—which, as our discussions show, could be approved tomorrow. Neither is sufficient alone. One results in a reduction in PML—a measurable reduction in risk exposure—which (aside from reducing risk) creates a meaningful impact on reinsurance costs. The other supports rate adequacy, which is fundamental and crucial to any insurance product, thereby constituting a crucial first step to eventually restoring SFG's financial strength. Following extensive consideration and reconsideration of the request to suspend the remaining non-renewals necessary to adjust the book, in light of the realities explained in this note and throughout the process, and for the sake of our policyholder group as a whole, we must respectfully decline this condition. We have labored to provide alternatives, specifically offering the SFG companion policy to any non-renewed policyholder selecting a FAIR Plan policy. SFG looks forward to receiving the Commissioner's decision on its emergency rate request tomorrow so that it can plan accordingly.

Vanessa Wells
Partner

Hogan Lovells US LLP
855 Main Street
Suite 200
Redwood City, CA 94063

Tel: +1 650 463 4000
Direct: +1 650 463 4022
Fax: +1 650 463 4199
Email: vanessa.wells@hoganlovells.com
www.hoganlovells.com

Please consider the environment before printing this e-mail.

From: Wang, Lucy <Lucy.Wang@insurance.ca.gov>
Sent: Wednesday, March 12, 2025 6:33 PM
To: Wells, Vanessa <vanessa.wells@hoganlovells.com>
Cc: Martinez, Michael <Michael.Martinez@insurance.ca.gov>; McKennedy, Nikki <Nikki.McKennedy@insurance.ca.gov>; Pam Pressley <pam@consumerwatchdog.org>; David Grow <david.grow.jhns@statefarm.com>
Subject: Re: State Farm Letter Responding to 3/11/2025 Proposal

[EXTERNAL]

Dear Ms. Wells,

I appreciate the additional information. Given we are talking about the last 11,000 non-renewals, the Commissioner believes State Farm can forgo moving forward with these. We have an order prepared and can issue that tomorrow. It includes all the interim rate increases recommended by the Department with an effective date of June 1, 2025. We appreciate all the efforts that have gone into reaching this point. We are close to reaching an agreement that is good for State Farm's customers and for California's insurance market. I don't have any further questions at this time and ask State Farm to consider the Commissioner's request to hold off on these last 11,000 non-renewals.

Thank you.

Sincerely yours,

Lucy Wang

Get Outlook for iOS

From: Wells, Vanessa <vanessa.wells@hoganlovells.com>
Sent: Wednesday, March 12, 2025 6:18:58 PM
To: Wang, Lucy <Lucy.Wang@insurance.ca.gov>
Cc: Martinez, Michael <Michael.Martinez@insurance.ca.gov>; McKennedy, Nikki <Nikki.McKennedy@insurance.ca.gov>; Pam Pressley <pam@consumerwatchdog.org>; David Grow <david.grow.jhns@statefarm.com>
Subject: RE: State Farm Letter Responding to 3/11/2025 Proposal

Dear Deputy Commissioner,

As you requested, I have found some further details regarding the non-renewals announced in 2024. Originally, SFG announced 29,764 non-renewals. Of these, 12,677 were completed. 1875 non-renewals were suspended due to moratorium bulletins issued by the Commissioner in 2024 (I believe Bulletins 2024-12 and 2024-13). State Farm subsequently suspended 4,196 non-renewals in LA County. ((Note that a non-renewal can only issue as to the next renewal following a voluntary or mandatory suspension.) This leaves 11,016 non-renewals not impacted by voluntary or mandatory suspension, as described in my earlier email.

As before, SFG remains alert to any further questions you may have on this critical matter.

Vanessa Wells
Partner

Hogan Lovells US LLP
855 Main Street
Suite 200

EXHIBIT IRH-CWD-225

RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

March 19, 2025

The Honorable Libio Latimer
Supervising Administrative Law Judge
California Department of Insurance
Administrative Hearing Bureau
1901 Harrison Street, 3rd Floor
Oakland, CA 94612

VIA EMAIL: Libio.Latimer@insurance.ca.gov
Florinda.Cristobal@insurance.ca.gov
Camille.Johnson@insurance.ca.gov

SUBJECT: In the Matter of the Rate Applications of State Farm General Insurance Company, PA-2024-00011, PA-2024-00012, PA-2024-00013

Dear Judge Latimer:

I write on behalf of the Department's Rate Enforcement Bureau. We respectfully request that you provide a virtual attendance option for the April 8, 2025 hearing on State Farm General's interim rate request. We also request that in-person attendance at the hearing be limited to parties, their witnesses, and counsel.

This is because the Rate Enforcement Bureau has received multiple inquiries from industry stakeholders, press, and members of the public regarding attendance at the hearing. We believe that a virtual attendance option for non-parties provides public transparency while also ensuring the hearing proceeds in an orderly fashion. Limiting in-person attendance to the parties, their witnesses, and counsel, while providing a virtual attendance option for members of the public who wish to observe, will also adequately balance potential security and procedural concerns and eliminate uncertainty for public attendees over whether they should attempt to queue on location for limited in-person spots or simply attend virtually.

If you are not inclined to limit in-person attendance to the parties, their witnesses, and counsel, we would still urge you to add a virtual attendance option for those who cannot travel to Oakland.

Thank you for considering our request.

Sincerely,

Daniel Wade

Daniel Wade
Senior Staff Attorney
Rate Enforcement Bureau

cc: All parties per attached Proof of Service

PROOF OF SERVICE
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On March 20, 2025, I served the following document(s):

LETTER TO LIBIO LATIMER, SUPERVISING ADMINISTRATIVE LAW JUDGE OF THE ADMINISTRATIVE HEARING BUREAU DATED MARCH 19, 2025

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city and county of San Francisco, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Cecilia Padua
Cecilia Padua

SERVICE LIST
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

Name/Address	Phone/Fax Numbers	Method of Service
Libio Latimer Supervising Administrative Law Judge of the Administrative Hearing Bureau **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 3rd Floor Oakland, CA 94612 Libio.Latimer@insurance.ca.gov Florinda.Cristobal@insurance.ca.gov Camille.Johnson@insurance.ca.gov	Tel: (415) 538-4243 Fax: (510) 238-7828	Via EMAIL
Vanessa Wells Victoria Brown Kristel Gelera Cathy Perry Attorneys for Applicant **HOGAN LOVELLS US LLP** 855 Main Street, Suite 200 Redwood City, CA 94063 Vanessa.wells@hoganlovells.com Victoria.brown@hoganloverlls.com Kristel.gelera@hoganlovells.com Cathy.perry@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Katherine Wellington Attorney(s) for Applicant **HOGAN LOVELLS US LLP** 125 High Street, Suite 2010 Boston, MA 02110 Katherine.Wellington@hoganlovells.com	Tel: (617) 371-1000 Fax: (617) 371-1037	Via EMAIL
Jordan D. Teti Attorney(s) for Applicant **HOGAN LOVELLS US LLP** 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Jordan.Teti@hoganlovells.com	Tel: (310) 785-4600 Fax: (310) 785-4601	Via EMAIL

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Harvey Rosenfield Pamela Pressley William Pletcher Ryan Mellino Benjamin Powell Attorneys for Intervenor **CONSUMER WATCHDOG** 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org will@consumerwatchdog.org ryan@consumerwatchdog.org ben@consumerwatchdog.org	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL
The Honorable California Insurance Commissioner Ricardo Lara Office of the Commissioner **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 16th Floor Sacramento, CA 95814 CommissionerLara@insurance.ca.gov	Tel: (916) 492-3500 Fax: (916) 445-5280	Via EMAIL
Michael Martinez Chief Deputy Commissioner Office of the Commissioner **CALIFORNIA DEPARTMENT OF INSURANCE** 300 Capitol Mall, 17th Floor Sacramento, CA 95814 Michael.Martinez@insurance.ca.gov	Tel: (916) 492-3573	Via EMAIL
Lucy F. Wang, Deputy Commissioner & Special Counsel to the Commissioner Office of the Special Counsel **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Lucy.Wang@insurance.ca.gov	Tel: (415) 538-4377	Via EMAIL

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Teresa Campbell, Deputy Commissioner & General Counsel Heather Hoesterey Assistant General Counsel Legal Division **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Teresa.Campbell@insurance.ca.gov Heather.Hoesterey@insurance.ca.gov	Tel: (415) 538-4126 (415) 538-4176 Fax: (510) 238-7829	Via EMAIL
Kenneth Allen Deputy Commissioner Rate Regulation Branch **CALIFORNIA DEPARTMENT OF INSURANCE** 300 South Spring Street, 14th Floor Los Angeles, CA 90013 Ken.allen@insurance.ca.gov	Tel: (213) 346-6783 Fax: (213) 897-9051	Via EMAIL
Margaret W. Hosel Attorney and Public Advisor Office of the Public Advisor **CALIFORNIA DEPARTMENT OF INSURANCE** 1901 Harrison Street, 6th Floor Oakland, CA 94612 Margaret.Hosel@insurance.ca.gov	Tel: (415) 538-4383 Fax: (510) 238-7830	Via EMAIL

EXHIBIT IRH-CWD-226

March 20, 2025

Via email

The Honorable Libio Latimer
Supervising Administrative Law Judge
California Department of Insurance
Administrative Hearing Bureau
1901 Harrison Street, 3rd Floor
Oakland, CA 94612
Libio.Latimer@insurance.ca.gov
Florinda.Cristobal@insurance.ca.gov
Camille.Johnson@insurance.ca.gov

Re: In the Matter of the Rate Applications of State Farm General Insurance Company, File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013

Dear Judge Latimer,

On behalf of Consumer Watchdog, we write to express our concern regarding the proposed limitation of in-person attendance at the April 8, 2025, hearing on State Farm General Insurance Company's interim rate request. As CDI's Rate Enforcement Bureau recognizes, this matter has drawn substantial public interest, underscoring the necessity of allowing the public and the press to attend in person rather than restricting access solely to a virtual format.

A virtual attendance option may serve as a convenience for those who cannot easily attend in-person, or a useful supplement for overflow capacity, but it is not an adequate substitute for in-person attendance. Public confidence in the regulatory process depends on transparency, including the ability of affected consumers to be present at hearings that impact them directly. A meeting of this significance should not be constrained to an online setting, which inherently diminishes public engagement and accessibility, particularly for individuals with limited internet access or technological barriers. Given the high level of interest in this proceeding, we believe that the press and public's presence should not be arbitrarily limited.

We respectfully urge the Department to ensure that all members of the public or press who wish to attend in person may do so. If necessary, appropriate measures can be taken to accommodate space considerations, security issues, or other procedural concerns without wholly excluding public in-person access.

Thank you for your time and consideration of this important matter. We look forward to your response.

Sincerely,
William Pletcher
William Pletcher
Litigation Director

EXPOSE. CONFRONT. CHANGE.
6330 San Vicente Blvd. Suite 250 Los Angeles, CA 90048
Tel: 310-392-0522 • Fax: 310-392-8874
www.ConsumerWatchdog.org

EXHIBIT IRH-CWD-227

March 28, 2025

Via email

Hon. Karl Fredric J. Seligman
Administrative Law Judge
Administrative Hearing Bureau
California Department of Insurance
1901 Harrison Street, 3rd Floor
Oakland, CA 94612

Re: CDI File Nos.: PA-2024-00011, PA-2024-00012, PA-2024-00013
Protecting Consumer Watchdog's Rights at the April 8 Hearing on Stipulation for "Interim Rates"

Dear Judge Seligman:

Consumer Watchdog appreciates that you are presiding over this matter under a severely truncated timeline set by the Insurance Commissioner in his March 14, 2025 Order. It is clear, based on Your Honor's remarks during the conference with the parties on Wednesday, March 26, and in the March 27 Amended Notice of Hearing on Stipulation and Order ("March 27 Order"), that Your Honor seeks to uphold the requirements of Proposition 103 for consumer representation and public access—particularly the mandatory hearing procedures set forth in Insurance Code section 1861.08—in connection with the April 8, 2025 hearing on State Farm and the Department's stipulation proposing an overall $921 million "emergency interim rate" increase.

However, Consumer Watchdog is compelled to object to the approach State Farm and the Department advocated, which was largely adopted in the March 27 Order. Those parties' disregard for the Department regulations that expressly govern this process threatens serious prejudice to Consumer Watchdog's right to protect the interests of current and future State Farm policyholders and undermines one of Proposition 103's key purposes: to maintain public confidence in the integrity of Department proceedings.

State Farm and the Department's Failure to Comply with 10 CCR 2656.1 Is Prejudicial to Consumer Watchdog

State Farm initially requested "emergency interim rate" increases in a letter directly to Commissioner Lara on February 3. Four days later, State Farm and the Department transmitted a "Stipulation to Interim Rate" directly to Commissioner Lara requesting that he immediately approve double digit rate increases for State Farm policyholders—without complying with Proposition 103's prior approval rate hearing requirements. The Commissioner's March 14 Order, calling for a hearing on the two-way Stipulation, expressly stated that 10 CCR § 2656.1 would apply. On March 17, the Department issued a Notice of Hearing with exhibits, including the Stipulation, which was transmitted to the Administrative Hearing Bureau ("AHB"). Because the Stipulation was proposed prior to taking any testimony in these matters, State Farm and the Department were required to file "supporting declarations" at the time the Stipulation was filed with AHB. (10 CCR 2656.1(c).) The regulation authorized Consumer Watchdog to file objections to the Stipulation within five days. (10 CCR 2656.1(f).)

1. Regulatory Noncompliance

Neither State Farm nor the Department met their obligation to file supporting declarations—the justification that is critical to Your Honor's determination of whether the stipulated rate increase is lawful. Consumer Watchdog worked through the weekend and late into the night to file its objections on time—on March 24—but did so without the benefit of the declarations that were required to support the Stipulation. So we were surprised to learn at the March 26 conference that State Farm planned to file a multitude of declarations, including from outside experts—foreshadowing a "flood the zone" and "litigation by surprise" strategy—but stated that it could not do so until *April 2*, just 6 calendar days before the April 8 hearing, affording itself a total of *19 days* from the March 14 Order (and *58 days* from when the Stipulation was first presented to the Commissioner) to prepare the declarations and evidence in support of the Stipulation.

This approach is unlawful and unfair. As a general principle, it is not "due process" when some parties are required to follow the rules while other parties are allowed to change the rules at their convenience.

State Farm and the Department were required to submit supporting declarations *when they first filed* their Stipulation with AHB so that Consumer Watchdog could provide a careful and thoughtful analysis in its responsive objections; moreover, as State Farm acknowledged at the March 26 conference, it plans to use its delay in order to prepare a reply to Consumer Watchdog's objections. As State Farm would have it, Consumer Watchdog will be punished for

filing its objections in compliance with the rules because now State Farm is going to use our timely objections to craft its declarations and submit additional briefing in opposition to them. In other words, State Farm will gain an advantage over Consumer Watchdog by its own failure to comply with the regulation.

Nothing in the regulation authorizes a delay of 17 days in presenting the supporting justification for the Stipulation nor permits State Farm to file a "reply" to Consumer Watchdog's objections. This process reverses the statutory and regulatory requirements, which place the burden of proof on State Farm to justify the legality and fundamental fairness of the extraordinary "interim rate relief" it seeks. (Ins. Code § 1861.05(b).)

2. Prejudicial Timeline

As proposed by State Farm and the Department, the March 27 Order gives Consumer Watchdog *three working days*, including April 7 (a travel day), to review State Farm and the Department's untimely submissions, marshal witnesses, and formulate a response, which is to be filed no later than April 8, the commencement date of the hearing, while at the same time preparing for cross-examination and oral argument. Based on years of experience contesting excessive rate increases, this timeline will deny Consumer Watchdog the opportunity to fully evaluate the materials and present the strongest possible analysis to Your Honor on April 8.

<u>State Farm and the Department's Unlawful Proposal to Amend the Stipulation</u>

State Farm and the Department also announced at the March 26 conference that they intend to "amend" the Stipulation on which the April 8 hearing was originally noticed to include other terms, which they struggled to specify, and requested permission to file a new Stipulation on April 2, which was granted by the March 27 Order. This too conflicts with the regulation that governs the April 8 hearing, the purpose of which, per the Commissioner's March 14 Order, is to review the Stipulation that the Department filed with the Commissioner on February 7 and with AHB on March 17.

At the March 26 conference, State Farm and the Department made the nonsensical argument that Consumer Watchdog should have been able to figure out the unwritten terms of the deal from the email traffic between the Commissioner's representative and State Farm prior to the hearing and should have assumed that the Stipulation had been amended accordingly. All that we know from those communications is that there was *no agreement* by State Farm to the Commissioner's proposed terms, and certainly no new agreement between the Department and State Farm. The regulation plainly requires a written stipulation to be filed with the Administrative Law Judge, not guesswork or email references to

an evolving set of terms. Indeed, State Farm's insistence that it cannot produce the "new" stipulation until April 2 strongly suggests that the Department and State Farm are still negotiating their deal.

The law does not permit last minute modifications that conflict with the statutory mandate of public notice and participation. An eleventh-hour change in the Stipulation deprives Consumer Watchdog, and the public, of the right to carefully review and effectively challenge the nearly $1 billion increase State Farm wants *now*—but, as even the Commissioner noted, has to this date failed to justify. When we raised these concerns at the March 26 conference, Your Honor suggested that undue prejudice might be avoided if Consumer Watchdog is granted liberal discovery rights, such as the opportunity to cross-examine State Farm's witnesses at the hearing, and offered the prospect of extending the hearing for additional days if necessary. The March 27 Order reiterates those reassurances. However, respectfully, the Department's regulations generally, and 10 CCR 2656.1 specifically, require parties to prepare and file written declarations and responsive objections with sufficient time in advance of the hearing to avoid surprise and/or potentially untruthful statements that cannot easily be rebutted via cross examination, and to aid the other parties in the proceeding (here, Consumer Watchdog) to make their best and most professional case. Indeed, Government Code section 11514, cited in footnote 8 of the March 27 Order as authority for the Department and State Farm to file declarations in support of the Stipulation by April 2, requires that affidavits proposed to be introduced into evidence be filed "*10 or more days prior* to a hearing or a continued hearing."

For these reasons, Consumer Watchdog strongly objects to the process as presently structured; it threatens our ability to present a careful and comprehensive opposition to the State Farm/Department Stipulation less than two weeks away. We ask that you defend Consumer Watchdog's right to independently protect the public, which, as the positions of the aligned parties demonstrate, is more necessary than ever at this critical moment.

Sincerely,

Harvey Rosenfield
Counsel for Consumer Watchdog

PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

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

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

On March 28, 2025, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG LETTER TO ALJ SELIGMAN

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 28, 2025 at Los Angeles, California.

Kaitlyn Gentile

Service List

Hon. Karl Fredric J. Seligman Administrative Law Judge Administrative Hearing Bureau **California Department of Insurance** 1901 Harrison Street, 3rd Floor Oakland, CA 94612 Tel.: (415) 538-4243 Fax: (510) 238-7828 Florinda.Cristobal@insurance.ca.gov Camille.Johnson@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Vanessa Wells Victoria Brown **Hogan Lovells US LLP** 855 Main Street, Suite 200 Redwood City, CA 94063 Tel.: (650) 463-4000 Fax: (650) 463-4199 Vanessa.Wells@hoganlovells.com Victoria.Brown@hoganloverlls.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Katherine Wellington **Hogan Lovells US LLP** 125 High Street, Suite 2010 Boston, MA 02110 Tel.: (617) 371-1000 Fax: (617) 371-1037 Katherine.Wellington@hoganlovells.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Jordan D. Teti **Hogan Lovells US LLP** 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Tel.: (310) 785-4600 Fax: (310) 785-4601 Jordan.Teti@hoganlovells.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL

Nikki McKennedy
Jennifer McCune
Daniel Wade
Duncan Montgomery
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Tel.: (415) 538-4500
Fax: (510) 238-7830
Nikki.McKennedy @insurance.ca.gov
Jennifer.McCune@insurance.ca.gov
Daniel.Wade@insurance.ca.gov
Duncan.Montgomery@insurance.ca.gov

Attorneys for CDI

☐ FAX
☐ U.S. MAIL
☐ OVERNIGHT MAIL
☐ HAND DELIVERED
☒ EMAIL

EXHIBIT IRH-CWD-230

BENJAMIN ARMSTRONG

3445 D Street, Lincoln, NE 68510 (402) 217-0067 barmstro11@gmail.com

EDUCATION AND PROFESSIONAL ORGANIZATIONS

Bachelor of Arts in Actuarial Science, University of Nebraska - Lincoln. Cumulative GPA: 3.9

Fellow, Casualty Actuarial Society (FCAS) Member, American Academy of Actuaries (MAAA)

PROFESSIONAL EXPERIENCE

Consumer Watchdog – *Los Angeles, CA (remote)* *Staff Actuary, 2023 - Present*

- Analyze insurer rate filings for accuracy and actuarial soundness, producing independent rate indications as applicable. Participate in rate negotiations between insurers and the California Department of Insurance.
- Prepare actuarial portions of requests for information submitted to insurers to aid in analysis.
- Perform ad hoc research tasks on topics such as catastrophe modeling in insurance ratemaking.

Markel Corporation – *Richmond, VA and Omaha, NE (remote hybrid)* *Senior Actuary, 2022 - 2023*

- Began working 50% on workers' comp duties described below and 50% on reinsurance, including quarterly reserve reviews on a variety of QS and XOL lines of business and presentation of results to executives.
- Led a data visualization optimization team and organized the presentation of their projects to the department. Led an initiative to enhance visibility of the Actuarial department within the company, including development and dissemination of a quarterly newsletter highlighting departmental achievements.

Markel Corporation Workers' Comp Division - *Omaha, NE (remote hybrid)* *Senior Actuarial Analyst, 2017 - 2022*

- In addition to the duties of the previous role, performed an in-depth annual analysis of workers' comp excess-of-loss pricing indications based on internal and industry data.
- Performed extensive data quality testing and troubleshooting during a years-long data migration project.
- Worked closely with external auditors to assess the effectiveness of SOX data quality controls.
- Assumed a key role in the research, selection, development, and implementation of a new software tool for use across the corporation's numerous lines of business. Provided training and support for the entire actuarial department on that new software.
- Assisted with the official response to a significant legal challenge, including preparation of remarks delivered by the Chief Actuary and direct collaboration with internal and external legal counsel.

Actuarial Analyst, 2012 - 2017

- Performed pricing work such as rate indications, rate filings, regulatory compliance support, correspondence with state regulators, and class/territory rate deviation analyses.
- Prepared reports for management on various key metrics, including production, pricing target variances, renewal rate monitors, loss experience, large claim activity, and claim frequency trends.
- Researched workers' comp industry experience and market trends using a variety of sources, such as rating bureau databases, S&P Global Market Intelligence, and state Departments of Insurance.
- Compiled data for the annual statement and worked directly with the statutory reporting team to ensure completeness and accuracy.
- Performed quarterly reserving analyses including data updates, review of loss development patterns, ceded loss analysis, and presented results to an executive audience both in person and virtually.

EXHIBIT IRH-CWD-231

ALLAN I. SCHWARTZ
President
AIS Risk Consultants, Inc.
4400 Route 9 South
Freehold, New Jersey 07728
732-780-0330

EDUCATION

Cooper Union, B.S., Physics, 1975

PROFESSIONAL AFFILIATIONS

Casualty Actuarial Society, Fellow - 1981, Associate - 1979

American Academy of Actuaries, Member - 1979

Associate in Reinsurance - June 1998
(Received Reinsurance Association of America Award for Academic Excellence)

Associate in Claims - September 1998

Associate in Premium Auditing - May 1999

Associate in Underwriting - June 1999

Associate in Insurance Accounting and Finance - June 2002
(Received National Association of Mutual Insurance Companies Award for Academic Excellence)

Associate in Risk Management - September 2002

Associate in Personal Insurance – January 2008

Associate, Customer Service – March 2008 (With Honors)

Certified Rate of Return Analyst – April 2011

PUBLICATIONS

"Workers' Compensation and Investment Income" : Best's Review, Property / Casualty Insurance Edition, 10/82

"A Note on Calendar Year Loss Ratios" : Proceedings of the Casualty Actuarial Society, 11/82

"An Actuary's Analysis of the Security of a Self-Insured" : Business Insurance, 9/26/83

"Actuarial Issues to be Addressed in Pricing Excess of Loss Reinsurance" : Proceedings of the Los Angeles Chapter CPCU Technical Conference, 6/84 (Received Research Excellence Award from Farmers Insurance Group)

"An Actuarial Analysis of Self-Insurance" : The Self-Insurer, Volume 1, Issue 3, 1984

"Loss and Loss Expense Reserving" : The Self-Insurer, Volume 1, Issue 4, 1984

"The ABC's of Reinsurance" : The Self-Insurer, Volume 2, Issue 4, 1985

"Actuarial Implications of Claims-Made Policies" : The Journal of the Independent Reinsurance Underwriters Association, Volume I, Number 1, October 1985

"Considerations in the Regulatory Analysis of Workers' Compensation Rate Filings" : Best's Review, Property / Casualty Insurance Edition, 8/88

"Delays in Payment of Private Passenger Auto Premium Receipts / Commissions : Impact on Calculation of Investment Income", Journal on Insurance Regulation, Volume 7, No. 3, March 1989

"Various Studies Related to Workers' Compensation", State of California - Workers' Compensation Rate Study Commission, Volume V, March 1992

LECTURES PRESENTED

"Reserving Losses for Self-Insureds" & "Actuarial Sufficiency of Self-Insurance Programs" : Eleventh Workers' Compensation College of the IAIABC - 4/84

"Problems, Trends, and History of Self-Insurance" : 1984 IAIABC Central States Association Conference - 6/84

"Actuarial Issues to be Addressed in Pricing Excess of Loss Reinsurance" : Los Angeles CPCU Technical Conference - 6/84

"Types of Security Available for the Self-Insured Employer" : 1984 Mid-Year Meeting of the National Council of Self-Insurers - 9/84

"Actuarial Implications of Claims-Made Policies" : Fall 1985 Meeting of the Independent Reinsurance Underwriters Association - 10/85

"North Carolina Medical Malpractice Closed Claim Study" : Duke University - Conference on Developing Information Bases for Medical Malpractice Claim Studies - 5/87

"A Regulator's Perspective on Rate Filings" : Casualty Actuarial Society Seminar on Ratemaking - 3/88

"Understanding the Insurance Industry and Regulation" : Public Citizen's Taming the Insurance Giant Conference - 2/90

"Analyzing Insurance Company Rate Filings" : National Association of Attorneys General Insurance Committee Meeting - 4/90

"Where Does All The Money Go - Insurance Profitability" : Workers Compensation in New York - 5/95

WORK EXPERIENCE

AIS RISK CONSULTANTS, INC.
President - 11/84 to Present

Responsibilities include performing actuarial analyses for all lines of property/casualty insurance. Loss reserve and rate level studies for insurance companies, reinsurance companies, state insurance funds, self-insurers, captive insurers, brokerage firms and attorneys. Work also involves projection of payment patterns, excess insurance studies, production of management information systems and development of individual risk rating plans.

I have provided expert testimony in insurance rate proceedings in Arkansas, California, Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Massachusetts, Nevada, New Jersey, New Mexico, North Carolina, Oklahoma, Rhode Island, South Carolina, Texas, Vermont and Virginia.

I have worked on health insurance rate filings in California, Colorado, Massachusetts, New Jersey, New Mexico, Oregon and Vermont during the last several years. This involved the review of rate filings and the preparation of analyses which could be submitted to the state insurance regulatory agency. My work in health insurance includes providing actuarial assistance to the NAIC Consumer Representatives during the last several years dealing with various issues such as the Medical Loss Ratio calculation.

NEW JERSEY DEPARTMENT OF INSURANCE
Assistant Commissioner - 5/88 to 1/90

Supervised a staff of 20+ which regulated rates, rules and policy forms in New Jersey for property/casualty insurance to determine compliance with the applicable statutes and regulations. Also responsible for the statistical section for property/casualty insurance. This section gathers and analyzes data related to property/casualty insurance. Provided advice to the Insurance Commissioner and other senior staff members of the Insurance Department regarding the impact of proposed legislation, regulations and overall policy directives.

Provided recommendations in regard to the financial analysis and condition of insurers, including excess profits reports.

NORTH CAROLINA DEPARTMENT OF INSURANCE
Chief Actuary - 6/86 to 4/88

Responsible for all actuarial studies performed in the Department of Insurance covering property / casualty / life / health / accident insurance.

Work included the analysis of filings made by insurance companies to see that they are in compliance with the insurance laws and regulations of the State of North Carolina. Also interacted with the legal staff of the Insurance Department in drafting proposed insurance laws and regulations.

Responsible for the analysis of the loss and loss adjustment expense reserves established by insurance companies to meet the liabilities they have incurred in the past, but which will not be payable until some time in the future.

Involved in various special projects relating to the financial analysis of insurance operations. These included the review of reinsurance contracts, the financial analysis of the North Carolina State Property Fire Insurance Fund and a study of medical malpractice closed claims.

Was in charge of a staff of six, including four professional and two clerical people. Other duties involved the writing of computer programs, providing expert testimony at rate hearings and assisting the Insurance Commissioner prepare for legislative committees.

WOODWARD & FONDILLER
Senior Actuary - 8/77 to 11/84

Consulting property/casualty actuarial studies (see description under AIS Risk Consultants, Inc.)

NATIONAL COUNCIL ON COMPENSATION INSURANCE
Actuarial Trainee - 3/76 to 8/77

Performed ratemaking analyses and prepared rate filings for workers' compensation insurance. Regularly evaluated the impact of changes in workers' compensation benefits. Also assisted the Director of Research with special studies related to data collection, ratemaking procedures and benefit evaluations.

EXHIBIT IRH-CWD-232

Data from SFG Sch. F, Part 3

AFFILIATED 0899999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	**105,781**	**1,561,618**	**1476%**
2018	**131,296**	**516,013**	**393%**
2019	**165,809**	**234,869**	**142%**
2020	**215,883**	**91,247**	**42%**
2021	**355,737**	**115,546**	**32%**
2022	**409,260**	**151,078**	**37%**
2023	**775,406**	**148,335**	**19%**
2024	**803,683**	**164,204**	**20%**

UNAUTHORIZED 26999999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	13,287	128,175	965%
2018	13,305	52,118	392%
2019	14,332	23,039	161%
2020	17,088	1,792	10%
2021	26,583	1,134	4%
2022	33,270	1,126	3%
2023	46,448	1,642	4%
2024	14,055	415	3%

AUTHORIZED US UNAFFILIATED 0999999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	20,707	90,712	438%
2018	22,771	40,593	178%
2019	25,230	25,457	101%
2020	28,637	9,110	32%
2021	34,507	9,297	27%
2022	41,702	10,504	25%
2023	46,894	11,315	24%
2024	35,159	9,895	28%

TOTAL UNAFFILIATED

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	**46,089**	**337,300**	**732%**
2018	**49,724**	**139,995**	**282%**
2019	**56,428**	**71,481**	**127%**
2020	**65,722**	**12,557**	**19%**
2021	**94,232**	**11,479**	**12%**
2022	**115,684**	**12,670**	**11%**
2023	**142,442**	**14,474**	**10%**
2024	**71,160**	**10,694**	**15%**

AUTHORIZED NON-US UNAFFILIATED 1299999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	12,095	118,413	979%
2018	13,648	47,284	346%
2019	16,866	22,985	136%
2020	19,997	1,655	8%
2021	33,142	1,048	3%
2022	40,712	1,040	3%
2023	49,100	1,517	3%
2024	21,946	384	2%

TOTALS 99999999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	151,870	1,898,918	1250%
2018	181,020	656,008	362%
2019	222,237	306,350	138%
2020	281,605	103,804	37%
2021	449,969	127,025	28%
2022	524,944	163,748	31%
2023	917,848	162,809	18%
2024	874,843	174,898	20%

EXHIBIT IRH-CWD-233

Supplemental Exhibit 9A
State Farm General Insurance Company
California Non-Tenant Homeowners
Catastrophe Adjustment Example Removing 4/1/2024 Identified Non-Renewals

(1) Calendar Year	(2) AIY	(3) CAT Loss & DCCE	(4) CAT/AIY (3) / (2)	(5) Weight
1990	128,425,982	77,600,768	0.604	1.2%
1991	141,547,960	217,753,944	1.538	1.2%
1992	158,094,264	42,805,983	0.271	1.2%
1993	172,039,331	105,154,935	0.611	1.2%
1994	181,582,568	39,577,365	0.218	1.2%
1995	185,288,423	100,218,060	0.541	1.2%
1996	185,102,576	50,075,844	0.271	1.2%
1997	185,093,222	16,963,873	0.092	1.2%
1998	189,543,569	49,859,322	0.263	1.2%
1999	200,636,303	10,021,226	0.050	1.2%
2000	211,412,198	16,808,517	0.080	1.9%
2001	222,699,220	21,799,968	0.098	2.0%
2002	237,645,441	35,208,166	0.148	2.1%
2003	240,552,178	457,594,988	1.902	2.2%
2004	256,986,893	(101,395,945)	-0.395	2.3%
2005	285,530,965	29,989,571	0.105	2.5%
2006	314,970,816	18,217,588	0.058	2.6%
2007	340,703,901	298,392,641	0.876	2.7%
2008	362,676,501	168,196,605	0.464	2.9%
2009	380,788,422	(10,303,428)	-0.027	3.0%
2010	387,406,113	102,835,856	0.265	3.2%
2011	388,564,822	18,252,067	0.047	3.3%
2012	393,393,897	38,521,878	0.098	3.5%
2013	404,634,503	36,323,103	0.090	3.7%
2014	421,572,111	45,949,140	0.109	3.9%
2015	443,275,930	211,309,803	0.477	4.1%
2016	460,655,149	74,061,014	0.161	4.3%
2017	473,799,193	2,687,491,659	5.672	4.5%
2018	497,497,517	293,414,912	0.590	4.8%
2019	526,831,658	155,851	0.000	5.0%
2020	569,247,969	(185,294,771)	-0.326	5.3%
2021	641,247,659	47,021,862	0.073	5.6%
2022	728,403,898	55,214,347	0.076	5.9%
2023	787,159,701	172,834,569	0.220	6.2%

Catastrophe Ratio (Column (4) weighted by Column (5)): 0.4738

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Supplemental Exhibit 9B
State Farm General Insurance Company
California Non-Tenant Homeowners
Catastrophe Definition Supporting Data

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)		(10)	(11)	(12)	(13)
Calendar Year	AIY	Filed CAT Loss & DCCE	CAT/AIY (3) / (2)	Weight		Old Catastrophe Definition CAT Loss & DCCE	CAT/AIY (6) / (2)	Newly Added CAT Loss & DCCE	CAT/AIY (8) / (2)		Wildfire Designated CAT Loss & DCCE	CAT/AIY (10) / (2)	Non-Wildfire Designated CAT Loss & DCCE	CAT/AIY (12) / (2)
1990	128,861,978	77,600,768	0.602	1.2%		77,600,768	0.602	-	0.000		29,501,032	0.229	48,099,737	0.373
1991	142,028,504	218,184,040	1.536	1.2%		218,184,040	1.536	-	0.000		203,104,275	1.430	15,079,765	0.106
1992	158,630,981	43,303,300	0.273	1.2%		43,303,300	0.273	-	0.000		34,667,447	0.219	8,635,852	0.054
1993	172,623,391	107,166,078	0.621	1.2%		107,166,078	0.621	-	0.000		86,593,547	0.502	20,572,531	0.119
1994	182,199,026	43,408,462	0.238	1.2%		43,408,462	0.238	-	0.000		42,213,881	0.232	1,194,581	0.007
1995	185,917,462	101,140,690	0.544	1.2%		101,140,690	0.544	-	0.000		(3,998,717)	-0.022	105,139,407	0.566
1996	186,104,814	50,620,812	0.272	1.2%		50,620,812	0.272	-	0.000		9,012,679	0.048	41,608,133	0.224
1997	186,488,444	17,247,444	0.092	1.2%		17,247,444	0.092	-	0.000		2,188,519	0.012	15,058,925	0.081
1998	191,097,338	50,118,115	0.262	1.2%		50,118,115	0.262	-	0.000		913,314	0.005	49,204,800	0.257
1999	202,400,945	10,046,637	0.050	1.2%		10,046,637	0.050	-	0.000		1,263,058	0.006	8,783,579	0.043
2000	213,448,338	17,018,051	0.080	1.9%		17,018,051	0.080	-	0.000		1,176,346	0.006	15,841,705	0.074
2001	225,030,145	22,130,172	0.098	2.0%		22,130,172	0.098	-	0.000		21,830	0.000	22,108,342	0.098
2002	240,324,685	35,509,431	0.148	2.1%		35,509,431	0.148	-	0.000		891	0.000	35,508,540	0.148
2003	243,610,344	461,200,760	1.893	2.2%		461,200,760	1.893	-	0.000		430,493,243	1.767	30,707,517	0.126
2004	260,576,783	(95,030,522)	-0.365	2.3%		(95,030,522)	-0.365	-	0.000		(118,568,922)	-0.455	23,538,400	0.090
2005	289,827,403	32,107,759	0.111	2.5%		32,107,759	0.111	-	0.000		(21,970,674)	-0.076	54,078,433	0.187
2006	320,061,744	18,566,051	0.058	2.6%		18,566,051	0.058	-	0.000		787,117	0.002	17,778,934	0.056
2007	346,610,084	309,218,258	0.892	2.7%		309,218,258	0.892	-	0.000		282,946,229	0.816	26,272,029	0.076
2008	369,369,713	173,497,117	0.470	2.9%		173,497,117	0.470	-	0.000		116,732,252	0.316	56,764,864	0.154
2009	388,245,682	(12,114,867)	-0.031	3.0%		(12,114,867)	-0.031	-	0.000		(25,145,448)	-0.065	13,030,581	0.034
2010	395,460,850	103,625,205	0.262	3.2%		103,625,205	0.262	-	0.000		40,114,389	0.101	63,510,815	0.161
2011	397,170,392	17,606,251	0.044	3.3%		17,606,251	0.044	-	0.000		(24,771,323)	-0.062	42,377,574	0.107
2012	402,597,208	39,507,226	0.098	3.5%		36,316,995	0.090	3,190,231	0.008		134,175	0.000	39,373,052	0.098
2013	414,665,876	36,697,760	0.088	3.7%		19,147,528	0.046	17,550,232	0.042		17,054,857	0.041	19,642,903	0.047
2014	432,660,854	47,482,937	0.110	3.9%		23,320,565	0.054	24,162,372	0.056		20,022,208	0.046	27,460,728	0.063
2015	455,545,917	211,948,945	0.465	4.1%		206,008,953	0.452	5,939,992	0.013		180,496,176	0.396	31,452,769	0.069
2016	474,012,598	74,778,797	0.158	4.3%		47,855,477	0.101	26,923,320	0.057		56,950,377	0.120	17,828,420	0.038
2017	488,192,348	2,819,690,783	5.776	4.5%		2,794,769,815	5.725	24,920,968	0.051		2,701,625,526	5.534	118,065,257	0.242
2018	513,642,444	517,948,394	1.008	4.8%		485,256,793	0.945	32,691,601	0.064		435,856,334	0.849	82,092,060	0.160
2019	545,473,257	124,299,428	0.228	5.0%		116,068,709	0.213	8,230,719	0.015		89,023,656	0.163	35,275,772	0.065
2020	592,758,385	(218,854,932)	-0.369	5.3%		(339,477,759)	-0.573	120,622,827	0.203		(206,625,602)	-0.349	(12,229,330)	-0.021
2021	674,164,147	18,252,961	0.027	5.6%		(128,682,575)	-0.191	146,935,536	0.218		(52,717,815)	-0.078	70,970,776	0.105
2022	776,440,162	77,162,159	0.099	5.9%		(26,756,084)	-0.034	103,918,242	0.134		19,393,498	0.025	57,768,660	0.074
2023	845,640,269	205,743,447	0.243	6.2%		253,424,696	0.300	(47,681,250)	-0.056		(87,841,971)	-0.104	293,585,417	0.347
Catastophe Ratio (all weighted by Column (5)):			0.5087				0.4683		0.0405			0.3878		0.1210

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Supplemental Exhibit 9C
State Farm General Insurance Company
California Non-Tenant Homeowners

Accident Year	Outstanding Catastrophe Reserve
2014	14,890
2015	57,874
2016	17,769
2017	7,732,604
2018	40,330,542
2019	2,144,498
2020	70,176,409
2021	7,788,446
2022	6,884,227
2023	44,319,308
Total	179,466,567

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Exhibit J
State Farm General Insurance Company
California Non-Tenant Homeowners

New Business

	California Company-Specific Loss Trend Data Quarterly Data					Rolling 4-Quarter Data					Rolling 4-Quarter Data			
Calendar YYYYQ	**Earned Exposures**	**Closed Claims**	**Reported Claims**	**Paid Losses**	**Total Paid Losses including Partial Payments on Prior Calendar Years, on Closed Claims**	**Earned Exposures**	**Closed Claims**	**Reported Claims**	**Paid Losses**	**Total Paid Losses including Partial Payments on Prior Calendar Years, on Closed Claims**	**Closed Frequency per 100 Exposures**	**Reported Frequency per 100 Exposures**	**Paid Loss Severity**	**Total Paid Loss Severity including Partial Payments on Prior Calendar Years, on Closed Claims**
20221	26,968	600	1,028	19,544,748	20,807,099									
20222	26,462	553	1,065	24,958,838	20,364,452									
20223	25,500	626	1,152	25,021,297	23,322,436									
20224	24,636	537	1,027	22,828,696	19,436,424	103,566	2,316	4,272	92,353,579	83,930,410	2.24	4.12	39,876	36,239
20231	23,851	674	1,170	23,434,248	26,124,585	100,449	2,390	4,414	96,243,079	89,247,897	2.38	4.39	40,269	37,342
20232	23,827	525	1,002	33,501,976	29,276,750	97,814	2,362	4,351	104,786,218	98,160,195	2.41	4.45	44,363	41,558
20233	19,473	468	758	20,366,472	31,951,902	91,787	2,204	3,957	100,131,393	106,789,661	2.40	4.31	45,432	48,453
20234	13,625	340	556	26,079,233	38,416,238	80,776	2,007	3,486	103,381,930	125,769,475	2.48	4.32	51,511	62,665

Renewal Business

	California Company-Specific Loss Trend Data Quarterly Data					Rolling 4-Quarter Data					Rolling 4-Quarter Data			
Calendar YYYYQ	**Earned Exposures**	**Closed Claims**	**Reported Claims**	**Paid Losses**	**Total Paid Losses including Partial Payments on Prior Calendar Years, on Closed Claims**	**Earned Exposures**	**Closed Claims**	**Reported Claims**	**Paid Losses**	**Total Paid Losses including Partial Payments on Prior Calendar Years, on Closed Claims**	**Closed Frequency per 100 Exposures**	**Reported Frequency per 100 Exposures**	**Paid Loss Severity**	**Total Paid Loss Severity including Partial Payments on Prior Calendar Years, on Closed Claims**
20221	274,940	5,411	9,004	152,417,295	145,083,032									
20222	277,195	5,097	9,164	155,513,514	155,803,659									
20223	279,899	5,316	9,767	167,603,737	151,461,161									
20224	282,663	5,229	9,135	180,452,610	156,004,023	1,114,698	21,053	37,070	655,987,155	608,351,875	1.89	3.33	31,159	28,896
20231	285,319	5,866	11,041	172,674,350	172,454,617	1,125,076	21,508	39,107	676,244,211	635,723,460	1.91	3.48	31,442	29,558
20232	288,624	5,934	10,508	199,416,985	209,230,947	1,136,505	22,345	40,451	720,147,682	689,150,748	1.97	3.56	32,229	30,841
20233	291,726	4,837	8,906	175,051,893	222,539,703	1,148,332	21,866	39,590	727,595,838	760,229,290	1.90	3.45	33,275	34,768
20234	294,767	4,492	8,030	182,655,789	263,876,818	1,160,436	21,129	38,485	729,799,017	868,102,085	1.82	3.32	34,540	41,086

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Supplemental Exhibit 8A
State Farm General Insurance Company
California Non-Tenant Homeowners
Exhibits 7 & 8 Closed Claims Reconciliation

Exhibit 7 Paid Claim Counts
Months of Development

Fiscal Accident Year Data Ending	12	24	36	48	60	72	84	96	108	120
20144	20,801	27,888	28,605	28,878	28,993	29,063	29,077	29,095	29,101	29,115
20154	21,380	27,827	28,614	28,890	29,033	29,086	29,105	29,119	29,127	
20164	23,279	29,591	30,289	30,579	30,674	30,724	30,755	30,778		
20174	21,705	26,274	27,004	27,237	27,385	27,468	27,503			
20184	19,174	24,744	25,467	25,712	25,830	25,900				
20194	19,759	25,955	26,748	26,968	27,093					
20204	17,421	22,618	23,375	23,649						
20214	16,315	21,978	22,910							
20224	16,438	22,819								
20234	15,251									

Calendar YYYYQ	Exhibit 8 Closed Claims
20172	8,054
20173	6,582
20174	5,936
20181	6,302
20182	5,926
20183	6,333
20184	6,421
20191	7,041
20192	6,924
20193	6,639
20194	6,020
20201	6,733
20202	6,034
20203	5,532
20204	6,175
20211	6,060
20212	5,554
20213	5,518
20214	5,692
20221	6,011
20222	5,650
20223	5,942
20224	5,766
20231	6,540
20232	6,459
20233	5,305
20234	4,832

Calendar YYYYQ-YYYYQ	Aggregated Exhibit 7	Aggregated Exhibit 8
20181 - 20184	24,832	24,982
20191 - 20194	26,561	26,624
20201 - 20204	24,736	24,474
20211 - 20214	22,785	22,824
20221 - 20224	23,330	23,369
20231 - 20234	23,113	23,136

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Exhibit K
State Farm General Insurance Company
Exhibit 13 Projected IRIS Ratios

Baseline Scenario

Projected NAIC IRIS Ratios - State Farm General - Baseline						
	2023	**2024**	**2025**	**2026**	**2027**	**2028**
Two Year Overall Operating Ratio	117	126	112	103	104	105
Gross Change in Policyholders' Surplus	-40	-38	-11	-11	-14	-17
Change in Adjusted Policyholders' Surplus	-40	-38	-11	-11	-14	-17
One-Year Reserve Development to Policyholders' Surplus	Loss Reserve Development is not forecasted.					

Variance 6 Scenario

Projected NAIC IRIS Ratios - State Farm General - Variance 6						
	2023	**2024**	**2025**	**2026**	**2027**	**2028**
Two Year Overall Operating Ratio	117	126	103	86	82	82
Gross Change in Policyholders' Surplus	-40	-38	20	64	37	26
Change in Adjusted Policyholders' Surplus	-40	-38	20	64	37	26
One-Year Reserve Development to Policyholders' Surplus	Loss Reserve Development is not forecasted.					

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Exhibit L
State Farm General
Exhibit 13 Projected Reinsurance Premium

	2024	2025	2026	2027	2028
Catastrophe Occurrence Program	657,897,750	587,424,250	504,875,000	484,250,000	482,250,000
Catastrophe Aggregate Program	144,700,000	138,900,000	130,750,000	128,250,000	128,000,000
Property Per Risk Treaty	35,150,000	42,185,211	41,733,906	41,528,417	41,404,603
Umbrella Treaty	1,091,296	1,134,907	1,123,115	1,113,255	1,108,578
All Other Reinsurance^	71,652,859	75,482,483	77,911,210	80,869,635	84,224,650
Total*	910,491,905	845,126,851	756,393,231	736,011,307	736,987,831

^All other reinsurance is made up primarily of syndicates and a quota share that cedes 100% of certain types of business written by State Farm General to an external company.

* These numbers correspond to Row 4 of the Baseline and Variance 6 scenarios in Exhibit 13.

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Exhibit M
State Farm General Insurance Company
10 Years of Rate History by Segment

Total Homeowners							
Filing Date	Approval Date	State Tr #	Effective Date	Internal Indication^	Filed Indication	Rate Requested	Rate Approved
8/19/2013	2/27/2014	13-6120	5/15/2014	N/A	+6.9%	+6.9%	-1.2%
12/4/2014	12/8/2016	14-8381	12/8/2016	+24.9%	+22.9%	+6.9%	-7.0%
2/15/2018	5/7/2018	18-1196	7/15/2018	+35.3%	+15.9%	+6.7%	+6.7%
8/31/2018	7/22/2020	18-4896	10/15/2020	+23.3%	+24.7%	+6.7%	+6.7%
5/30/2019	11/25/2020	19-2063	4/1/2021	+26.6%	+20.9%	+6.0%	+6.0%
4/29/2021	11/12/2021	21-1404	2/1/2022	+15.4%*	+31.2%*	+6.9%*	+6.9%*
6/2/2022	1/30/2023	22-1514	6/1/2023	+12.4%**	+22.9%**	+6.9%**	+6.9%**
2/28/2023	12/22/2023	23-613	3/15/2024	N/A	+29.0%	+28.1%	+20.0%

^ Internal Indication is listed as N/A if an internal indication was not listed in the filing.

* This filing was for Non-Tenant only. As such, rates shown only reflect this segment.

** This filing was for Non-Tenant and Condo only. As such, rates shown only reflect these segments.

RDP							
Filing Date	Approval Date	State Tr #	Effective Date	Internal Indication^	Filed Indication	Rate Requested	Rate Approved
6/1/2016	10/31/2016	16-3238	2/1/2017	-17.60%	-26.10%	-26.1%	-40.0%
4/30/2018	9/20/2018	18-2502	12/15/2018	+26.7%	+16.8%	+6.9%	+6.9%
10/23/2019	12/10/2020	19-3750	4/1/2021	+16.0%	+30.4%	+6.9%	+6.9%
2/28/2023	11/17/2023	23-563	2/1/2024	N/A	+26.4%	+20.0%	+11.4%

^ Internal Indication is listed as N/A if an internal indication was not listed in the filing.

BOP							
Filing Date	Approval Date	State Tr #	Effective Date	Internal Indication^	Filed Indication	Rate Requested	Rate Approved
2/26/2016*a	8/11/2016	16-1596	11/15/2016	+20.0%	+15.2%	+9.0%	+5.0%
2/26/2016*b	8/11/2016	16-1589	11/15/2016	+10.1%	+8.9%	+5.0%	-4.0%
2/26/2016*c	8/11/2016	16-1602	11/15/2016	+10.3%	+14.3%	+5.5%	+0.0%
2/27/2018*a	7/20/2018	18-1556	12/15/2018	+26.5%	+36.4%	+14.9%	+14.9%
2/27/2018*b	7/20/2018	18-1577	12/15/2018	+25.6%	+41.9%	+14.9%	+14.9%
2/27/2018*c	7/20/2018	18-1558	12/15/2018	+15.9%	+17.7%	+11.4%	+11.4%
8/22/2022	12/15/2023	22-2021	3/15/2024	N/A	+56.3%	+39.1%**	+34.9%
2/29/2024	N/A***	24-538	N/A***	N/A	+55.1%***	+55.0%***	N/A***

^ Internal Indication is listed as N/A if an internal indication was not listed in the filing.

* Three separate filings and indications for the Business owners Programs were submitted
(a. Miscellaneous, b. Mercantile Sevices, c. Office).

** Originally filed for 14.9% but amended to 39.1%.

*** Outstanding rate change. Originally filed for 36.3% but amended to 55.0%. Amendment was not affiliated with Variance 6 filings.

PLUP							
Filing Date	Approval Date	State Tr #	Effective Date	Internal Indication^	Filed Indication	Rate Requested	Rate Approved
7/14/2017	11/9/2017	17-4826	3/1/2018	+40.5%	+115.4%	+6.9%	+6.9%
11/29/2017	4/16/2018	17-8006	7/15/2018	+32.6%	+86.9%	+6.9%	+6.9%
8/30/2019	1/10/2020	19-3243	4/15/2020	N/A	+54.4%	+6.9%	+5.4%
2/28/2023	10/19/2023	23-600	2/1/2024	N/A	+22.7%	+20.0%	+15.0%
12/28/2023	6/17/2024	24-9	9/1/2024	N/A	+58.0%	+40.0%	+40.0%

^ Internal Indication is listed as N/A if an internal indication was not listed in the filing.

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Exhibit N
State Farm General Insurance Company
Surplus to Premium Ratio

		Direct					Net				
	($ Millions)	Written Premium				Surplus to Premium Ratio	Written Premium				Surplus to Premium Ratio
Year-End XXXX	Policyholder Surplus	Non-Tenant	Tenant	RDP	All Other		Non-Tenant	Tenant	RDP	All Other	
2014	3,821	1,051	153	239	609	1.862	961	153	222	557	2.018
2015	3,991	1,018	164	247	615	1.953	944	164	232	564	2.096
2016	4,076	1,043	170	248	618	1.961	964	170	233	564	2.111
2017	3,187	1,016	149	158	610	1.649	933	149	139	560	1.789
2018	2,463	1,108	158	159	628	1.200	1,000	158	143	571	1.316
2019	2,552	1,214	164	178	682	1.140	1,075	164	159	618	1.266
2020	2,145	1,355	171	188	736	0.876	1,176	172	163	657	0.989
2021	2,301	1,711	187	213	827	0.783	1,415	187	175	711	0.925
2022	2,238	2,064	203	234	932	0.652	1,729	203	191	785	0.770
2023	1,342	2,231	199	237	1,038	0.362	1,616	200	163	808	0.482

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Exhibit O - Page 1
State Farm General Insurance Company
Catastrophe and Non-Catastrophe Direct Losses

Non-Catastrophe

	Direct Losses Paid				Direct Losses Incurred			
Year	Non-Tenant	Tenant	RDP	All Other	Non-Tenant	Tenant	RDP	All Other
2014	482,396,938	78,523,148	78,988,754	264,130,163	451,085,343	79,203,745	72,197,843	224,519,092
2015	472,190,776	83,166,061	76,692,083	286,454,977	432,986,508	80,165,053	80,340,492	294,694,679
2016	531,729,845	97,020,918	85,623,062	340,840,581	546,152,687	100,804,001	86,357,770	406,512,730
2017	535,849,746	99,908,799	83,789,053	324,004,476	541,645,933	100,482,735	74,959,817	346,444,080
2018	520,584,908	98,985,722	80,010,670	348,033,607	549,041,153	104,887,948	80,744,942	394,940,712
2019	575,658,922	106,615,829	76,808,580	362,323,045	625,888,675	109,715,088	74,662,606	387,434,987
2020	650,763,447	96,454,018	79,398,800	373,533,907	689,061,155	98,929,874	81,964,812	398,670,136
2021	770,058,608	107,575,739	103,688,537	457,233,770	810,916,247	109,438,298	113,022,410	521,173,646
2022	837,174,337	125,508,489	106,467,360	539,676,278	955,249,227	143,256,689	138,708,059	710,420,509
2023	832,275,541	130,908,210	99,756,223	677,624,305	897,968,482	164,181,001	117,643,296	1,199,227,551

Catastrophe

	Direct Losses Paid				Direct Losses Incurred			
Year	Non-Tenant	Tenant	RDP	All Other	Non-Tenant	Tenant	RDP	All Other
2014	15,676,087	1,142,668	3,746,321	4,847,515	25,533,988	2,242,727	4,376,777	6,532,957
2015	138,449,910	1,645,156	12,699,979	10,722,833	217,199,337	1,344,956	18,790,351	13,581,699
2016	62,325,458	1,125,623	3,740,240	7,463,007	46,984,561	913,033	788,273	5,251,034
2017	724,572,678	14,313,811	73,406,790	30,857,393	2,791,555,332	103,114,376	248,783,793	137,973,592
2018	1,484,547,995	19,404,039	63,714,129	57,243,478	479,951,412	(36,824,854)	(11,587,656)	74,509,249
2019	983,706,555	16,017,165	74,293,299	60,460,301	111,451,701	(10,420,761)	(12,761,272)	(47,191,011)
2020	(629,871,737)	(4,790,738)	(49,292,257)	(10,479,764)	(343,451,886)	(535,712)	(42,670,070)	(13,183,027)
2021	88,765,081	(222,540)	(2,404,372)	20,182,804	(133,419,311)	(5,766,646)	(12,557,155)	36,981,590
2022	99,277,500	3,097,814	7,156,713	3,961,375	(30,569,328)	2,282,308	1,306,052	(16,953,981)
2023	280,508,149	13,222,009	25,128,828	61,350,648	249,375,058	27,604,454	27,100,251	86,530,157

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Exhibit O - Page 2
State Farm General Insurance Company
Catastrophe and Non-Catastrophe Net Losses

Non-Catastrophe

	Net Losses Paid				Net Losses Incurred			
Year	Non-Tenant	Tenant	RDP	All Other	Non-Tenant	Tenant	RDP	All Other
2014	482,139,516	78,523,401	75,256,247	257,839,691	448,972,921	79,212,498	69,664,679	219,219,151
2015	469,726,714	83,166,645	72,245,161	280,667,943	432,261,779	80,159,637	70,710,414	282,816,109
2016	531,797,193	97,020,067	82,832,774	329,478,466	545,320,295	100,809,150	84,353,251	400,849,244
2017	531,366,638	99,908,992	82,115,582	317,241,268	535,257,903	100,484,928	79,387,963	339,660,814
2018	518,797,157	98,985,735	76,815,532	340,896,920	538,133,510	104,887,961	82,353,836	389,284,228
2019	575,166,061	106,612,415	76,172,772	355,070,880	623,927,476	109,707,674	78,093,093	379,433,125
2020	648,456,949	96,453,871	79,113,864	366,386,354	691,947,167	98,930,333	81,836,650	388,860,610
2021	763,963,981	107,567,137	103,538,378	442,798,106	804,335,748	109,433,390	112,937,251	502,396,327
2022	813,463,121	125,458,553	106,406,030	531,314,556	894,846,372	143,206,753	138,665,229	684,987,550
2023	805,001,505	130,826,118	99,760,173	645,720,700	897,977,933	164,100,609	117,599,265	1,152,557,890

Catastrophe

	Net Losses Paid				Net Losses Incurred			
Year	Non-Tenant	Tenant	RDP	All Other	Non-Tenant	Tenant	RDP	All Other
2014	15,676,087	1,142,668	3,746,321	3,668,884	25,534,181	2,242,727	4,376,122	6,107,503
2015	138,431,910	1,645,156	12,699,979	9,623,811	217,181,292	1,344,956	18,790,522	12,716,307
2016	62,343,458	1,125,623	3,740,240	5,730,041	47,002,517	913,033	788,058	3,468,883
2017	723,394,846	14,313,811	73,406,790	28,872,364	2,733,555,377	103,114,376	(1,413,244,532)	135,931,253
2018	1,427,472,986	19,404,039	(567,945,544)	56,065,531	433,570,519	(36,824,854)	557,665,276	73,426,280
2019	931,897,310	16,017,165	(169,958,758)	58,761,232	103,748,091	(10,420,761)	21,901,364	(48,612,678)
2020	(599,597,385)	(4,790,738)	699,589,343	(38,132,874)	(315,510,394)	(535,712)	879,465,984	(43,857,249)
2021	96,369,975	(222,540)	15,799,134	(9,479,437)	(130,122,473)	(5,766,646)	(3,065,101)	(12,297,393)
2022	76,706,875	3,097,814	24,438,443	9,567,040	(50,761,829)	2,282,308	24,421,520	5,826,722
2023	279,885,730	13,222,009	33,091,481	55,440,532	252,609,445	27,604,454	30,715,407	73,093,222

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Exhibit P
State Farm General Insurance Company
Catastrophe and Non-Catastrophe Reserves

	Non-Catastrophe				Catastrophe			
Year	Non-Tenant	Tenant	RDP	All Other	Non-Tenant	Tenant	RDP	All Other
2014	283,719,892	52,173,081	38,465,784	381,941,972	22,876,637	1,481,125	3,413,151	4,263,627
2015	246,254,957	49,166,073	36,931,037	384,090,138	101,626,019	1,180,925	9,503,694	7,356,123
2016	259,778,059	52,955,156	38,451,514	455,460,916	86,285,078	968,335	6,551,512	5,094,965
2017	263,669,324	53,531,092	35,723,895	477,880,462	2,096,445,609	89,768,900	(1,480,099,810)	112,153,854
2018	283,005,677	59,433,318	41,262,199	526,267,770	1,102,543,142	33,540,007	(354,488,990)	129,514,603
2019	331,767,092	62,528,577	43,182,520	550,630,015	274,393,923	7,102,081	(162,628,868)	22,140,693
2020	375,257,310	65,005,039	45,905,306	573,104,271	558,480,914	11,357,107	17,247,773	16,416,318
2021	415,629,077	66,871,292	55,304,179	632,702,492	331,988,466	5,813,001	(1,616,462)	13,598,362
2022	497,012,328	84,619,492	87,563,378	786,375,486	204,519,762	4,997,495	(1,633,385)	9,858,044
2023	589,988,756	117,893,983	105,402,470	1,293,212,676	177,243,477	19,379,940	(4,009,459)	27,510,734

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Exhibit Q
State Farm General Insurance Company
Reinsurance Program Summary and Experience

	Occurrence Treaty Parameters		Occurrence Program Experience		Aggregate Treaty Parameters		Aggregate Program Experience	
Treaty Year	Attachment Point	Limit	Premium Paid	Losses Recovered	Attachment Point	Limit	Premium Paid	Losses Recovered
2015	1,000,000,000	1,900,000,000	87,637,500	-	1,500,000,000	500,000,000	10,250,000	-
2016	1,000,000,000	2,100,000,000	97,912,500	-	1,500,000,000	500,000,000	11,250,000	-
2017	1,000,000,000	2,100,000,000	100,852,500	-	1,500,000,000	500,000,000	10,750,000	-
2018	1,000,000,000	2,600,000,000	121,225,000	87,467,900	1,500,000,000	500,000,000	14,750,000	-
2019	750,000,000	3,150,000,000	156,662,500	-	1,250,000,000	600,000,000	20,400,000	-
2020	750,000,000	3,850,000,000	206,250,000	-	1,250,000,000	600,000,000	24,000,000	-
2021	500,000,000	5,200,000,000	317,950,000	-	750,000,000	600,000,000	62,700,000	-
2022	500,000,000	6,400,000,000	374,950,000	-	750,000,000	600,000,000	74,700,000	-
2023	250,000,000	8,850,000,000	665,197,000	-	375,000,000	600,000,000	144,600,000	-
2024	250,000,000	8,920,000,000	637,598,000	-	375,000,000	600,000,000	167,100,000	-

	Property Per Risk Experience		Umbrella Experience	
Treaty Year	Premium Paid	Losses Recovered	Premium Paid	Losses Recovered
2015	14,400,000	418,013	770,248	-
2016	11,295,000	2,924,033	925,770	-
2017	11,525,000	28,049,028	789,994	-
2018	16,100,000	38,279,908	704,073	381,045
2019	15,500,000	9,798,296	735,033	3,619
2020	16,400,000	63,550,974	769,422	64
2021	19,000,000	15,473,079	829,314	14,905,580
2022	20,700,000	41,742,037	955,967	-
2023	27,800,000	15,164,633	1,144,652	-
2024	42,500,000	-	**	

** The Umbrella Treaty Year starts on October 1st and such the 2024 value does not exist yet

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EXHIBIT IRH-CWD-234

Exhibit 2

State Farm General Insurance Company
California Homeowners
Rate Level History

The following are the CDI file numbers, effective dates, and the overall effects of the rate filings submitted for these lines in the past seven years.

		Overall Effect (%)			
CDI File #	Effective Date	Non-Tenant Homeowners	Renters	Condominium Unitowners	Total Homeowners
22-1514	06/01/2023	6.9	N/A	6.9	N/A
21-1404	02/01/2022	6.9	N/A	N/A	N/A
19-2063	04/01/2021	6.9	0.0	0.0	6.0
18-4896	10/15/2020	6.9	6.9	3.1	6.7
18-1196	07/15/2018	6.9	4.0	6.9	6.7
14-8381	12/08/2016*	-5.4	-20.4	-13.8	-7.0

* This change was originally implemented 02/13/2017. Policies were refunded back to the 12/08/2016 effective date. Refunds were sent April-May, 2017.

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EXHIBIT IRH-CWD-235

25-Feb-2025 | 15:50 EST

State Farm General Insurance Co. 'AA' Ratings Placed On CreditWatch Negative On Weakening Capital Position

- State Farm General Insurance Co.'s (SFGI), subsidiary of State Farm Mutual Automobile Insurance Co., weak underwriting performance over the past five years has led to a significant deterioration of its capital position and regulatory solvency ratios.
- This capital deterioration and uncertainty regarding group capital support raises questions about SFGI's status as a core group member and the associated rating benefits.
- We have placed our 'AA' financial strength and issuer credit ratings of SFGI on CreditWatch with negative implications.
- This rating action does not affect any other State Farm group affiliate.

PRINCETON (S&P Global Ratings) Feb. 25, 2025--S&P Global Ratings today placed its 'AA' financial strength and issuer credit ratings on State Farm General Insurance Co. on CreditWatch with negative implications.

CWD-476

Rationale

Our rating action on SFGI reflects the company's weak underwriting performance over the past five years (2019-2023), continued underperformance in 2024, and the potential earnings pressure in 2025, largely from the recent California wildfires which lead to deteriorating capital near the regulatory authorized control level (ACL). Our action also reflects our view of uncertainties related to capital support from the State Farm group, which raises concern relating to SFGI's core group status assessment. This action also considers the California Insurance Department's ambiguity around rate approval.

SFGI is an operating subsidiary of State Farm Mutual (AA/ Stable) that does business exclusively in the state of California. 77% of SFGI's $3.0 billion quarter three year-to-date 2024 direct premium written were from homeowners business. This has limited SFGI's ability to achieve rate adequacy due to regulatory restrictions on personal lines. SFGI has been vigilant in taking non-rate actions to manage exposure, particularly to wildfires, but it hasn't been enough to offset the elevated severity and frequency affecting the book.

Over the past five years, SFGI reported an average combined ratio of around 115.5%, with a combined ratio for the first nine months of 2024, remaining above the average at 118.0%. This was due to claims from higher catastrophe losses, further elevated by higher inflation. Because of these underwriting losses, SFGI's ACL risk-based capital ratio declined to 228% at year-end 2023, compared with 501% at year-end 2021. With the underwriting losses in 2024, along with the California wildfire losses of around $212 million, and a FAIR assessment of $400 million, the ratio is expected to decline further in 2025.

SFGI has had pending rate increases since June of 2024, and has since requested an emergency interim rate increase. Given the inherent lag for earned rate to meaningfully materialize, we expect it will take at least 12 months to realize the benefits of these rate increases, if they are approved.

Over this period of underperformance and capital deterioration, the State Farm group has not provided any capital support beyond reinsurance agreements to SFGI. This raises questions on the core group status of SFGI and the possibility of changing the group status to non-core. A change to the group status of SFGI could lead to a rating downgrade by multiple notches.

CreditWatch

The CreditWatch with the negative implication on SFGI is the result of weakening credit fundamentals and uncertainty about the group's willingness to provide capital support. This raises questions about SFGI's status as a core group member. We expect to resolve this action when more information is available and we're able to refine our credit profile assessment on the operating subsidiary, mainly focused on the prospective capital levels. Upon resolution of the CreditWatch listing, we could change our assessment of the group status and lower the rating by multiple notches.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
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Related Research

- State Farm Mutual Automobile Insurance 'AA' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable, June 28, 2024

Ratings List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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Contact the analysts:

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David S Veno

Primary Credit Analyst, Princeton

P. + 1 (212) 438 2108

E. david.veno@spglobal.com

Patricia A Kwan

Secondary Contact, New York

P. + 1 (212) 438 6256

E. patricia.kwan@spglobal.com

Ronak Chaplot

Research Contributor, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

P.

E.

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State Farm Was All In on California—Until It Pulled the Plug Before the Fires

Insurer aggressively grew in Los Angeles, despite getting overweight on fire risk, but decided to cut thousands of policies last year, adding to the state's home-insurance crisis

Sandra Kaler's insurance policy wasn't renewed by State Farm. Her home burned to the ground last month.

By Jean Eaglesham and Susan Pulliam | Photographs by Alisha Jucevic for WSJ

Feb. 6, 2025 9:00 pm ET

SANDRA KALER'S INSURANCE POLICY WASN'T RENEWED BY STATE FARM. HER HOME BURNED TO THE GROUND LAST MONTH.

After the pandemic, most home insurers were fleeing wildfire-prone areas of California. But State Farm was there—and making a huge bet.

It gobbled up market share—and generated substantial commissions for its agents—by insuring high-value homes in the Pacific Palisades and other Los Angeles neighborhoods that many of its competitors rejected as too vulnerable to wildfires. By 2022, State Farm had more than 20% of the California market, dwarfing its competitors.

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In 2023, the insurer took in $2.7 billion of home-insurance premiums in the state, more than a third higher than its nearest rival, and a 70% increase from five years earlier, according to data from ratings firm AM Best.

But behind the scenes, red flags were emerging, as State Farm faced up to years of internal warnings about its levels of risk. Its own actuaries repeatedly said the California subsidiary's premiums weren't high enough and its outside consultants warned of the seriously escalating risk of a devastating fire.

Just months before the January conflagration, the insurer slammed on the brakes. It said it would drop around 30,000 homeowners—including 9,500 in neighborhoods that burned last month, according to an analysis by The Wall Street Journal—and moved to substantially raise premiums.

That left thousands of homeowners in fire zones without traditional policies, including Sandra Kaler, whose insurance on her Pacific Palisades house wasn't renewed by State Farm just weeks before the fire. She was forced to switch to the California Fair Plan, the state's insurer of last resort, which offers bare-bones fire coverage at typically high rates.

By the morning of Jan. 8, her home had burned to the ground. "It was gone in an instant. There is only a chimney left," she said of the home where she raised her children.

Afterward, the 74-year-old filed a claim with State Farm, hoping they might pay toward her losses on her house, which was recently appraised at $3.5 million. The claims specialist told her he would pray for her family and denied the claim.

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THE BURNED REMAINS OF KALER'S PACIFIC PALISADES HOME.

Last month's fires killed 29, destroyed around 16,000 homes and caused an estimated $30 billion or more in losses to insurers. The disaster has also thrown California's insurance landscape into a state of chaos.

State Farm, long one of the few private insurers taking on risky properties in Los Angeles, is at the center of that crisis. For years it sold policies at premiums it knew were unsustainably low—which allowed it to dominate market share. Its shocking reversal upended the status quo—and funneled even more homeowners into the state-designed Fair Plan, which took on coverage of more homes in areas with high fire risk as private insurers pulled out. The Fair Plan may need bailing out by insurers and homeowners to pay its expected billions of dollars in claims.

Complicating matters is a structure in which State Farm has split off its California home-insurance subsidiary, in an effort to insulate itself from potentially catastrophic losses, according to analysts. It has said in state filings that the California subsidiary is expected to run as a stand-alone, without help from the parent.

State Farm, the nation's largest home- and auto-insurance company, with more than 90 million customers nationwide and a million home policies in California, has a strong credit rating and a surplus of well over $100 billion. The California unit, by contrast, was heavily in the red even before the latest fires. Over the past nine years, it has spent $1.26 for every dollar collected in premiums, resulting in over $5 billion in underwriting losses, the insurer said Monday.

State Farm said it is helping people recover from the January fires and has paid more than $1 billion to customers

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impacted. The company added that over the past decade, it has tried in California to "responsibly limit overexposure in high-risk areas," while allowing for growth elsewhere in the state. State Farm's "rate requests and underwriting decisions were made to try to appropriately match price to risk" in the state, it said.

SALES BLITZ

State Farm's sales drive in California surprised rivals as it pushed further into risky neighborhoods. Competitors were more selective about insuring homes in fire-prone areas, according to the companies and agents.

State Farm, by contrast, was expanding with few apparent limits. A 2021 internal list restricted sales of new policies for particularly high-risk areas—but that included only six of the 97 ZIP Codes that were at the heart of the recent fires, according to the Journal's analysis.

"State Farm was the only—and I mean the only—big insurer that would take everything" in that period, said Timothy Gaspar, who owns an independent insurance agency in the Woodland Hills neighborhood of Los Angeles. "All homes, big or small, no matter where they were."

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KALER'S HUSBAND, BURRITT NEWTON, SHOWED A PHOTOGRAPH OF THEIR HOME TAKEN LAST FALL.

Its relatively low rates shocked competitors. “Other agents in the industry would look at each other and say, ‘How is State Farm doing this? Do they know something we don’t know?’” Gaspar said.

Scott Wilk, an insurance agent in Los Angeles County’s Valencia community said the only quote he could get in 2022 for a high-value home in the mountains was $20,000 from the specialist Lloyd’s of London market. In the end, State Farm insured the property for $6,000, he said. “They were super aggressive, until they shut down production,” he

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said.

State Farm itself knew its rates were too low for the level of risk it was taking on—and that the risk could overwhelm the company.

CoreLogic, paid by the insurer to advise it on risks, said in an interview it first warned State Farm four years ago of a heightened danger in the Los Angeles neighborhoods that were hit by the latest fires.

SCOTT WILK, AN INDEPENDENT INSURANCE AGENT, SAID STATE FARM WAS 'SUPER AGGRESSIVE' IN THE MARKET.

In 2022, State Farm's board of directors learned there was a one-in-20 risk every year of fire that could cripple the California subsidiary, a person close to the situation said. More typically, insurers hold enough capital so they can comfortably weather the risks in their portfolio, rather than being vulnerable to what was seen as a relatively likely disaster.

"Our California homeowners insurance product line has not been rate adequate since 2007," the company said on its website. For years, its in-house calculations had been warning that its rate increases were much lower than what was needed to balance its risks.

Yet State Farm repeatedly asked the state for a fraction of the increases that would be needed to bring its rates up to the necessary levels.

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In 2021, State Farm asked California regulators to approve a 6.9% rise in home-insurance rates, less than a quarter of the 31% increase its own in-house calculations showed was needed to cover the risks of its policies, state filings show. In 2022, it again asked for 6.9%, rather than the 23% rate its own math indicated was needed.

Insurers in general kept rate requests low to navigate California's tough price controls. Unlike State Farm, many other companies tried to manage that limitation by cutting back sales in high-risk areas.

Instead, the low rates fueled State Farm's rapid growth. "We were happy to be able to steer people in their direction as the only alternative to the Fair Plan," the insurer of last resort, said Amy Bach, executive director of consumer group United Policyholders. Consumers preferred it to the Fair Plan's limited coverage and high prices.

A FIREFIGHTER BATTLED THE PALISADES FIRE.

POLICY REVERSAL

A leadership change in the California unit in 2023 changed everything.

Thomas Conley, who had come up through the agency ranks and was seen as sympathetic to the sales force, ran the California unit during its big bet on the homeowners business. State Farm agents pocketed big commissions on the high-value homes they were chasing.

"He was an inspirational manager who was very engaged with his employees," a former State Farm lawyer said.

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When Conley retired, his replacement, Arizona-based executive Denise Hardin, took a different tack: Seeing a sea of red due to high underwriting losses in the subsidiary's books, she decided it was time to play hardball with regulators to increase premiums, among other demands, a person close to the situation said.

Conley and Hardin didn't respond to requests for comment.

CALIFORNIA INSURANCE COMMISSIONER RICARDO LARA.

In February 2023, State Farm executives met with California Insurance Commissioner Ricardo Lara, regulatory records show. Lara, a career politician who was elected to the insurance role in 2018, was seen by insurers and lawmakers as eyeing a run for a higher state office. He had kept insurance prices low, slow-walking rate-hike requests for almost two years during the pandemic in a bid to help consumers.

Within days of the February meeting, State Farm put in for a 28% increase in home-insurance rates—a shocking request after Lara had typically approved increases of less than 7%. Weeks later, State Farm upped the ante by announcing it would stop selling new home-insurance policies in the state, matching moves by other insurers and paralyzing the market.

Previously, we "never had them saying they're going to stop selling new policies," said former California insurance commissioner Dave Jones. He described State Farm's move as "crossing the Rubicon."

The pressure worked. After blasting State Farm and its competitors for creating "uncertainty and anxiety" among

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consumers, Lara later that year announced a new "sustainable insurance strategy" that mostly met insurers' demands for reforms to California's rules. He also began greenlighting much bigger rate increases for leading insurers. The new policy allowed companies to use their models that had been forecasting rising wildfire risks for years in their rate-setting. Lara later approved a 20% rate increase for State Farm.

A STATE FARM STOREFRONT WAS DESTROYED BY FIRES IN ALTADENA, CALIF., LAST MONTH.

State Farm wasn't satisfied. In March 2024, Hardin released a bombshell letter laying out the role it said Lara "must play" in the California subsidiary's financial recovery. Underwriting losses had eaten into the subsidiary's capital, to the point where its future was in doubt, the letter said. "Rapid review and approval of a new rate...will be critical to [its] survival," it said.

It warned that a collapse of the company would "detrimentally impact" the state's already fragile market. It would leave more than a million people needing coverage, many of whom would likely have to turn to the state's overburdened Fair Plan insurer of last resort.

The same day, State Farm announced its plan not to renew around 30,000 residential property policies, many in high-risk areas. Many of the dropped homeowners ended up on the Fair Plan, paying much higher rates for less robust coverage, according to agents and homeowners.

In June, State Farm applied to increase homeowner rates by 30%, on top of the 20% increase agreed to in 2023.

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Michael Soller, a deputy insurance commissioner, said the regulator's changes help consumers by requiring insurers to sell more home-insurance policies in high-risk wildfire areas. "Under the new rules, insurance companies cannot retreat from California if they want to do business here," he said.

On Monday, State Farm asked California regulators to approve a 22% emergency rate hike for homeowners. Immediate approval is needed "to help avert a dire situation" for its California home-insurance customers and the insurance market in the state, the insurer said.

A spokesman for the insurance regulator said staff will make an urgent formal recommendation to the commissioner about how to respond to State Farm's demands.

State Farm hasn't disclosed how much it expects to pay out in claims for the January fires, its likely loss, or how badly that will eat into the already thin financial cushion of its California company. So far, it has received over 8,700 claims, according to the company.

KALER AND NEWTON AND THEIR DOGS LAST WEEK IN ROSAMOND, CALIF., WHERE THEY WERE STAYING AFTER THEIR HOME WAS DESTROYED.

SUBSIDIARY STRUCTURE

Consumer advocates said they believe State Farm may be exploiting the separation between the California subsidiary and the parent company to make the unit appear distressed and alone—rather than part of an extremely healthy

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national insurer—and so bolster its rate demands.

"Chicken Little in Bloomington will tell you that the sky is falling," said Douglas Heller, director of insurance at the Consumer Federation of America, a consumer-advocacy group, referring to the insurer's national headquarters in Illinois.

A State Farm spokesman said the company "strongly disagrees" with any suggestion of financial engineering.

State Farm reorganized in 1998 to silo its subsidiary that sells home-insurance in California—called State Farm General Insurance. The company created a similar structure for its Florida home-insurance subsidiary, which operates in risky, hurricane-prone coastal areas. The Florida subsidiary threatened to leave that state in 2009 before dropping tens of thousands of policyholders in hurricane-prone areas. State Farm is a mutual company, owned by its policyholders, which uses a series of subsidiaries to sell insurance and investment products.

Meanwhile, industry representatives have argued in favor of the rate increases in California, saying consumers would suffer if the company collapsed. "This is a very serious situation. We want the market leader to stay," said Rex Frazier, president of the Personal Insurance Federation of California, which represents State Farm and other insurers. "How much more serious does it have to get before people will approve the rate increase needed?"

Regulators have pushed back on State Farm's previous demand for a 30% increase. Among their questions to the insurer, according to state filings: Given its claims of financial distress, does it plan to cut bonuses for executives? Or commissions for agents? State Farm responded no to both queries, according to the filings.

The issue is expected to go to a public hearing this year.

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A BURNING HOUSE IN PACIFIC PALISADES LAST MONTH.

Write to Jean Eagleshamat Jean.Eaglesham@wsj.com and Susan Pulliam at Susan.Pulliam@wsj.com

THE LOS ANGELES WILDFIRES

- Trump and California's Giant 'Faucet'
- Shadow Power Broker Swoops In to Rebuild Palisades
- Fires Will Drain Public Coffers From Pasadena to Utah
- America's Wellness Capital Seeks a Fire Detox

Appeared in the February 8, 2025, print edition as 'State Farm's L.A. Reversal'.

Hide Conversation
(1231)

Conversation 1.2K Comments

Commenting on this article has ended

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EXHIBIT IRH-CWD-237

ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 29

Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention

Developed by the
Task Force to Revise ASOP No. 29 of the
Casualty Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
December 2023

Doc. No. 210

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ASOP No. 29—Doc No. 210

December 2023

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice No. 29

This document contains a revision of actuarial standard of practice (ASOP) No. 29, *Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention*.

History of the Standard

This standard originally was developed by the Subcommittee on Ratemaking of the ASB's Casualty Committee. At that time, the Casualty Actuarial Society's May 1988 *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* identified and described principles applicable to the determination and review of property/casualty insurance rates. Those principles were limited to the portion of the ratemaking process involving the estimation of costs associated with the transfer of risk. For most lines of business, the expense provisions are a significant portion of the rate. For some lines of business, the expense provisions can actually exceed the loss provision. For this reason, it was necessary to have a standard of practice to provide guidance to actuaries when determining expense provisions.

In 2020, the ASB's Casualty Committee reviewed the standard and identified several obsolete references, which necessitated this revision.

This revision uses the phrase "risk transfer or risk retention" throughout the text, with the exception of the title. This differs from the phrase "risk transfer and risk retention," which is used in ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Retention and Risk Transfer*. These phrases have the same intention and should not be interpreted to have any different meaning. Both of these standards apply to actuaries performing work that pertains to either risk transfer or risk retention, or both, as part of the same work product. The ASB has concluded that the word "or" is more appropriate.

First Exposure Draft

The first exposure draft was released in February 2022 with a comment deadline of May 31, 2022. Seven comment letters were received and considered in making changes that are reflected in the second exposure draft.

Second Exposure Draft

The second exposure draft was released in January 2023 with a comment deadline of May 1, 2023. Six comment letters were received and considered in making changes that are reflected in this standard. For a summary of issues contained in these comment letters, please see appendix 2.

Notable Changes from the Second Exposure Draft

Notable changes made to the second exposure draft are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. In section 1.2, language was added to clarify the role of reviewing actuaries.

2. Section 3.6 was modified to include the subcategories of defense and cost containment (DCC) and adjusting and other (A&O).

Notable Changes from the Existing ASOP

Notable changes made to the existing ASOP are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. Section 1.2 was modified to include risk transfer or risk retention to align with ASOP No. 53.

2. In section 1.2, the scope was expanded to include applicability to reviewing actuaries.

3. The ASOP now distinguishes the identification of expense categories from the calculation of expense provisions (future cost estimates) for those categories.

4. Guidance regarding loss adjustment expense subcategories was added in several sections, including section 1.2 and the new section 3.6.

5. In section 2, definitions of coverage, expense provision, risk retention, and risk transfer were added.

6. Throughout the standard, the term “rates” was changed to “future cost estimates.”

7. In section 3.1, the reference to New York State insurance law was replaced with a reference to the pertinent requirements for defining the types of expenses prescribed in applicable law and, if applicable, the *Instructions for Uniform Classification of Expenses* published by the National Association of Insurance Commissioners (NAIC).

8. A new section 3.2 on intended measure was added. Intended measure is now also referenced in other sections.

9. In section 3.3, a reference was added to appropriate methods, models, and assumptions for developing the expense provisions during the period for which the future costs are being estimated. References to ASOP Nos. 53 and 56, *Modeling,* were also added.

10. In section 3.6, the reference to the CAS *Statement of Principles Regarding Property/Casualty Ratemaking* was removed.

11. In section 3.8, guidance was added on reflecting the timing of residual market expenses.

12. In section 3.9, guidance was added on reflecting the timing of statutory assessments.

13. Section 3.11 of the exposure draft, Conflict with Applicable Law, was deleted.

14. A new section 3.15 was added on the preparation and retention of documentation.

15. In section 4, the list of required disclosures was expanded.

16. In section 4, a new section regarding the disclosure of confidential information was added.

17. In section 4, the reference to repealed ASOP No. 9, *Documentation and Disclosure in Property/Casualty Insurance Ratemaking, Loss Reserving, and Valuations,* was deleted.

The ASB voted in December 2023 to adopt this standard.

ASOP No. 29 Task Force

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The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

ACTUARIAL STANDARD OF PRACTICE NO. 29

EXPENSE PROVISIONS FOR PROSPECTIVE PROPERTY/CASUALTY RISK TRANSFER AND RISK RETENTION

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to developing or reviewing **expense provisions** for prospective property/casualty **risk transfer** or **risk retention**.

1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to developing or reviewing **expense provisions** for prospective property/casualty **risk transfer** or **risk retention**. This includes **expense provisions** developed or reviewed for insurance, reinsurance, self-insurance, loss portfolio transfers, or other mechanisms for prospective property/casualty **risk transfer** or **risk retention**. If the actuary's actuarial services involve reviewing **expense provisions** developed by another party, the actuary should use the guidance in this ASOP to the extent practicable within the scope of the actuary's assignment.

This standard does not apply to actuaries when estimating **loss adjustment expenses** that are combined with losses in the determination of the provision for losses.

If the actuary determines that the guidance in this standard conflicts with an ASOP that applies to all practice areas, this standard governs.

If a conflict exists between this standard and applicable law (statutes, regulations, and other legally binding authority), the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should follow the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for work performed on or after July 1, 2024.

Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the ASOP. The actuary should also refer to ASOP No. 1, *Introductory Actuarial Standard of Practice*, for definitions and discussions of common terms, which do not appear in bold in this standard.

2.1 Commission and Brokerage Fees—Compensation associated with the acquisition and service of business. These fees are paid to agents, brokers, or other parties, including ceding insurance companies.

2.2 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation to pay benefits, expenses, or claims associated with contingent events.

2.3 Expense Provisions—Future cost estimates related to the **risk transfer** or **risk retention** other than the following: losses, **loss adjustment expenses** that are combined with losses in the determination of the provision for losses, the provisions for profit and contingencies, the cost of capital, investment expenses, and federal and foreign income taxes.

2.4 General Administrative Expenses—Operational and administrative expenses (other than investment expenses) not specifically defined elsewhere in this section.

2.5 Loss Adjustment Expenses—The costs of administering, investigating, validating, estimating, settling, or defending claims. Such costs are also known as "claim adjustment expenses."

2.6 Other Acquisition Expenses—Costs, other than **commission and brokerage fees**, associated with the acquisition of business.

2.7 Policyholder Dividends—Nonguaranteed returns of premium or distributions of surplus.

2.8 Residual Market Expenses—Assessments for the entity's share of residual market profits or losses.

2.9 Risk Retention—A risk-management and risk-control strategy for the assessment, management, or financing of retained risk associated with the specific **coverage**. Examples of **risk retention** include individual and group self-insurance and large deductible programs.

2.10 Risk Transfer—A risk-management and risk-control strategy, involving legally binding agreements, that shifts responsibility from one party to another or indemnifies one party by another party for the financial obligations associated with the **coverage**. Examples of **risk transfer** include insurance, reinsurance, captive insurance, and loss portfolio transfers.

2.11 Statutory Assessment Expenses—Mandated assessments that are permitted by applicable law to be included in the **expense provisions**. **Statutory assessment expenses** do not include **residual market expenses**.

2.12 Taxes, Licenses, and Fees—Taxes, license costs, and miscellaneous fees except federal and foreign income taxes.

Section 3. Analysis of Issues and Recommended Practices

3.1 Categorizing Expenses—The actuary should use expense categories when developing the **expense provisions**. When using expense categories, the actuary should be familiar with the pertinent requirements for defining the types of expenses prescribed in applicable law and, if applicable, the *Instructions for Uniform Classification of Expenses* published by the National Association of Insurance Commissioners (NAIC). The actuary also should be familiar with the entity's own methods of classifying and assigning expenses.

Common expense categories include **commission and brokerage fees**, **general administrative expenses**, **loss adjustment expenses**, **other acquisition expenses**, **policyholder dividends**, **residual market expenses**, **statutory assessment expenses**, cost of reinsurance, and **taxes**, **licenses**, **and fees**. The actuary may consolidate categories using professional judgment.

3.2 Intended Measure—The actuary should identify the intended measure of each **expense provision** based on its purpose or use. The intended measure may vary for each **expense provision** as needed and appropriate. Intended measures will be affected by the desires or needs of the principal, legal requirements, and the regulatory environments in which the future cost estimate will be used.

Examples of intended measures include the mean, the mean plus risk margin, the high or low estimate within a range of reasonably possible outcomes, and a specified percentile of the distribution of reasonably possible outcomes. Other measures may be appropriate based upon the purpose or use of the estimate.

3.3 Developing Expense Provisions—The actuary should develop **expense provisions** for each applicable expense category that

a. are appropriate for the **coverage** for which the future cost estimates are needed;

b. reflect the environment expected to exist in the period for which the future cost estimates are needed; and

c. include all future costs related to the **risk transfer** or **risk retention** other than the following: losses, **loss adjustment expenses** that are combined with losses in the determination of the provision for losses, the provisions for profit and

contingencies, the cost of capital, investment expenses, and federal and foreign income taxes.

The actuary should select methods, models, intended measures, and assumptions for developing the **expense provisions** that are appropriate for the prospective property/casualty **risk transfer** or **risk retention** during the period for which the future costs are being estimated. When developing or reviewing **expense provisions**, the actuary also should refer to ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*, and ASOP No. 56, *Modeling*.

The actuary should consider developing **expense provisions** for expenses that do not vary in direct proportion to premium on a basis that is not directly proportional to premium, such as per policy, per **coverage**, a percentage of claim losses, per unit of exposure, or some other manner that is consistent with how they are incurred.

3.4 Amortized Expenses—The actuary may include amortized expenses in the development of the **expense provisions** using an appropriate amortization period. Examples of expenses that may be amortized include start-up, development, or acquisition costs.

3.5 Expense Trending—The actuary may use expense trending procedures in developing **expense provisions** for expenses that are expected to vary over time. When using trending procedures, the actuary should consider reflecting a different trend for expenses than the trends in premiums, losses, or exposure bases. In addition, the actuary should refer to ASOP No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking.*

3.6 Provision for Loss Adjustment Expenses—When developing an **expense provision** for **loss adjustment expenses**, the actuary should provide for all **loss adjustment expenses** that are not combined with losses in the determination of the provision for losses. If the **loss adjustment expenses** are divided into subcategories, the actuary should consider using different methods, models, or assumptions in developing the **expense provisions** for the different subcategories of **loss adjustment expenses**. Such subcategories often include 1) allocated/unallocated or 2) defense and cost containment/adjusting and other.

3.7 Provision for Policyholder Dividends—If the actuary determines that **policyholder dividends** are reasonably anticipated, the actuary should consider including the anticipated amount of **policyholder dividends** in the **expense provisions**. When developing an **expense provision** for **policyholder dividends**, the actuary should take into account the company's dividend payment history, its current dividend policy or practice, whether dividends are related to loss experience, investment results, the capital and surplus of the company, and other considerations affecting the payment of dividends.

3.8 Provision for Residual Market Expenses—The actuary should include an **expense provision** for **residual market expenses**, if applicable. The provision for **residual market expenses** should reflect the timing of the residual market mechanism. If the residual market assessments are retrospective, the actuary should consider including a component in the

expense provision to recover any previously unassessed costs or to account for any prior excess collections.

3.9 Provision for Statutory Assessment Expenses—The actuary should include an **expense provision** for **statutory assessment expenses**, if applicable. The provision for **statutory assessment expenses** should reflect the timing of the statutory assessment mechanism. If the statutory assessments are assessed retrospectively, the actuary should consider including a component in the **expense provision** to recover any previously unassessed costs or to account for any prior excess collections.

3.10 Provision for the Cost of Reinsurance—If the actuary includes the cost of reinsurance as an **expense provision**, the actuary should take into account the amount to be paid to the reinsurer, ceding commissions or allowances, anticipated reinsurance recoveries, contract terms that provide for retrospective premium or commission adjustments, reinstatement premiums between the reinsured and the reinsurer, and other relevant information specifically related to the cost of reinsurance.

3.11 Reliance on Others for Data, Projections, Models, and Supporting Analysis—The actuary may rely on data, projections, models, and supporting analysis supplied by others. When practicable, the actuary should review the data, projections, models, and supporting analysis for reasonableness and consistency. For further guidance, the actuary should refer to ASOP Nos. 23, *Data Quality*, 41, *Actuarial Communications*, and 56.

3.12 Reliance on Intended Measures, Methods, Models, or Assumptions Selected by Another Party—When relying on intended measures, methods, models, or assumptions selected by another party, the actuary should refer to ASOP No. 41 for guidance.

3.13 Reliance on Another Actuary—The actuary may rely on another actuary who has developed a portion of the **expense provisions**. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to perform such work, the supporting analysis was performed in accordance with applicable ASOPs, and the analysis is appropriate for the intended use. The actuary should also refer to ASOP No. 41 for guidance.

3.14 Reliance on Expertise of Others—An actuary may rely on the expertise of others (including actuaries not performing actuarial services) in the fields of knowledge used in developing **expense provisions**. In determining the appropriate level of such reliance, the actuary should take into account the following:

a. whether the individual or individuals upon whom the actuary is relying has expertise in the applicable field;

b. the extent to which the work product being relied upon has been reviewed or opined on by others with expertise in the applicable field, including any significant differences of opinion commonly known among those with expertise concerning

aspects of **expense provisions** that could be material to the actuary's work product; and

c. whether there are legal, regulatory, professional, industry, or other standards that apply to the work product supplied by others with expertise in the applicable field, and whether the work product has been represented as having met such standards.

3.15 Documentation—The actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The amount, form, and detail of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 13, 23, 41, 53, and 56. In addition, the actuary should disclose the following in such actuarial reports:

a. a description of the categories used in developing the **expense provisions** (see section 3.1);

b. the **expense provision** for each applicable expense category (see section 3.3);

c. the methods, models, intended measures, and material assumptions used in developing each **expense provision** (see sections 3.2, 3.3, and 3.5–3.10);

d. any amortized expenses and the amortization periods (see section 3.4);

e. the extent of any reliance on data, projections, models, and supporting analysis supplied by others (see section 3.11);

f. the extent of any reliance on methods, models, or assumptions selected by another party (see section 3.12);

g. the extent of any reliance on another actuary (see section 3.13); and

h. the extent of any reliance on the expertise of others (see section 3.14).

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in an actuarial report in accordance with ASOP No. 41 for the following circumstances:

a. if any material assumption or method was prescribed by applicable law;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

4.3 Confidential Information—Nothing in this standard is intended to require the actuary to disclose confidential information.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

Prior to the relatively high inflation of the 1970s, a predominant ratemaking technique involved including expenses, other than loss adjustment expenses, as a percentage of premium. In doing so, it was assumed that the expense portion of the future cost estimate was subject to the same trend (usually very low) to which the loss and loss adjustment expense portions were subjected. However, higher levels of inflation had a significant impact on the expected change in the various elements of the future cost estimate. By the 1970s, the assumption that the trend in expenses would approximate the trend in losses was being questioned. Although the actuarially determined loss trend may have been applied to the loss and loss adjustment expenses as usual, a separate analysis and trend may have been necessary to properly reflect the anticipated change in certain other expenses.

Recognition of the impact of inflation on expenses that were not varying with premium led to the following additional considerations:

Expense Flattening—Expense flattening techniques assign expenses to policies or other units of exposure rather than in proportion to premium or losses. Thus, expense flattening is a procedure sometimes used to determine the portion of the future cost estimate that does not vary in direct proportion to premium or losses.

Expense Trending—Expense trending reflects how changes over time affect expenses. Over the years, separate trending of expenses has become a more common technique. However, including expenses as a proportion of premium is still used.

Although the property/casualty actuarial literature is relatively sparse on the topic of expense provisions, techniques for separately trending losses and expenses and alternatives to premium-related expense provisions have been included in such literature. Actuarial literature also includes discussions about how it may be inappropriate to assume proportional expenses for administrative ease when some expense categories do not vary in direct proportion to premium.

Over time, various regulations have required expense limitations by either limiting or disallowing certain expenses or by requiring expense flattening of various types.

The Casualty Actuarial Society adopted the *Statement of Principles Regarding Property and Casualty Ratemaking* in May 1988, rescinded it in December 2020, and reinstated it as a reference for U.S.-regulated ratemaking in May 2021. The *Statement of Principles* has served as a foundational source of information regarding future cost estimation and ratemaking, providing

both principles and considerations. The ASB has worked to develop standards that provide appropriate actuarial guidance on topics covered by the *Statement of Principles*, including expenses.

Current Practices

Practice has not changed significantly since ASOP No. 29 and the NAIC's *Instructions for Uniform Classification of Expenses* were first introduced in 1997 and 1998, respectively. The NAIC codified the reporting of expenses in the early 2000s, which changed the categorization of "allocated" and "unallocated" loss adjustment expenses to "defense and cost containment" and "adjusting and other" loss adjustment expenses. The standard allows for the use of either set of loss adjustment expense subcategories.

Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of the proposed revision of ASOP No. 29, *Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention*, was issued in January 2023 with a comment deadline of May 1, 2023. Six comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The ASOP No. 29 Task Force and the Casualty Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the Casualty Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term "reviewers" in appendix 2 includes the ASOP No. 29 Task Force, the Casualty Committee, and the ASB. The section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in this standard.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose, and 1.2, Scope	
Comment	Several commentators asked for clarification about how the standard applies to reviewing actuaries.
Response	The reviewers clarified the language regarding the role of a reviewer.
SECTION 2. DEFINITIONS	
Section 2.1, Commission and Brokerage Fees	
Comment	One commentator suggested breaking this section into two sentences to clarify the meaning.
Response	The reviewers agree and made the change.
Section 2.3, Expense Provisions	
Comment	One commentator suggested that the definition in this section should be as complete as the guidance wording from section 3.3(c).
Response	The reviewers agree and made a change consistent with the suggestion.
Section 2.5, Loss Adjustment Expenses	
Comment	One commentator suggested that the definition of loss adjustment expenses in this standard should be the same as in the proposed revision of ASOP No. 36.
Response	The reviewers believe the definition is appropriate for this standard and made no change in response to this comment.

Comment	One commentator suggested including defense and cost containment expenses and adjusting and other expenses as another valid way to split loss adjustment expenses into subcategories.
Response	The reviewers agree and moved the reference to both sets of subcategories to section 3.6.
Section 2.8, Residual Market Expenses	
Comment	One commentator asked whether a negative expense provision was possible in situations where the residual market mechanism was profitable.
Response	The reviewers believe that the standard adequately addresses such situations and made no change.
Section 2.9, Risk Retention	
Comment	One commentator suggested that coinsurance be included as a form of risk retention and that single parent captives are not a form of risk retention.
Response	The reviewers agree in part and removed single parent captives.
Section 2.10, Risk Transfer	
Comment	One commentator suggested alternative wording to clarify the requirement to indemnify losses.
Response	The reviewers believe the guidance is clear and made no change in response to this comment.
Section 2.11, Statutory Assessment Expenses	
Comment	One commentator suggested adding examples of statutory assessments, as they are not commonly used.
Response	The reviewers believe examples are not needed and made no change.
Comment	One commentator suggested adding language to distinguish residual market assessments from statutory assessments.
Response	The reviewers agree and made the change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.3, Developing Expense Provisions	
Comment	One commentator asked for an example of a “per coverage” expense.
Response	The reviewers believe an example is not needed and made no change in response to this comment.
Section 3.5, Expense Trending	
Comment	One commentator suggested clearer language about varying trends in the second sentence.
Response	The reviewers agree and made changes consistent with the comment.
Section 3.6, Provision for Loss Adjustment Expenses	
Comment	One commentator suggested that the separation of loss adjustment expenses into defense and containment expenses and adjusting and other expenses subcategories should be included here.
Response	The reviewers agree and made changes consistent with the comment.
Section 3.8, Provision for Residual Market Expenses, and 3.9, Provision for Statutory Assessment Expenses	
Comment	One commentator asked whether a negative expense provision was possible in situations with prior excess collections.
Response	The reviewers believe that the standard adequately addresses such situations and made no change.

Comment	One commentator asked whether the time value of money should be considered when analyzing the impact of timing on any expense components from retroactive assessment calculations.
Response	The reviewers believe the guidance is appropriate and made no change.
Section 3.10, Provision for the Cost of Reinsurance	
Comment	One commentator suggested replacing the term "profit sharing agreements" with "premium or commission adjustments."
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding references for guidance in this area.
Response	The reviewers believe the guidance is appropriate and made no change.
Section 3.11, Reliance on Others for Data, Projections, Models, and Supporting Analysis; and 3.12, Reliance on Intended Measures, Methods, Models, or Assumptions Selected by Another Party	
Comment	Two commentators suggested that sections 3.11 and 3.12 could overlap, and that the differences between them are not clear.
Response	The reviewers believe that these sections would often apply independently, but could coincide or overlap in some situations, and made no changes
Section 3.11, Reliance on Others for Data, Projections, Models, and Supporting Analysis	
Comment	One commentator also thought that section 3.11 required too much effort in reviewing the work of others.
Response	The reviewers note that ASOP No. 1 contains an explanation of "practicable" as it applies in ASOPs and made no change.
Section 3.11, Reliance on Others for Data, Projections, Models, and Supporting Analysis; and 3.13, Reliance on Another Actuary	
Comment	One commentator suggested that section 3.13 was more strict than section 3.11. The commentator asked if section 3.11 only applied to non-actuaries.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.13, Reliance on Another Actuary	
Comment	One commentator said that section 3.13 should contain a reference to ASOP No. 41, similar to sections 3.11 and 3.12.
Response	The reviewers agree and added a reference to ASOP No. 41.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Required Disclosures in an Actuarial Report	
Comment	One commentator suggested eliminating the list of applicable standards of practice.
Response	The reviewers disagree and made no change.
Section 4.1(e) and (f)	
Comment	One commentator suggested clarifying whether the terms "supplied by others" and "selected by others" mean the same thing.
Response	The reviewers made no change in response to this comment.

EXHIBIT IRH-CWD-238

ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 30

Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking

Developed by the
Task Force on Rate of Return of the
Casualty Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
July 1997
Updated for Deviation Language Effective May 1, 2011

(Doc. No. 148)

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August 1997

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice No. 30

This booklet contains the final version of Actuarial Standard of Practice (ASOP) No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*.

First and Second Exposure Drafts

The first draft of this standard was exposed for review in October 1994, with a comment deadline of March 15, 1995. Thirty-one comment letters were received. The second draft of this standard was exposed for review in August 1996, with a comment deadline of December 2, 1996. Ten comment letters were received on the second exposure draft. (For a copy of either exposure draft, please contact the ASB office.) The Task Force on Rate of Return of the ASB's Casualty Committee reviewed and carefully considered all comments received on both exposure drafts. As was the case after the first exposure, the task force revised the second exposure draft after participating in many conference calls and listening to comments made during question-and-answer sessions held at various Casualty Actuarial Society (CAS) meetings.

Substantive Issues

Following the first exposure draft, the task force received a number of comment letters regarding the discussion of rates versus prices. Although several changes were made in the second exposure draft to more clearly indicate that the proposed standard intended only to address the evaluation of costs (i.e., rates), some of the commentators' letters on the second exposure draft still expressed confusion on this point. In response, the task force further revised several sections to make clear that the standard does not address considerations such as marketing goals, competition, and legal restrictions that may affect price.

In addition to the "rates versus prices" issue, several commentators questioned whether the cost of capital is truly equivalent for stock, mutual, and other insurance organizations. After extensive discussion, the task force changed the language of the standard to focus the practitioner on assessing the cost of capital as an opportunity cost and to recognize that all risk transfers have an opportunity cost. The task force also combined section 3.8 with section 3.2 to indicate that the cost of capital may differ for various capital providers due to their differing risk characteristics,

and that such differences play a role in assessing the cost of capital for a specific capital provider. (For a detailed discussion of the comments and the task force's responses to such, please see appendix 2 of this standard.)

The task force is grateful to the many individuals who contributed written comments or participated in the numerous discussions of the proposed standard at CAS meetings. The task force believes that the final standard benefitted significantly from this professional debate.

The ASB voted in July 1997 to adopt the final standard.

Task Force on Rate of Return of the Casualty Committee

Mark Whitman, Chairperson

David Appel
Robert A. Bailey
Robert P. Butsic
Steven G. Lehmann
Claus S. Metzner
Michael J. Miller
Richard G. Woll

Casualty Committee of the ASB

Michael A. LaMonica, Chairperson

Christopher S. Carlson
Douglas J. Collins
Anne Kelly
Steven G. Lehmann
Robert S. Miccolis
Karen F. Terry
Margaret W. Tiller
William J. VonSeggern
Mark Whitman

Actuarial Standards Board

Richard S. Robertson, Chairperson

Phillip N. Ben-Zvi
Harper L. Garrett Jr.
David G. Hartman
Frank S. Irish
Roland E. King
Daniel J. McCarthy
Alan J. Stonewall
James R. Swenson

ACTUARIAL STANDARD OF PRACTICE NO. 30

TREATMENT OF PROFIT AND CONTINGENCY PROVISIONS AND THE COST OF CAPITAL IN PROPERTY/CASUALTY INSURANCE RATEMAKING

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—According to the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* (hereafter the *Statement of Principles*) of the Casualty Actuarial Society, insurance rates should provide for the cost of capital through underwriting profit and contingency provisions. This standard of practice provides guidance to actuaries in estimating the cost of capital and evaluating underwriting profit and contingency provisions.

1.2 Scope—This standard of practice applies to all property/casualty insurance coverages. This standard also applies to property/casualty risk financing systems, such as self-insurance, that provide similar coverages. References in the standard to *risk transfer* should be interpreted to include risk financing systems that provide for risk retention in lieu of risk transfer. Further, as is true of the *Statement of Principles*, this standard is limited to defining a *rate* as the estimation of future *costs* and does not address other considerations that may affect a *price*, such as marketing goals, competition, and legal restrictions.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard will be effective with respect to work performed after December 1, 1997.

Section 2. Definitions

The definitions below are defined for use in this actuarial standard of practice.

2.1 Capital—The funds intended to assure payment of obligations from insurance contracts, over and above those funds backing the liabilities.

2.2 Contingency Provision—A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process.

2.3 Cost of Capital—The rate of return that capital could be expected to earn in alternative investments of equivalent risk; also known as *opportunity cost*.

2.4 Insurance Cash Flows—Funds from premiums and miscellaneous (non-investment) income from insurance operations, and payments for losses, expenses, and policyholder dividends. Associated income taxes are recognized when the analysis is on a post-tax basis.

2.5 Insurance Risk—The extent to which the level or timing of actual insurance cash flows is likely to differ from expected insurance cash flows.

2.6 Investment Income—Proceeds (other than the return of principal) derived from the investment of assets, minus investment expenses. Associated income taxes are recognized when the analysis is on a post-tax basis.

2.7 Investment Income from Insurance Operations—The income associated with the investment of insurance cash flows. (This is sometimes referred to as *investment income on policyholder-supplied funds*.)

2.8 Investment Risk—The extent to which the level or timing of actual investment proceeds is likely to differ from what is expected.

2.9 Leverage—A measure of the relative amount of risk to which capital is exposed, typically expressed as the ratio of an exposure measure (such as premium or liabilities) to the capital amount.

2.10 Operating Profit—The sum of underwriting profit, miscellaneous (non-investment) income from insurance operations, and investment income from insurance operations. Associated income taxes are recognized when the analysis is on a post-tax basis.

2.11 Rate—An estimate of the expected value of future costs.

2.12 Total Return—The sum of operating profit and investment income on capital, usually after income taxes, often expressed in percentage terms.

2.13 Underwriting Expenses—All expenses except losses, loss adjustment expenses, investment expenses, policyholder dividends, and income taxes.

2.14 Underwriting Profit—Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends.

2.15 Underwriting Profit Provision—The provision for underwriting profit in the actuarially developed rate, typically expressed as a percentage of the rate.

Section 3. Analysis of Issues and Recommended Practices

3.1 Estimating the Cost of Capital and the Underwriting Profit Provision—Property/casualty insurance rates should provide for all expected costs, including an appropriate cost of capital associated with the specific risk transfer. This cost of capital can be provided for by estimating that cost and translating it into an underwriting profit provision, after taking leverage and investment income into account. Alternatively, the actuary may develop an underwriting profit provision and test that profit provision for consistency with the cost of capital. The actuary may use any appropriate method, as long as such method is consistent with the considerations in this standard.

For historical and practical reasons, this standard separately discusses the underwriting profit provision, investment income from insurance operations, and investment income on capital. The actuary should keep in mind that evaluation of whether the cost of capital is appropriately recognized does not necessarily require these distinctions.

3.2 Basis for Cost of Capital Estimates—In estimating the cost of capital, the actuary should consider the relationship between risk and return. The methods used for estimating the cost of capital should reflect the risks involved in the risk transfer under consideration. These risks may include insurance, investment, inflation, and regulatory risks, as well as diversification, debt structure, leverage, reinsurance, market structure, and other appropriate aspects of the social, economic, and legal environments.

Thus, the cost of capital is likely to vary from one insurer to another. The actuary should recognize that the capital which is needed to support any risk transfer has an opportunity cost regardless of the source of capital or the structure of the insurer.

3.3 Estimates of Future Costs—Since all components of a rate should be estimates of future costs relating to the risk transfer during the prospective period of time to which the rate applies, capital costs, investment income, income taxes, cash flows, and leverage factors used in calculating the profit provision should all be based on expected future values.

3.4 Parameters of the Risk Transfer —The actuary should recognize that the cost of capital associated with an individual risk transfer may vary, based on the specific parameters of the transfer. To the extent that deductibles, dividend or return of premium plans, reinsurance, etc., affect the risk of the insurer, the cost of capital and the amount of capital needed to support the transaction may be affected.

3.5 Investment Income—There are two elements of investment income that the actuary

should consider: investment income from insurance operations and investment income on capital.

The actuary should assess the investment risk, since the amount and cost of capital should reflect investment risk as well as the risk associated with the insurance cash flows. Investment risk addresses the cost of default, reinvestment risk, and other investment uncertainties. Such risks can result in a significantly different yield than the stated yield rate.

Any of several general approaches may be used by the actuary to estimate investment income, as long as the assumptions are reasonable and appropriate. The investment yield rates used should be appropriate for the cash flow patterns associated with the coverages under consideration. If historical balance sheet and cash flow data are used to project investment income, the data should be adjusted to represent future investment income from the associated coverages.

The actuary may use any of a number of methods for recognizing investment income from insurance operations. Two such approaches are as follows:

a. Methods that estimate investment income based on projected insurance cash flows. The insurance cash flows are projected for each future period, and the expected investment yield rate appropriate for each future period is applied to the insurance cash flow for that period. The investment yield rates should be appropriate for the cash flow patterns associated with the coverages under consideration.

b. Methods that apply an expected investment yield rate to assets representing the liabilities for losses, loss adjustment expenses, and unearned premium net of agents' balances and prepaid expenses. If historic liability-to-premium relationships are used, they should be adjusted to reflect expected future relationships between liabilities and premiums. The actuary should also consider, for example, the effects of growth, changes in expected loss or expense patterns, and the effect of the delayed receipt of investment income. The investment yield rate selected should represent the expected investment yield for the insurer during the period the rates are expected to be in effect.

3.6 Income Taxes—To the extent income taxes are not included in the expense provision, the actuary should use provisions for expected income taxes that are consistent with the earnings expected from the insurance transaction being evaluated.

3.7 Contingency Provision—The actuary should include a contingency provision if the assumptions used in the ratemaking process produce cost estimates that are not expected to equal average actual costs, and if this difference cannot be eliminated by changes in other components of the ratemaking process.

While the estimated costs are intended to equal the average actual costs over time, differences between the estimated and actual costs of the risk transfer are to be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and, as such, is not expected to be earned as profit.

3.8 Use of Different Bases—The cost of capital can be expressed as a percentage of capital, a percentage of assets, a percentage of premium, or other appropriate base. The actuary may choose any such appropriate base. Actuaries may use different bases, which can be converted from one to another. Regardless of which base is used to reflect the cost of capital, the actuary should clearly identify the base used and should document the relevant assumptions.

3.9 Accounting Rules for Comparing the Cost of Capital—The accounting rules employed within any model should be internally consistent. When comparing one industry with another, the actuary should make any necessary adjustments so that costs of capital of industries with different accounting methods can be properly compared.

Section 4. Communications and Disclosures

4.1 Conflict with Law or Regulation—If a law or regulation conflicts with the provisions of this standard, the actuary should develop a rate in accordance with the law or regulation, and disclose any material difference between the rate so developed and the actuarially determined rate to the client or employer.

4.2 Documentation—The actuary should be guided by the provisions of ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*.

4.3 Disclosures—The actuary should include the following, as applicable, in an actuarial communication:

a. in addition to the disclosure covered in section 4.1, the disclosure in ASOP No. 41, *Actuarial Communications*, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority);

b. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes, but is not part of the standard of practice.

Background

Historical Procedures—Until the 1970s, it was common practice to include in rate calculations a standard underwriting profit and contingency provision of 2.5% for workers compensation insurance and 5% for other property/casualty lines of insurance (6% for some property lines). These provisions did not explicitly reflect investment income, since there was general agreement at the time that these standard provisions implicitly reflected investment income and insurance risk in a reasonable fashion. However, economic and structural changes in the insurance industry over time began to lead to the explicit recognition of investment income in calculating insurance rates.

Historical Issues—A number of issues have historically accompanied the development and evaluation of the underwriting profit and contingency provisions: (1) how to measure risk and reflect it in the underwriting profit provision, (2) how or whether to measure any systematic variation from expected costs and reflect it in the contingency provision, (3) which accounting rules should be used to measure insurance returns and to compare them with returns in other industries, (4) how or whether to allocate investment income and capital, and (5) how to relate underwriting profit provisions in rates to the cost of capital.

Role of Capital—Capital plays several roles in an insurance transaction, including providing the initial investment in physical plant and equipment and providing working capital. However, the primary role is to assure payment of obligations from insurance contracts, over and above those funds backing the liabilities.

Capital has a value and its use entails a cost. The cost is the expected return the capital could earn in alternative investments of equivalent risk. Judicial decisions dealing with the cost of capital and profit provisions (see, e.g., *Federal Power Commission v. Hope Natural Gas,* 320 U.S. 591 (1944)) provide background and definitions for the determination of the cost of capital in a regulatory setting.

Role of the Underwriting Profit Provision—The underwriting profit provision, together with all other cost and revenue components as defined in section 2.12, provides the risk taker with an expected total return to cover the cost of capital.

Role of the Contingency Provision—A common assumption underlying property/casualty insurance ratemaking is that the expected costs included in the rate calculations will equal the actual costs over the long run. If not, and the expected difference cannot be explicitly attributed

to a specific component of the rate (and thereby eliminated), then this difference is incorporated in the ratemaking process by including a contingency provision.

Current Practices

A method commonly used to develop or test the underwriting profit provision in insurance rates is to estimate the cost of capital and translate that cost into an underwriting profit provision. Some methods currently used to estimate the cost of capital, and financial models to relate that cost to the underwriting profit provision, are described below.

Underwriting profit provisions can also be developed using models that do not directly relate the cost of capital to the underwriting profit provision. Some of these models are also described below.

Inclusion of a particular model in this appendix should not be interpreted as an endorsement, but rather a recognition that such a model is used. Some applications of these models may not be consistent with section 3 of this standard.

Estimating the Cost of Capital—Several techniques are used to estimate the cost of capital. These include, but are not limited to, the following:

1. Comparable Earnings Model—The comparable earnings model is used to analyze historical returns on equity for entities or industries of comparable risk. The cost of capital is related to the average rate of return over a historical period.

2. Discounted Cash Flow Model—One form of the discounted cash flow (DCF) model, the dividend discount model, is used to analyze the current prices and dividend levels of publicly traded securities that pay dividends. The cost of capital is calculated as the sum of the expected first-year dividend yield plus the expected annual growth rate in dividends.

3. Risk Premium Model—The risk premium model is used to analyze the spread in returns for investments of different risk. The cost of capital is estimated as the sum of the expected return on a reference investment plus a margin to reflect relative risk. One widely used form of risk premium analysis is known as the capital asset pricing model (CAPM), in which the reference security is a risk free Treasury security, and the risk margin is determined using a measure of risk known as *beta*, defined as the covariance of an investment's return with returns in capital markets as a whole.

Relating the Cost of Capital to the Underwriting Profit Provision—This section describes various models currently used regarding the relation of the cost of capital to the underwriting profit provision.

1. Models that directly develop an underwriting profit provision are as follows:

a. Net Present Value Model—The net present value (NPV) model is used to discount the estimated net cash flow to the capital provider at a rate equal to the cost of capital. For the purpose of these calculations, *net cash flow* is defined as the residual amounts of cash that flow to and from the equity account, after all policy obligations are met. The net cash flow reflects the timing of each of the individual cash flows, including the commitment and release of capital in support of the insurance transaction. The internal rate of return (IRR) model, a specific application of the general NPV model, uses an iteration technique to calculate the rate(s) of return that will set the net present value of a risk transfer's cash inflows and outflows equal to zero.

b. Other Discounting Models—Other discounting models can be used to estimate the present value of the individual cash flows from the insurance transaction. The present value of the premium and miscellaneous (non-investment) income, before profit, is set equal to the present value of the associated losses, expenses, policyholder dividends, and income taxes. The present values are estimated using appropriate prospective investment yield rates. A margin can be added to the present value of the premium so that the margin plus the expected investment income on capital generate a post-tax return that, when divided by the required capital, equals the cost of capital.

c. Total Financial Needs Model—Total financial needs models are used to develop the underwriting profit provision such that the sum of underwriting profit, miscellaneous (non-investment) income, investment income from insurance operations, and investment income on capital, after income taxes, will equal the cost of capital. Each of these components is explicitly quantified.

2. Models that do not directly relate the cost of capital to the underwriting profit provision are as follows:

a. State X Model—The State X model (originally appearing in some Insurance Services Office, Inc. rate filings as the *State X method*) is used to estimate the investment income from insurance operations. The method does not, in itself, allow for development of the total return or of a profit provision; it is used merely to develop one component of the total rate of return—the estimated investment income from insurance operations.

b. Risk Adjusted Net Present Value Model—The risk adjusted net present value (RANPV) model is used to estimate the risk adjusted present value of the insurance cash flows. Each of the flows is analyzed for its specific risk, and the otherwise attainable prospective investment yield rate is adjusted by the risk component prior to calculating the present value. Using the RANPV model, one calculates the premium directly, so that the risk adjusted present value of the premium and miscellaneous (non-investment) income equals the risk adjusted present value of the losses, expenses, policyholder dividends, and associated in-

come taxes. The expected underwriting profit in the premium can be derived from the RANPV model by summing all components using their undiscounted values.

c. Growth Requirement Model—The growth requirement model is used to set the level of retained earnings based on the expected future growth rate of the entity or industry.

d. Additional Models—Other models that do not directly relate the cost of capital to the underwriting profit provision include options pricing models, arbitrage pricing models, models based on ruin theory, models based on utility theory, and shareholder value models.

Developing and Evaluating a Contingency Provision—Contingency provisions have been developed in practice using methods that measure differences between expected and actual costs.

Appendix 2

Comments on the 1996 Second Exposure Draft and Task Force Responses

The second draft of this standard was exposed for review in August 1996, with a comment deadline of December 2, 1996. Ten comment letters were received and reviewed carefully by the Task Force on Rate of Return of the ASB's Casualty Committee. Summarized below are the significant issues and questions contained in the comment letters, printed in lightface. The task force's responses appear in **boldface**.

General Observations

Of the ten comment letters received on the second exposure draft, most of the comments were favorable. Even those commentators who provided suggestions for changes seemed pleased with the overall direction the task force took in developing the second exposure draft. Samples of such satisfaction were found in comments such as follows: "I think this is an example of the type of standards that the profession should be developing," "[t]his draft represents an overall improvement over the initial exposure draft," and "the [task force] has taken great pains in carefully defining many critical concepts that our standards omit today." Most of the suggestions for revising text were to further clarify concepts already present within the second exposure draft.

However, it was also evident from the comments that some confusion still exists surrounding the "rate versus price" issue. For example, one commentator believes that the standard should not limit actuarial practice in setting profit margins that are either explicit or implicit in actual prices in the marketplace. The commentator further raises potential legal issues were the actuarial profession to engage in limiting actuarial practice in this area. **The task force agrees with the commentator that the standard does not apply to final (market) prices— the standard is entirely focused on the evaluation of costs. In fact, the task force has consistently and consciously focused on costs (*not* on prices) in its deliberations in consideration of the legal environment and has obtained competent legal advice as appropriate.**

The commentator also questions whether a consensus on acceptable actuarial practice currently exists in this area. **The task force believes such consensus exists and is embodied in the standard. The current syllabus upon which actuarial examinations are based is one indicator that a consensus exists. The extensive presentations and discussions of the proposed standard at Casualty Actuarial Society (CAS) meetings and seminars is another indication that such a consensus exists.**

Section 1. Purpose, Scope, and Effective Date

Section 1.1, Purpose—One commentator thought that the use of the phrase *include the cost of capital* in the first sentence of this section implied that the *Statement of Principles Regarding*

Property and Casualty Insurance Ratemaking of the CAS requires that an explicit provision for the cost of capital be included in rates. **The task force revised the text by replacing *include* with *provide for* to more closely match its understanding of the *Statement of Principles*.**

Section 1.2, Scope—**The task force revised this section to more clearly distinguish between *rate* and *price*. In addition, the task force added language to clarify that the standard applies to property/casualty risk financing systems, such as self-insurance.**

Section 2. Definitions

Section 2.2, Contingency Provision—One commentator suggested clarifying the language in this section to note that, in addition to quantification, a contingency provision might be provided for in other ways. **The task force reworded the section, making it more consistent with section 3.7.** Another commentator questioned the definition's lack of consideration of the potential variance in results. **The task force did not expand the definition, since it believes that the profit provision more appropriately should reflect variance in results.**

Section 2.3, Cost of Capital—Two commentators suggested changes. One suggested inclusion of specific components in the definition; the second suggested that *cost of capital* be defined as the *cost of capital desired by the capital provider*. **The task force did not modify the definition, as section 3.2 references a number of influences on the cost of capital. The task force did, however, revise section 3.2 by including additional explanatory language and believes these revisions to section 3.2 address the concerns raised by the second commentator.**

Section 2.4, Insurance Cash Flows—One commentator suggested changing the title of this section to Net Insurance Cash Flows, while another suggested referencing the treatment of taxes directly rather than indirectly. **The task force modified the language to clarify that miscellaneous (non-investment) income is from insurance operations. The revised section 2.4 also presents the components of insurance cash flow as items in a list to avoid the appearance of a calculation and directly references the treatment of income taxes.**

Section 2.6, Investment Income—Two commentators suggested clarifying the language with respect to the treatment of income taxes. **The task force adopted the suggestions and also adopted consistent language in sections 2.4 and 2.10.**

Section 2.8, Investment Risk—Two commentators pointed out an inconsistency in the usage of the terms *proceeds* and *income* in other definitions. **The task force clarified the text by using the term *proceeds* consistently.**

Section 2.10, Operating Profit, and Section 2.13, Underwriting Profit (now sections 2.10, Operating Profit; 2.13, Underwriting Expenses; and 2.14, Underwriting Profit)—Three commentators questioned the usage of the terms included (or excluded) in these definitions. There also appeared to be some confusion as to which expense items were included in the term *expenses*. **After careful review and discussion of the comments, the task force made changes in these definitions and added a new section (2.13, Underwriting Expenses). The intent of**

the commentators was incorporated in the three definitions, and the task force believes the revisions achieve the clarity and consistency suggested. These definitions are consistent with the categories used in the underwriting and investment exhibit statement of income in the National Association of Insurers Commissioners (NAIC) annual statement blank for property and casualty insurers. Specifically, the definition of *underwriting profit* is consistent with the definition of *net underwriting gain (or loss)* from the NAIC statement blank.

Section 2.12, Total Return—One commentator suggested that the definition include some examples of commonly used bases of total return. **The task force did not make any changes, since it believes the definition is clear as stated.**

Section 3. Analysis of Issues and Recommended Practices

Section 3.1, Estimating the Cost of Capital and the Underwriting Profit Provision—One commentator wanted to change the beginning of the third sentence of this section from *Similarly* to *Alternatively*. **The task force made the change.**

Section 3.2, Basis for Cost of Capital Estimates—One commentator suggested that in the second sentence, the phrase *business activity* be changed to *risk transfer*. **The task force made this change.** Another commentator suggested adding *currency* to the list of risks included and noted that the list could be construed as "limiting or as a checklist of specific requirements." **The task force disagrees. Since the types of risk to consider are many and diverse, the task force believes that it is necessary to provide a reasonable set of examples. The language of the standard (i.e., *These risks may include*) clearly indicates that the list is not exhaustive.**

Another commentator suggested that the reference to the *Hope Natural Gas* case be placed in the background section, i.e., in appendix 1. **The task force agrees and moved the reference accordingly (see the section titled, Role of Capital).**

Note as well that a new paragraph was added to section 3.2 (see the discussion below regarding comments received on section 3.8).

Section 3.3, Estimates of Future Costs—Several commentators disagreed that capital costs should be based upon expected future values, since the cost is dependent on the risk or variability to which it is exposed. **The task force agrees that risk or variability is an element of capital costs. Risk or variability is appropriately considered in deriving the expected value; therefore, no change in the language used is necessary.**

Section 3.4, Risk Sharing (now titled Parameters of the Risk Transfer)—One commentator suggested that the title of this section should be changed, noting that insurance is a risk transfer device, and not a risk sharing device. This commentator also suggested alternative wording to clarify the roles of the two main parties to the insurance transaction: the insured and the insurer. **The task force agrees with the commentator and rewrote the section to indicate that the cost of capital may vary with the specific parameters of the risk transfer.**

Another commentator noted that deductibles, limits, etc., affect the *structure* of the risk transfer rather than the parties involved. **The task force agrees that these factors affect the structure of the risk transfer and believes that the revised language addresses this concern.**

Section 3.5, Investment Income—One commentator suggested a revised second sentence in paragraph two as follows: *Investment risk includes the estimated cost of default and reinvestment risk on the assets associated with the proposed transaction, since such costs can result in a significantly different yield than the stated yield rate*. **The task force agrees with the commentator and changed the text to be substantially similar to the suggested revision.**

This commentator also suggested revising paragraph (b) to add *retention of business* as a subject for the actuary's consideration. **The task force agrees that retention of business may be a consideration, but the standard is not intended to provide an exhaustive list of considerations. The phrase *for example* was added to clarify that the section does not provide a complete list.**

Section 3.6, Income Taxes—One commentator suggested adding the following sentence: *The income tax position of the risk assuming entity, such as tax loss carry forwards, and alternative minimum taxes, may also be relevant to accepting or rejecting the proposed risk transfer*. **The task force disagrees with this suggestion, because it believes this suggestion addresses considerations that are not relevant to the cash flows for the risks being transferred. Therefore, no change was made.**

Section 3.7, Contingency Provision—One commentator suggested adding a sentence which would state that the actuary need not explicitly identify the contingency provision separate from the profit provision, and that the contingency provision is not intended as a risk margin for catastrophic events. **The task force believes the definition of *contingency provision* makes it clear that it is *not* a risk margin for catastrophic events. The task force disagrees that a contingency provision can implicitly be combined with a profit provision, because the two provisions are distinctly different, both subject to explicit determination.**

Another commentator suggested that the use and meaning of a contingency provision was unclear and needed to be clarified in the standard. **The task force believes that, with the clarifying changes made to the second paragraph of this section, the standard adequately explains the use of the contingency provision as a correction factor when the ratemaking process has produced in the past, and is expected to produce in the future, cost estimates not equal to average actual costs.**

Section 3.8, Structure of Insurer—This section of the second exposure draft addressed the structure of the insurer, such as stock, mutual, etc. Several commentators expressed concern that the requirements of the capital providers should be taken into account when considering the cost of the insurance product, and that non-stock organizations might have different requirements than stock companies. One commentator specifically suggested making a greater distinction between the cost of capital and the desired return on capital. **The task force rewrote the text of this section to place greater emphasis on the economic concept of *opportunity cost,* which**

refers specifically to the value of capital in its next best alternative use. Under this definition, the proper cost of capital is the return that the capital could earn in an alternative investment of equivalent risk. The task force does not believe that this differs depending on the ownership structure (i.e., stock, mutual, or other) of the insurer per se. However, as discussed in section 3.4, the actuary's estimate of the cost of capital should reflect characteristics of the risk transfer that may arise due to ownership structure (such as, for example, the availability of policyholder dividends). Note, in addition, that the text of this section was moved to section 3.2 in order to enhance clarity.

One commentator who questioned section 3.8 also wished to add to the standard a new section, which would read as follows:

> *Several of the models used for estimating the underwriting profit provision also permit the actuary to rank potential risk transfer undertakings. An actuary should be prepared to rank the risk versus the reward (the total return, from underwriting and from investment income) for various scenarios involving the allocation of capital towards a certain line of insurance or a specific product.*

The commentator's rationale for this suggestion is that "the actuary of the future may often be called upon to estimate not only the reward (the total return from allocating capital towards a certain line of insurance or a specific product), and not only the associated risk, but also to rank several risk/reward scenarios for a client or employer." **The task force agrees that an actuary can be asked to estimate and rank various risk/reward scenarios for a client or an employer. However, the task force thinks that while this is implicit in the role an actuary plays, the matter is beyond the scope of the standard.**

Appendix 1—Background and Current Practices

Role of the Underwriting Profit Provision—One commentator found the references to *all other cost and revenue components* too vague. **The task force agrees that the reference is not precise, but the next clause of the sentence refers to *total [rate of] return*, which is precisely defined in section 2.12. Hence, no change was made.**

Estimating the Cost of Capital—One commentator suggested adding a parenthetical phrase, *(generally a risk free investment)*, to the description of the risk premium model (in the second sentence of item (3), after the phrase, *reference investment*). **The task force disagrees with this change. In the typical (perhaps the most common) implementation of the risk premium method, the reference security is a long-term utility bond, which is not risk free. Thus, the second sentence was left unchanged. However, the task force did modify the next sentence as follows: *One widely used form of risk premium analysis is known as the capital asset pricing model (CAPM), in which the reference security is a risk free Treasury security, and the risk margin is determined….* This correctly identifies that in the CAPM variant of risk premium analysis, the reference security is risk free.**

Relating the Cost of Capital to the Underwriting Profit Provision—One commentator expressed concern about the use of the singular *rate* in the last sentence of the section that discusses the net present value model, and another suggested alternative wording for clarity, in the definition of the IRR model. **The task force changed *rate* to *rate(s)*, and adopted the proposed wording to note that the IRR calculates the rate(s) of return by setting the net present value of a risk transfer's cash inflows and outflows equal to zero.**

The task force thanks everyone who took the time and made the effort to write comment letters. The input was helpful in developing the final standard.

EXHIBIT IRH-CWD-239

ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 53

Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention

Developed by the
Ratemaking Task Force of the
Casualty Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
December 2017

Doc. No. 190

CWD-541

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ASOP No. 53—Doc. No. 190

December 2017

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice (ASOP) No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*

This document contains ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*.

Background

Estimating future costs for prospective property/casualty risk transfer and risk retention has been a fundamental part of actuarial practice since the beginning of the profession. Estimating future costs based on sound actuarial practice is essential to the integrity of the insurance and risk financing system and is key to fulfilling the promises embodied in insurance contracts. The board of directors of the Casualty Actuarial Society (CAS) adopted the *Statement of Principles Regarding Property and Casualty Ratemaking* (*Statement of Principles*) in May 1988 (before the ASB was established). This document featured four fundamental principles of ratemaking and also discussed additional considerations. In 2009, the CAS requested that the ASB develop an actuarial standard of practice in the area of property/casualty ratemaking. In its request, the CAS noted that the *Statement of Principles* contained considerations that might be expanded to become the basis of an ASOP.

Ratemaking has become much more complex and sophisticated since the CAS *Statement of Principles* was adopted. In crafting this ASOP and responding to comments from its initial exposures, the ASB quickly realized that there are significant differences of opinion within the profession regarding certain aspects of ratemaking, including pricing, price optimization methodologies, and rate filing requirements, that would need to be reconciled before a comprehensive standard of practice on ratemaking could be developed. Therefore, to create a standard of practice for the core aspects of ratemaking that could be issued in a reasonable amount of time, the ASB has chosen to develop this ASOP to pertain solely to the development or review of future cost estimates for prospective property/casualty risk transfer and risk retention. It should be noted, however, that upon completion of this proposed ASOP, the ASB will give consideration to the development of a standard of practice on rate filings in an attempt to address the various issues within rate regulatory discussions today (for example, price optimization, unfair discrimination, and the Principles contained in the current CAS *Statement of Principles*).

It should be noted that this ASOP incorporates all of the Considerations contained in the CAS *Statement of Principles* and addresses issues related to the estimation of costs for risk transfer

and risk retention not currently addressed in existing ASOPs. This ASOP also references other existing ASOPs that include relevant issues related to the estimation of future costs for prospective risk transfer and risk retention.

First Exposure Draft

In September 2014, the ASB approved a first exposure draft with a comment deadline of January 31, 2015. Twenty-two comment letters were received and considered in making changes that were reflected in the second exposure draft.

Second Exposure Draft

In December 2015, the ASB approved a second exposure draft with a comment deadline of April 30, 2016. Eighteen comment letters were received and considered in making changes that were reflected in the third exposure draft.

Third Exposure Draft

In December 2016, the ASB approved a third exposure draft with a comment deadline of April 30, 2017. Thirteen comment letters were received and considered in making changes that are reflected in this ASOP. As a result of the comment letters, the ASB made changes, including the following: (1) modified the title of the ASOP to *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*; (2) limited the disclosure of assumptions to material assumptions; (3) clarified the guidance for the treatment of unusual events, while changing the designation to be infrequent events; and (4) clarified the guidance for intended measure. For a summary of issues contained in these comment letters, please see appendix 2. In addition, the ASB took editorial suggestions where they improved the document.

The ASB thanks everyone who took the time to contribute comments and suggestions on each of the exposure drafts.

The ASB voted in December 2017 to adopt this standard of practice.

Ratemaking Task Force

Patrick B. Woods, Chairperson

J'ne E. Byckovski
Gregory L. Hayward
Claudine Modlin
Christopher J. Westermeyer

Casualty Committee of the ASB

Kenneth R. Kasner, Chairperson

Caryn C. Carmean
Benjamin W. Clark
Thomas J. De Falco
Gordon K. Hay
Heather D. Lake
Mary Frances Miller
Alan K. Putney
Robert J. Walling III

Actuarial Standards Board

Maryellen J. Coggins, Chairperson

Christopher S. Carlson
Beth E. Fitzgerald
Darrell D. Knapp
Cande J. Olsen
Kathleen A. Riley
Barbara L. Snyder
Frank Todisco
Ross A. Winkelman

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

ASOP No. 53—Doc. No. 190

ACTUARIAL STANDARD OF PRACTICE

ESTIMATING FUTURE COSTS FOR PROSPECTIVE PROPERTY/CASUALTY RISK TRANSFER AND RISK RETENTION

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP) provides guidance to actuaries when performing actuarial services with respect to developing or reviewing future cost estimates for prospective property/casualty **risk transfer** and **risk retention**. This includes future cost estimates for insurance, reinsurance, self-insurance, loss portfolio transfers, or any other mechanisms for **risk transfer** or **risk retention**.

1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to developing or reviewing future cost estimates (commonly known as actuarial indications) for prospective property/casualty **risk transfer** and **risk retention**. For example, this standard applies when actuaries are developing future cost estimates underlying product prices, estimating funding requirements for self-insured programs and captives, and developing reinsurance prices.

As estimates are often made for separate elements of the cost of **risk transfer** and **risk retention** (for example, loss and loss adjustment expenses, operational and administrative expenses, the cost of reinsurance, and the cost of capital) and subsequently summed to a total cost estimate, this standard applies to the separate elements as well as the total. If the actuary's role relates to any of the elements of the future cost estimate, the guidance in this standard applies only to the actuarial services related to those elements. If the actuary's actuarial services involve reviewing future cost estimates developed by another party, the actuary should use the guidance in section 3 to the extent practicable. This standard also applies to developing or reviewing the future cost estimates by class within a risk classification system.

Actuarial services involved in developing or reviewing estimates of future costs may include actuarial communications, expert testimony, regulatory activities, legislative activities, or statements concerning public policy to the extent these activities involve providing an opinion on property/casualty future cost estimates.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated

document differs materially from the originally referenced document, the actuary should consider the guidance in the referenced standard as amended or restated to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for work performed on or after August 1, 2018.

Section 2. Definitions

The terms below are defined for use in this standard.

2.1 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation to pay benefits, expenses, or claims associated with contingent events.

2.2 Exposure Base—A basic unit that is used to measure the future cost of **risk transfer** and **risk retention**. This unit can vary by element of cost.

2.3 Method—A systematic procedure for developing, reviewing, or revising future cost estimates or elements thereof.

2.4 Model—A simplified representation of relationships among real world variables, entities, or events using statistical, financial, economic, mathematical, or scientific concepts and equations.

2.5 Risk Retention—A risk-management and risk-control strategy for the assessment, management, or financing of retained risk associated with the specific **coverage**. Examples of **risk retention** include self-insurance and certain types of single parent captives.

2.6 Risk Transfer—A risk-management and risk-control strategy, involving legally binding agreements, that shifts responsibility from one party to another or indemnifies one party by another party for the financial obligations associated with the **coverage**. Examples of **risk transfer** include insurance, reinsurance, and loss portfolio transfers.

Section 3. Analysis of Issues and Recommended Practices

3.1 Future Cost Estimate—The actuary should determine the elements that are appropriate to include in the future cost estimate. Such elements should relate to the applicable **coverage** and include loss and loss adjustment expenses, operational and administrative expenses, the cost of reinsurance, and the cost of capital.

3.2 Intended Measure—The actuary should determine the intended measure of the future cost estimate based on the purpose or use of the estimate. The intended measure may vary for

each element of the future cost estimate as needed and appropriate. Intended measures will be affected by the desires or needs of the principal, legal requirements, and the regulatory environments in which the future cost estimate will be used.

Examples of intended measures include the mean, the mean plus risk margin, the high or low estimate within a range of reasonably possible outcomes, and a specified percentile of the distribution of reasonably possible outcomes. There are instances in which other measures may be appropriate based upon the purpose or use of the estimate.

3.3 Organization of Data—The actuary should determine what data are available and appropriate for estimating future costs. Based on what data are available and appropriate, the actuary should determine how the data will be organized to develop or review the future cost estimate or any element of the future cost estimate.

The actuary should consider the level of data aggregation that the actuary believes is appropriate for the types of cost estimation analyses to be undertaken. Examples of aggregation **methods** include aggregating by accident period, calendar period, policy period, and report period. The nature of the **coverage**, the element of the future cost being estimated, and the type of analysis will influence the actuary's selection of the level of data aggregation.

The actuary also should consider segmenting the data if the actuary believes it will improve the cost estimation analysis, subject to credibility considerations (see section 3.11). Examples of data segmentation include segmenting the data by **coverage**, risk class, or risk characteristic. Segmenting the data to more refined levels may be appropriate for estimating future costs within a risk classification system.

3.4 Data Quality—The actuary should refer to ASOP No. 23, *Data Quality*, for guidance in the consideration of the choice and use of data for estimating future costs.

3.5 Methods, Models, and Assumptions—The actuary should select appropriate **methods** or **models** consistent with the intended measure for each element of the future cost. The actuary should use reasonable assumptions (including parameters) appropriate to each **method** or **model**. Assumptions may be implicit or explicit and may involve interpreting available experience, projecting future experience, or adjusting for changes in conditions affecting the available experience. The actuary should use **methods** or **models**, along with reasonable assumptions, that, in the actuary's professional judgment, have no known significant bias in the aggregate relative to the intended measure. When using **models**, the actuary should refer to ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty).*

3.6 Exposure Base—If selecting a new **exposure base** or changing an existing **exposure base**, the actuary should select an **exposure base** that bears a strong relationship to the cost of **risk transfer** or **risk retention** and is practical. Characteristics of a practical **exposure base** may include that the **exposure base** is objectively measurable and easily verifiable.

Some mechanisms for implementing **risk transfer** and **risk retention** may use multiple **exposure bases**, with different **exposure bases** applying to different aspects of **coverage** provided (for example, sales revenue for general liability, amount of insurance for commercial property). In undertaking analyses for these mechanisms, it may be appropriate to select one **exposure base**, referred to as the composite **exposure base**, to act as a proxy for the more refined **coverage**-by-**coverage exposure bases**.

3.7 Risk Classification System—Risk classification systems can be an integral part of the development of future cost estimates for prospective property/casualty **risk transfer** and **risk retention**. The actuary should refer to ASOP No. 12, *Risk Classification (for All Practice Areas)*, for guidance in designing, reviewing, or changing a risk classification system.

3.8 Use of Historical Data—The actuary should determine the extent to which historical data (premium, exposure, loss, and loss adjustment) are available and appropriate for estimating future costs. For example, the data should be consistent with insurance policy provisions or risk-management and risk-control strategies of the applicable insurance, reinsurance, self-insurance, loss portfolio transfers, or any other mechanisms for **risk transfer** or **risk retention**.

3.8.1 Use of Historical Exposure and Premium Data—If the actuary is using historical exposure and premium data, the actuary should consider adjusting the data to reflect a consistent measurement of the historical exposures and rate level, if applicable. These considerations include adjusting historical data to a common exposure level and adjusting premium data for historical changes in the way premium charges are calculated, including both changes to manual rates and the impact of any individual risk rating plans, if applicable. If the actuary is adjusting historical exposure and premium data, the actuary should consider changes during and after the historical period and should select an appropriate **method** for adjustments that is consistent with the nature of the available data, the intended measure, and the purpose of the analysis.

3.8.2 Use of Historical Loss and Loss Adjustment Expenses—The actuary should determine the extent to which historical loss and loss adjustment expenses are available and appropriate as a basis for estimating future costs. In estimating future costs related to loss and loss adjustment expenses, the actuary should consider adjusting historical data using **methods** or **models**, along with reasonable assumptions, that, in the actuary's professional judgment, reflect the ultimate value of the loss and loss adjustment expenses. The actuary also should consider the following:

a. the **coverage** being evaluated;

b. the type of analysis (such as overall future cost level analysis or risk classification analysis); and

c. the differences between the future period and the historical conditions under which the historical claims occurred, the claims were adjusted, and the claim reserves were set.

The actuary should consider whether the analysis of loss adjustment expense data requires different **methods**, **models**, or assumptions than the analysis of loss data. Additionally, the actuary should consider whether different **coverages** within a line of business may require different **methods**, **models**, or assumptions.

3.8.3 Trends—The actuary should consider past and prospective changes in claim costs, claim frequencies, exposures, and premiums. The actuary should refer to ASOP No. 13, *Trending Procedures in Property/Casualty Insurance*, for guidance in the selection of trends for estimating future values of costs associated with the elements that make up the future cost estimate.

3.8.4 Additional Adjustments to Historical Data—The actuary should consider whether additional adjustments to the historical data are needed to reflect the environment expected to exist in the period for which the future costs are being estimated. If the actuary makes adjustments, these adjustments should be made so that the historical data are stated and used on a consistent basis. Examples of changes that may suggest the need for adjustments include the following:

a. judicial, legislative, or regulatory changes;

b. mix of business changes;

c. policy contract changes;

d. claim practice or reserving changes;

e. operational changes;

f. accounting changes; and

g. reinsurance changes.

3.9 Expenses—Some types of expenses may require different treatment for future cost estimates than other types of expenses. The actuary should refer to ASOP No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*, and ASOP No. 13 for guidance in estimating future expenses.

3.10 New Coverages or Exposures—If the actuary is estimating the future cost for a new **coverage** or exposure, and the historical loss and loss adjustment expenses are either unavailable, limited, or not fully representative of the new **coverage** or exposure, the

actuary should consider the following in selecting data and developing **methods**, **models**, or assumptions for use in estimating the future costs:

a. data from **coverages** or exposures that are similar to the new **coverage** or exposure;

b. data on the phenomenon or events that are contemplated by the new **coverage** or exposure;

c. differences between **coverages** or exposures with available relevant data and the new **coverage** or exposure; and

d. appropriate adjustments to the available relevant data to reflect expected differences identified in section 3.10(c).

3.11 Credibility—The actuary should refer to ASOP No. 25, *Credibility Procedures*, for guidance in considering the credibility given to a particular set of data and the selection of the relevant experience used to supplement the data, which is often referred to as the complement of credibility.

3.12 Treatment of Catastrophes—The actuary should refer to ASOP No. 38 and ASOP No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*, for guidance in the consideration of catastrophes.

3.13 Treatment of Infrequent Events—The actuary should consider whether it is necessary to use **methods** that adjust for either the presence or absence of infrequent large losses in the historical data set. For example, some data sets may require using a longer experience period to calculate an appropriate provision for large losses. Similarly, when estimating expected losses in higher layers that contain infrequent losses, different **methods** may be appropriate. In some cases, the **methods** used to deal with catastrophe losses may be applicable and the actuary should refer to ASOP No. 39.

3.14 Reinsurance—When the cost of reinsurance is reflected in future cost estimates, the actuary should select appropriate **methods** or **models**, along with reasonable assumptions, for estimating the cost associated with reinsurance arrangements expected to apply during the period for which the future costs are being estimated. If the cost of reinsurance is treated as an expense, the actuary should refer to ASOP No. 29 for additional guidance.

3.15 Profit and Contingency Provisions and the Cost of Capital—The actuary should refer to ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, for guidance in the consideration of the profit and contingency provisions and the cost of capital.

3.16 Additional Funding Sources—In some mechanisms for **risk transfer**, income may come from other sources, such as assessments paid by policyholders or other parties including

insurers, a group of insurance purchasers, or taxpayers. The actuary should consider additional sources of funding and their allocation and timing when estimating future costs.

Section 4. Communications and Disclosures

4.1 Actuarial Communications—When issuing actuarial communications under this standard, the actuary should refer to ASOP Nos. 12, 13, 23, 25, 29, 30, 38, 39, and 41, *Actuarial Communications*. In addition, the actuary should disclose the following in an appropriate actuarial communication:

a. the elements included in the future cost estimates (see section 3.1);

b. the intended measure used in developing or reviewing the future cost estimates (see section 3.2);

c. the **methods** or **models** used in developing or reviewing the future cost estimates (see section 3.5); and

d. the material assumptions made by the actuary and used in developing or reviewing the future cost estimates (see section 3.5).

4.2 Disclosures—The actuary should also include the following in an actuarial communication, if and when applicable:

a. if appropriate data are available for the analysis, the actuary should disclose the data organization (level of data aggregation and, if considered, segmentation) used for each element (see section 3.3);

b. if the actuary selects a new **exposure base** or changes an existing **exposure base**, the actuary should disclose the new or revised **exposure base** (see section 3.6);

c. if the actuary uses historical data, the actuary should disclose any adjustments made to the historical data to account for expected differences between the historical data and future experience (see sections 3.8 and 3.10). For adjustments made to address issues of data quality, refer to ASOP No. 23;

d. if the actuary estimates future costs for a **coverage** or exposure when the historical data are unavailable, limited, or not fully representative, the actuary should disclose the data used and any appropriate adjustments made to the data (see sections 3.8.4 and 3.10);

e. when the cost of reinsurance is reflected in future cost estimates, the actuary should disclose the **methods** or **models**, along with the material assumptions, used in estimating the costs of reinsurance (see section 3.14);

f. if the actuary considers additional sources of funding, the actuary should disclose how the funding was reflected in estimating the future cost (see section 3.16);

g. the disclosure in ASOP No. 41, section 4.2, if any material assumption or **method** was prescribed by applicable law;

h. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or **method** selected by a party other than the actuary; and

i. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

Cost estimation, ratemaking, and risk retention have been a fundamental part of actuarial practice since the beginning of the profession. A critical piece of these professional activities is the estimation of future costs.

Ratemaking principles and standards of practice are important to protect the soundness of the system, permit economic incentives to operate, and thereby encourage widespread availability of coverage. The board of directors of the Casualty Actuarial Society (CAS) adopted the *Statement of Principles Regarding Property and Casualty Ratemaking* in May 1988. The *Statement of Principles* has served as a foundational source of information regarding future cost estimation and ratemaking, providing both principles and considerations. Several actuarial standards of practice (ASOPs) issued by the Actuarial Standards Board are also important in future cost estimation, including the following:

- ASOP No. 12, *Risk Classification (for All Practice Areas);*
- ASOP No. 13, *Trending Procedures in Property/Casualty Insurance*;
- ASOP No. 23, *Data Quality*;
- ASOP No. 25, *Credibility Procedures;*
- ASOP No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*;
- ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*;
- ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)*;
- ASOP No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*; and
- ASOP No. 41, *Actuarial Communications*.

Current Practices

Over the years, a multitude of methods and models for the estimation of future costs have been designed, put into use, and modified as a result of experience. Materials and publications of the CAS such as the *Syllabus of Basic Education* (formerly the *Syllabus of Examinations*), *Variance*, *Proceedings* (discontinued in 2014), *Foundations of Casualty Actuarial Science*, Ratemaking and Ratemaking/Product Management Seminar archives, and others provide discussions of current practices. While these may provide useful educational guidance to practicing actuaries, none is an actuarial standard of practice.

Throughout our history as a profession, actuarial future cost estimates have not always been the sole basis for rates and prices in risk-transfer or risk-retention transactions. For example, other important influences may include regulatory requirements and business objectives. Such other influences may support or compete with actuarial future cost estimates in deciding upon final rates and prices.

The increased availability of data and advances in technology, tools, techniques, and learnings from other disciplines have resulted in continued evolution of methods and models for the estimation of future costs. Innovation and use of new data and technologies will continue.

Appendix 2

Comments on the Third Exposure Draft and Responses

The third exposure draft of this ASOP, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding* (previously *Property/Casualty Ratemaking*), was issued in December 2016 with a comment deadline of April 30, 2017. Thirteen comment letters were received, some of which were submitted on behalf of multiple commentators, such as firms or committees. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The Ratemaking Task Force carefully considered all comments received, reviewed the exposure draft, and proposed changes. The Casualty Committee and the ASB reviewed the proposed changes and made modifications where appropriate.

Summarized below are the significant issues and questions contained in the comment letters and responses.

The term "reviewers" in appendix 2 includes the Ratemaking Task Force, the Casualty Committee, and the ASB. Unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the third exposure draft.

TRANSMITTAL MEMORANDUM QUESTIONS	
Question 1: Does the proposed ASOP provide sufficient and appropriate guidance to actuaries estimating future costs for prospective property/casualty risk transfer and risk funding?	
Comment	Six commentators agreed that the proposed ASOP provided sufficient guidance.
Question 2: The proposed ASOP has added reference to "intended measure" for the estimation of all future costs to eliminate any implication that the only appropriate estimate of all future costs was an expected value without any consideration of potential variability. Is it clear what is meant by "intended measure"?	
Comment	One commentator suggested that the section does not recognize the instances where elements of the future cost estimates have different intended measures, whereas other sections do (for example, section 3.5).
Response	The reviewers agree and made the suggested change.
Comment	One commentator suggested that the reference in this section to the appropriate consideration of potential variability, versus expected value, is too limiting. The commentator said that the benefit and value of the ASOP's use of "intended measure" for actuarial cost estimates is to recognize that a number of key considerations can affect the basis for such estimates. The commentator also noted that such considerations for the intended measure might include adjustments for large infrequent losses, catastrophic losses, paucity of relevant data, data credibility issues, etc.
Response	The reviewers modified section 3.14 (now section 3.13) to provide guidance to actuaries when dealing with infrequent events and associated data issues.
Question 3: Are the definitions of "risk transfer" and "risk funding" in the proposed ASOP complete from the perspective of all activities in which an actuary is involved when estimating future costs for prospective property/casualty risk transfer and risk funding?	
Comment	Two commentators agree that the definitions are sufficient and clear.

Comment	Several commentators suggested that the phrase "risk funding" may be confusing or misleading, and two commentators suggested replacing "risk funding" with "risk retention."
Response	The reviewers agree that the phrase "risk funding" could be misinterpreted and changed it to "risk retention."
Comment	One commentator suggested clarifying that the scope of the ASOP broadly includes estimating revenue/funding associated with risk transfer contracts, not just the estimation of future costs.
Response	The reviewers agree that the use of the word "funding" in the two cases may be confusing and clarified the language of the scope to "developing or reviewing future cost estimates…for prospective property/casualty risk transfer and risk retention."
Comment	One commentator suggested deleting "contractual" from the definition of risk transfer, as this would make the definition more consistent with the definition of "coverage."
Response	The reviewers agree and made the suggested change.
Question 4: Is it clear that this proposed ASOP provides guidance only for the estimation of future costs for prospective property/casualty risk transfer and risk funding? Is it clear that the scope does not include items such and the balancing and interaction of potentially competing objectives related to regulation, business objectives, and actuarial cost estimates?	
Comment	Four commentators stated that the scope of the proposed ASOP was clear.
Comment	One commentator said that the proposed ASOP was not completely clear with regard to not including items such as the balancing and interaction of potentially competing objectives related to regulation, business objectives, and actuarial cost estimates. The commentator suggested adding language in the appendix that clearly stated these exclusions from the scope.
Response	The reviewers believe that the scope is clear, and therefore made no change in response to this comment.
Comment	One commentator said that generally it was clear that the ASOP provides guidance for the estimation of future costs for prospective property/casualty risk transfer and risk funding, but noted that the introduction of the intended measure may address considerations underlying the other objectives.
Response	The reviewers made changes to section 3.2 to further clarify the concept.
Question 5: When the role of the actuary is reviewing the estimate of future costs developed by another actuary, is the guidance provided in the proposed ASOP sufficient and clear?	
Comment	Four commentators responded that the proposed ASOP was clear on this point.
Question 6: Is the level of disclosure required in the proposed ASOP sufficient and appropriate? If the response is no, what are the issues?	
Comment	Four commentators responded that the level of disclosure was sufficient and appropriate.
GENERAL COMMENTS	
Comment	Two commentators said that the proposed ASOP addressed many of the concerns that were present in earlier drafts. One of these commentators said that there were still a few areas that could benefit from clarification.
Response	The reviewers addressed specific comments in the relevant sections.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment	One commentator suggested changing the language to "future cost estimates for prospective decisions or transactions."
Response	The reviewers consider the current language to be sufficiently clear and therefore made no change.
Comment	One commentator suggested that the second sentence be expanded to mention "risk pooling" and to add a reference to "any other risk-retention mechanisms."
Response	The reviewers disagree regarding the addition of "risk pooling," as it is a subset of many of the other items mentioned; however, the reviewers agree that the addition of "any other risk-retention mechanism" clarifies the language and made the suggested change.
Section 1.2, Scope	
Comment	One commentator suggested deleting the word "contract" in the phrase "developing reinsurance contract prices," as at times it may not be a contract but rather a slip or program that the estimate is being developed for.
Response	The reviewers agree and made the suggested change.
SECTION 2. DEFINITIONS	
Section 2.2, Exposure Base	
Comment	One commentator suggested expanding the definition of exposure base to refer to the quantity of risk-transfer or risk-funding cost.
Response	The reviewers note that terms such as "measure" and "cost" are by their very nature quantitative, and made no change.
Comment	One commentator suggested that the definition of exposure base be modified to state that it is a basic unit that "may be used to measure future risk transfer and risk transfer costs" because there are several cases where this basic unit may only be used for rating and not exposure measurement.
Response	The reviewers note that when an actuary develops an estimate of the future cost, that cost typically is relative to some basis. Therefore, the phrase "is used" is more appropriate than "may be used." The reviewers made no change.
Comment	One commentator suggested that the definition include "as a measure which is approximately proportional to the future costs."
Response	The reviewers note that section 3.6 addresses considerations for an exposure base and that the phrase "bears a strong relationship to…cost" is more appropriate than the suggested language. Therefore, the reviewers made no change.
Section 2.4, Model	
Comment	Two commentators suggested that the definition of Model be revised to eliminate the words "a simplified presentation" because models are often quite complex. They also suggested using the definition in ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)*.
Response	The reviewers note that even complex models are always a simplified representation of all the items that impact the modeled system. The reviewers also note that ASOP No. 38 is currently being revised to pertain to catastrophe model use in all areas of practice. Therefore, the reviewers made no change.

Section 2.5, Risk Funding (now Risk Retention)	
Comment	One commentator suggested replacing "risk funding" with "risk retention," as the very act of creating a future cost estimate is a step toward risk funding. Once the estimate has been made, the estimate is the basis for retaining or transferring the risk.
Response	The reviewers agree and replaced "risk funding" with "risk retention."
Comment	One commentator suggested replacing the word "loss" with "specific coverage," as it is the coverage that gives rise to the need to estimate the future cost.
Response	The reviewers agree and made the change.
Section 2.6, Risk Transfer	
Comment	One commentator suggested that the word "loss" in this context should be replaced by "coverage," as the risk transfer is truly defined in terms of the coverage.
Response	The reviewers agree and made the change.
Comment	One commentator suggested replacing the word "contractual" with "legally binding agreements." The commentator also suggested adding "indemnify one party by another party," as the agreements cannot legally shift the responsibility for risk but they can indemnify.
Response	The reviewers agree and made the changes.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Future Cost Estimate	
Comment	One commentator suggested expanding the list of examples of the elements of a future cost estimate to include the cost of ceded reinsurance.
Response	The reviewers understood the concern, added the cost of reinsurance as an item in this section and in section 1.2, and modified section 3.14 and 4.2(e).
Comment	One commentator suggested modifying the second sentence to include language that specifically relates the elements to the applicable coverage.
Response	The reviewers agree and made the change.
Section 3.2, Intended Measure	
Comment	Several commentators said that the section was unclear, and one commentator suggested that the section would be clearer if the language was recast in terms of the purpose or presumed use.
Response	The reviewers agree and revised the section to clarify that the intended measure is determined by the actuary based on the purpose or use of the future cost estimate.
Comment	Two commentators suggested that the "intended measure" might be better handled as a definition.
Response	The reviewers disagree and have followed the treatment of intended measure in the same manner as ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*.
Comment	One commentator suggested changing the word "intent" to "intended use."
Response	The reviewers agree that the word "intent" should be changed and have replaced it with "purpose or use of the estimate."

Comment	One commentator suggested that the ASOP be more specific about the measurement basis or considerations that impact the intended measure that is selected and provided suggested language.
Response	The reviewers did not add the suggested language but instead added a non-statistical (but still numeric) example in "high or low estimate within a range of reasonably possible outcomes."
Comment	One commentator suggested that "intended measure" be changed to "intended statistical measure," as all the examples are statistical in nature, and the phrase "intended measure" could be interpreted as having a non-statistical meaning.
Response	The reviewers note that non-statistical measures may also be used for the intended measure and have added a non-statistical example to this section.
Section 3.3, Organization of Data	
Comment	One commentator suggested adding a reference to ASOP No. 25, *Credibility Procedures*, when addressing organization of data (specifically balancing homogeneity with volume).
Response	The reviewers added a reference to section 3.11 of this ASOP, which cites ASOP No. 25.
Comment	One commentator suggested that this section more specifically state that the actuary should determine what data are available.
Response	The reviewers agree and made the change.
Comment	One commentator suggested changing the focus from "granularity" to "level of data organization" and expanding the examples of level of data to include coverage and risk classification.
Response	The reviewers agree and made changes consistent with this suggestion.
Comment	One commentator suggested adding the phrase "that the actuary believes" to highlight that this step involves judgment.
Response	The reviewers agree and made the change.
Section 3.5, Methods, Models, and Assumptions	
Comment	One commentator asked whether the fact that one of the methods, models, or assumptions may have a bias disqualifies it from being used even if the actuary offsets for that bias in the determination of the final result.
Response	The reviewers modified the language to read as follows: "have no known significant bias in the aggregate."
Comment	One commentator suggested adding the phrase "adjusting for changes in conditions affecting the use of past data when estimating future costs."
Response	The reviewers agree with the suggestion in part and added language regarding "adjusting for changes in conditions affecting the available experience."
Section 3.6, Exposure Base	
Comment	One commentator suggested that this section was too limited in its applicability and suggested changing it from "if selecting a new exposure base or changing an existing exposure base" to "when using or changing …or selecting a new exposure base."
Response	The reviewers disagree with the suggestion to require the evaluation of existing exposure bases. Many exposure bases have long-term and widely accepted use.

Section 3.7, Risk Classification System	
Comment	One commentator suggested changing "risk classification systems are an integral part of the development of future cost estimates" to "risk classification systems can be an integral part."
Response	The reviewers agree and made the change.
Section 3.8, Use of Historical Data	
Comment	One commentator suggested adding a specific reference to ASOP No. 23, *Data Quality*, in this section.
Response	The reviewers note that section 3.4, Data Quality, refers the actuary to ASOP No. 23 in the consideration and choice of data for estimating future costs, and therefore made no change.
Comment	One commentator suggested changing the phrase "insurance policy provisions" to "coverage provisions," as the revised language can be applied more broadly to all risk-transfer or risk-retention mechanisms without specifying self-insurance or other mechanisms.
Response	The reviewers agree with the commentator's concern, and changed "risk management provisions" to "risk management and risk control strategies."
Section 3.8.1, Use of Historical Exposure and Premium Data	
Comment	One commentator suggested replacing "a consistent exposure and rate level" with "a consistent measure of the historical exposures and the rates used to determine the historical premiums."
Response	The reviewers agree in part and added the phrase "measurement of the historical exposures" but did not revise the language regarding a consistent rate level, as the reviewers believe the commentator's suggested language could be misinterpreted.
Section 3.8.2, Use of Historical Loss and Loss Adjustment Expenses	
Comment	One commentator suggested adding a mention of the need to be consistent in adjusting the loss and loss adjustment data with how the premium data are adjusted.
Response	The reviewers agree with the suggestion and added language to section 3.8.3 (now section 3.8.4) to address the issue raised.
Comment	One commentator suggested language clarifying the relationship and differences between the historical period and future period.
Response	The reviewers agree and added clarifying language.
Section 3.8.3, Additional Adjustments to Historical Data (now section 3.8.4)	
Comment	One commentator suggested revising the first sentence to say "the actuary should consider whether additional adjustments to the historical data may be needed…."
Response	The reviewers agree and made the change.
Section 3.10, New Coverages or Exposures	
Comment	One commentator suggested changing "loss and loss adjustment expenses" to "data" to be consistent with language in the rest of this section.
Response	The reviewers disagree, as the reference to "data" in the remainder of the section refers to information that is broader than "loss and loss adjustment expenses."

Comment	One commentator suggested adding the word "future" so that it would read "future coverage or exposure."
Response	The reviewers agree that clarification is needed and have modified the opening paragraph to identify the coverage as new coverage.
Section 3.12, Modeling (deleted)	
Comment	One commentator suggested that this section is redundant, as these points are already contained in section 3.5.
Response	The reviewers agree and removed this section.
Section 3.14, Treatment of Unusual Events (now section 3.13, Treatment of Infrequent Events)	
Comment	Two commentators said that the phrase "infrequent events" was more appropriate than "unusual events," since the characteristic trait for these events is low frequency/high severity.
Response	The reviewers agree and retitled this section "Treatment of Infrequent Events."
Comment	Two commentators suggested that the proposed ASOP does not provide guidance for treating coverages (such as Umbrella) where the frequency of losses by layer varies in such a way that it may be appropriate to use different methodologies by layer.
Response	The reviewers agree and added a reference to address estimating losses in higher layers where different methodologies may be appropriate.
Section 3.17, Additional Funding Sources (now section 3.16)	
Comment	One commentator suggested changing the title to "Additional Sources of Income."
Response	The reviewers disagree as the change from "funding" to "income" would more narrowly define the type of funds that may be available.
Comment	One commentator suggested changing "assessments to policyholders" to "assessments paid by policyholders."
Response	The reviewers agree and made the change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Actuarial Communications	
Comment	Several commentators suggested that the requirement to disclose the assumptions used in developing or reviewing the future cost estimates was overly broad or burdensome. A few of these commentators suggested that the disclosure be limited to material and explicit assumptions.
Response	The reviewers modified the language to require disclosure of material assumptions.
Section 4.2, Disclosures	
Comment	One commentator suggested limiting the required disclosure to material assumptions.
Response	The reviewers modified the language to require disclosure of material assumptions.

Comment	Two commentators said that the language is too broad and appears to encompass all adjustments made to the historical data including adjustments made to address issues of data quality. The commentator suggested that the adjustments made to address data quality should be governed by ASOP No. 23 and that clarifying language be added to this section.
Response	The reviewers agree and revised the section as follows: "if the actuary uses historical data, the actuary should disclose any adjustments made to the historical data to account for expected differences between the historical data and future experience (see sections 3.8 and 3.10). For adjustments made to address issues of data quality, refer to ASOP No. 23."
APPENDIX	
Comment	One commentator suggested revising the last sentence in the next-to-last paragraph to "Such other influences may affect decisions about prices or premium rates, but such influences may or may not be consistent with the intended measure used for actuarial future cost estimates in deciding upon final rates and prices."
Response	The reviewers believe the existing language is sufficiently clear and made no change.
Comment	One commentator suggested adding the following: "as innovation and the use of new data and technologies affect the environment in which actuaries operate, continuing education for actuaries will be important for the application of this ASOP."
Response	The reviewers do not believe the suggested language is needed here as actuaries are already subject to continuing education requirements per the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States*.

EXHIBIT IRH-CWD-240

Statement of Principles Regarding Property and Casualty Insurance Ratemaking

(Adopted by the Board of Directors of the CAS May 1988)

The purpose of this Statement is to identify and describe principles applicable to the determination and review of property and casualty insurance rates. The principles in this Statement are limited to that portion of the ratemaking process involving the estimation of costs associated with the transfer of risk. This Statement consists of four parts:

I. DEFINITIONS
II. PRINCIPLES
III. CONSIDERATIONS
IV. CONCLUSION

The principles contained in this Statement provide the foundation for the development of actuarial procedures and standards of practice. It is important that proper actuarial procedures be employed to derive rates that protect the insurance system's financial soundness and promote equity and availability for insurance consumers.

Although this Statement addresses property and casualty insurance ratemaking, the principles contained in this Statement apply to other risk transfer mechanisms.

I. DEFINITIONS

Ratemaking is the process of establishing rates used in insurance or other risk transfer mechanisms. This process involves a number of considerations including marketing goals, competition and legal restrictions to the extent they affect the estimation of future costs associated with the transfer of risk. This Statement is limited to principles applicable to the estimation of these costs. Such costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital. Summary descriptions of these costs are as follows:

—*Incurred losses* are the cost of claims insured.

—*Allocated loss adjustment expenses* are claims settlement costs directly assignable to specific claims.

—*Unallocated loss adjustment expenses* are all costs associated with the claim settlement function not directly assignable to specific claims.

—*Commission and brokerage expenses* are compensation to agents and brokers.

—*Other acquisition expenses* are all costs, except commission and brokerage, associated with the acquisition of business.

—*Taxes, licenses and fees* are all taxes and miscellaneous fees except federal income taxes.

—*Policyholder dividends* are a non-guaranteed return of premium charged to operations as an expense.

—*General administrative expenses* are all other operational and administrative costs.

—The *underwriting profit and contingency provisions* are the amounts that, when considered with net investment and other income, provide an appropriate total after-tax return.

II. PRINCIPLES

Ratemaking is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk.

Principle 1: A *rate* is an estimate of the expected value of future costs.

Ratemaking should provide for all costs so that the insurance system is financially sound.

Principle 2: A rate provides for all costs associated with the transfer of risk.

Ratemaking should provide for the costs of an individual risk transfer so that equity among insureds is maintained. When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks. A rate estimated from such experience is an estimate of the costs of the risk transfer for each individual in the class.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

Ratemaking produces cost estimates that are actuarially sound if the estimation is based on Principles 1, 2, and 3. Such rates comply with four criteria commonly used by actuaries: reasonable, not excessive, not inadequate, and not unfairly discriminatory.

Principle 4: A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

III. CONSIDERATIONS

A number of ratemaking methodologies have been established by precedent or common usage within the actuarial profession. Since it is desirable to encourage experimentation and innovation in ratemaking, the actuary need not be completely bound by these precedents. Regardless of the ratemaking methodology utilized, the material assumptions should be documented and available for disclosure. While no ratemaking methodology is appropriate in all cases, a number of considerations commonly apply. Some of these considerations are listed below with summary descriptions. These considerations are intended to provide a foundation for the development of actuarial procedures and standards of practice.

Exposure Unit—The determination of an appropriate exposure unit or premium basis is essential. It is desirable that the exposure unit vary with the hazard and be practical and verifiable.

Data—Historical premium, exposure, loss and expense experience is usually the starting point of ratemaking. This experience is relevant if it provides a basis for developing a reasonable indication of the future. Other relevant data may supplement historical experience. These other data may be external to the company or to the insurance industry and may indicate the general direction of trends in insurance claim costs, claim frequencies, expenses and premiums.

Organization of Data—There are several acceptable methods of organizing data including calendar year, accident year, report year and policy year. Each presents certain advantages and disadvantages; but, if handled properly, each may be used to produce rates. Data availability, clarity, simplicity, and the nature of the insurance coverage affect the choice.

Homogeneity—Ratemaking accuracy often is improved by subdividing experience into groups exhibiting similar characteristics. For a heterogeneous product, consideration should be given to segregating the experience into more homogeneous groupings. Additionally, subdividing or combining the data so as to minimize the distorting effects of operational or procedural changes should be fully explored.

Credibility—*Credibility* is a measure of the predictive value that the actuary attaches to a particular body of data. Credibility is increased by making groupings more homogeneous or by increasing the size of the group analyzed. A group should be large enough to be statistically reliable. Obtaining homogeneous groupings requires refinement and partitioning of the data. There is a point at which partitioning divides data into groups too small to provide credible patterns. Each situation requires balancing homogeneity and the volume of data.

Loss Development—When incurred losses and loss adjustment expenses are estimated, the development of each should be considered. The determination of the expected loss development is subject to the principles set forth in the Casualty Actuarial Society's *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves*.

Trends—Consideration should be given to past and prospective changes in claim costs, claim frequencies, exposures, expenses and premiums.

Catastrophes—Consideration should be given to the impact of catastrophes on the experience and procedures should be developed to include an allowance for the catastrophe exposure in the rate.

Policy Provisions—Consideration should be given to the effect of salvage and subrogation, coinsurance, coverage limits, deductibles, coordination of benefits, second injury fund recoveries and other policy provisions.

Mix of Business—Consideration should be given to distributional changes in deductibles, coverage limitations or type of risks that may affect the frequency or severity of claims.

Reinsurance—Consideration should be given to the effect of reinsurance arrangements.

Operational Changes—Consideration should be given to operational changes such as changes in the underwriting process, claim handling, case reserving and marketing practices that affect the continuity of the experience.

Other Influences—The impact of external influences on the expected future experience should be considered. Considerations include the judicial environment, regulatory and legislative changes, guaranty funds, economic variable, and residual market mechanisms including subsidies of residual market rate deficiencies.

Classification Plans—A properly defined classification plan enables the development of actuarially sound rates.

Individual Risk Rating—When an individual risk's experience is sufficiently credible, the premium for that risk should be modified to reflect the individual experience. Consideration should be given to the impact of individual risk rating plans on the overall experience.

Risk—The rate should include a charge for the risk of random variation from the expected costs. This risk charge should be reflected in the determination of the appropriate total return consistent with the cost of capital and, therefore, influences the underwriting profit provision. The rate should also include a charge for any systematic variation of the estimated costs from the expected costs. This charge should be reflected in the determination of the contingency provision.

Investment and Other Income—The contribution of net investment and other income should be considered.

Actuarial Judgment—Informed actuarial judgments can be used effectively in ratemaking. Such judgments may be applied throughout the ratemaking process and should be documented and available for disclosure.

IV. CONCLUSION

The actuary, by applying the ratemaking principles in this Statement, will derive an estimation of the future costs associated with the transfer of risk. Other business considerations are also a part of ratemaking. By interacting with professionals from various fields including underwriting, marketing, law, claims, and finance, the actuary has a key role in the ratemaking process.

EXHIBIT IRH-CWD-241

Code of Professional Conduct

EFFECTIVE JANUARY 1, 2001, the five U.S.-based actuarial organizations adopted this Code of Professional Conduct. It was adopted by the Board of Directors of the American Academy of Actuaries on September 28, 2000, and applies to all members.

The Code of Professional Conduct sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.

The Board of the American Academy of Actuaries thanks the Joint Committee on the Code of Professional Conduct for their hard work and perseverance in drafting the Code and obtaining the approval of all five organizations' boards.

Code of Professional Conduct

The purpose of this Code of Professional Conduct ("Code") is to require Actuaries to adhere to the high standards of conduct, practice, and qualifications of the actuarial profession, thereby supporting the actuarial profession in fulfilling its responsibility to the public. An Actuary shall comply with the Code. An Actuary who commits a material violation of the provisions of the Code shall be subject to the profession's counseling and discipline procedures.

The Precepts of the Code identify the professional and ethical standards with which an Actuary must comply in order to fulfill the Actuary's responsibility to the public and to the actuarial profession. The Annotations provide additional explanatory, educational, and advisory material on how the Precepts are to be interpreted and applied.

In addition to this Code, an Actuary is subject to applicable rules of professional conduct or ethical standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services. Actuarial Services are considered to be rendered in the jurisdictions in which the Actuary intends them to be used unless specified otherwise by an agreement between a Recognized Actuarial Organization for any such jurisdiction and the organizations that have adopted the Code.

Laws may also impose obligations upon an Actuary. Where requirements of Law conflict with the Code, the requirements of Law shall take precedence.

An Actuary must be familiar with, and keep current with, not only the Code, but also applicable Law and rules of professional conduct for the jurisdictions in which the Actuary renders Actuarial Services. An Actuary is responsible for securing translations of such Laws or rules of conduct as may be necessary.

DEFINITIONS

As used throughout the Code, the following terms are capitalized and have the meanings indicated:

- **Actuarial Communication:** A written, electronic, or oral communication issued by an Actuary with respect to Actuarial Services.
- **Actuarial Services:** Professional services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.
- **Actuary:** An individual who has been admitted to a class of membership to which the Code applies by action of any organization having adopted the Code. When the term "actuary" is used without being capitalized, it refers to any individual practicing as an actuary, regardless of organizational membership or classification.
- **Confidential Information:** Information not in the public domain of which an Actuary becomes aware as a result of providing Actuarial Services to a Principal. It includes information of a proprietary nature and information that is legally restricted from circulation.
- **Law:** Statutes, regulations, judicial decisions, and other statements having legally binding authority.
- **Principal:** A client or employer of the Actuary.
- **Recognized Actuarial Organization:** An organization that has been accepted for full membership in the International Actuarial Association or a standards-set-

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ting, counseling, or discipline body to which authority has been delegated by such an organization.

Professional Integrity

PRECEPT 1. An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.

ANNOTATION 1-1. An Actuary shall perform Actuarial Services with skill and care.

ANNOTATION 1-2. An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to violate or evade the Law or in a manner that would be detrimental to the reputation of the actuarial profession.

ANNOTATION 1-3. An Actuary shall not use a relationship with a third party or with a present or prospective Principal to attempt to obtain illegal or materially improper treatment from one such party on behalf of the other party.

ANNOTATION 1-4. An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on the actuarial profession.

Qualification Standards

PRECEPT 2. An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience, and only when the Actuary satisfies applicable qualification standards.

ANNOTATION 2-1. It is the professional responsibility of an Actuary to observe applicable qualification standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in these standards.

ANNOTATION 2-2. The absence of applicable qualification standards for a particular type of assignment or for the jurisdictions in which an Actuary renders Actuarial Services does not relieve the Actuary of the responsibility to perform such Actuarial Services only when qualified to do so in accordance with this Precept.

Standards of Practice

PRECEPT 3. An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.

ANNOTATION 3-1. It is the professional responsibility of an Actuary to observe applicable standards of practice that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services, and to keep current regarding changes in these standards.

ANNOTATION 3-2. Where a question arises with regard to the applicability of a standard of practice, or where no applicable standard exists, an Actuary shall utilize professional judgment, taking into account generally accepted actuarial principles and practices.

ANNOTATION 3-3. When an Actuary uses procedures that depart materially from those set forth in an applicable standard of practice, the Actuary must be prepared to justify the use of such procedures.

Communications and Disclosure

PRECEPT 4. An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience, and satisfies applicable standards of practice.

ANNOTATION 4-1. An Actuary who issues an Actuarial Communication shall ensure that the Actuarial Communication clearly identifies the Actuary as being responsible for it.

ANNOTATION 4-2. An Actuary who issues an Actuarial Communication should indicate the extent to which the Actuary or other sources are available to provide supplementary information and explanation.

PRECEPT 5. An Actuary who issues an Actuarial Communication shall, as appropriate, identify the Principal(s) for whom the Actuarial Communication is issued and describe the capacity in which the Actuary serves.

PRECEPT 6. An Actuary shall make appropriate and timely disclosure to a present or prospective Principal of the sources of all direct and indirect material compensation that the Actuary or the Actuary's firm has re-

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ceived, or may receive, from another party in relation to an assignment for which the Actuary has provided, or will provide, Actuarial Services for that Principal. The disclosure of sources of material compensation that the Actuary's firm has received, or may receive, is limited to those sources known to, or reasonably ascertainable by, the Actuary.

ANNOTATION 6-1. An Actuary who is not financially and organizationally independent concerning any matter related to the performance of Actuarial Services should disclose to the Principal any pertinent relationship that is not apparent.

ANNOTATION 6-2. An Actuary employed by a firm that operates in multiple locations is subject to the requirement of disclosure of sources of compensation that the Actuary's firm may receive in relation to Actuarial Services with respect to a specific assignment for that Principal, regardless of the location in which such compensation is received.

Conflict of Interest

PRECEPT 7. An Actuary shall not knowingly perform Actuarial Services involving an actual or potential conflict of interest unless:

A the Actuary's ability to act fairly is unimpaired;

B there has been disclosure of the conflict to all present and known prospective Principals whose interests would be affected by the conflict; and

C all such Principals have expressly agreed to the performance of the Actuarial Services by the Actuary.

Control of Work Product

PRECEPT 8. An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.

ANNOTATION 8-1. An Actuarial Communication prepared by an Actuary may be used by another party in a way that may influence the actions of a third party. The Actuary should recognize the risks of misquotation, misinterpretation, or other misuse of the Actuarial Communication and should therefore take reasonable steps to present the Actuarial Communication clearly and fairly and to include, as appropriate, limitations on the distribution and utilization of the Actuarial Communication.

Confidentiality

PRECEPT 9. An Actuary shall not disclose to another party any Confidential Information unless authorized to do so by the Principal or required to do so by Law.

Courtesy and Cooperation

PRECEPT 10. An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.

ANNOTATION 10-1. Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Discussions of such differences between an Actuary and another actuary, or in observations made by an Actuary to a Principal on the work of another actuary, should be conducted objectively and with courtesy and respect.

ANNOTATION 10-2. A Principal has an indisputable right to choose a professional advisor. An Actuary may provide service to any Principal who requests it, even though such Principal is being or has been served by another actuary in the same matter.

ANNOTATION 10-3. An Actuary in the course of an engagement or employment may encounter a situation such that the best interest of the Principal would be served by the Actuary's setting out an alternative opinion to one expressed by another actuary, together with an explanation of the factors that lend support to the alternative opinion. Nothing in the Code should be construed as preventing the Actuary from expressing such an alternative opinion to the Principal.

ANNOTATION 10-4. An Actuary may be requested to advise a Principal for whom the Actuary knows or has reasonable grounds to believe that another actuary has provided, or is providing, Actuarial Services with respect to the same matter. In such event, the Actuary may choose to consult with such other actuary both to prepare adequately for the assignment and to make an informed judgment as to whether there are circumstances involving a potential violation of the Code that might affect acceptance of the assignment. The Actuary should request the Principal's consent prior to such consultation.

ANNOTATION 10-5. When a Principal has given consent for a new or additional actuary to consult

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with an Actuary with respect to a matter for which the Actuary is providing or has provided Actuarial Services, the Actuary shall cooperate in furnishing relevant information, subject to receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents. The Actuary shall not refuse to consult or cooperate with the prospective new or additional actuary based upon unresolved compensation issues with the Principal unless such refusal is in accordance with a pre-existing agreement with the Principal. The Actuary need not provide any items of a proprietary nature, such as internal communications or computer programs.

Advertising

PRECEPT 11. An Actuary shall not engage in any advertising or business solicitation activities with respect to Actuarial Services that the Actuary knows or should know are false or misleading.

ANNOTATION 11-1. Advertising and business solicitation activities encompass all communications by whatever medium, including oral communications, that may directly or indirectly influence any person or organization in deciding whether there is a need for Actuarial Services or in selecting a specific Actuary or firm to perform Actuarial Services.

Titles and Designations

PRECEPT 12. An Actuary shall make use of membership titles and designations of a Recognized Actuarial Organization only in a manner that conforms to the practices authorized by that organization.

ANNOTATION 12-1. "Title" refers to any title conferred by a Recognized Actuarial Organization related to a specific position within that organization. "Designation" refers to a specific reference to membership status within such organization.

Violations of the Code of Professional Conduct

PRECEPT 13. An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information.

ANNOTATION 13-1. A violation of the Code is deemed to be material if it is important or affects the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is one merely of form.

ANNOTATION 13-2. An Actuary is not expected to discuss an apparent, unresolved material violation of the Code with the other Actuary if either Actuary is prohibited by Law from doing so or is acting in an adversarial environment involving the other Actuary.

PRECEPT 14. An Actuary shall respond promptly, truthfully, and fully to any request for information by, and cooperate fully with, an appropriate counseling and disciplinary body of the profession in connection with any disciplinary, counseling, or other proceeding of such body relating to the Code. The Actuary's responsibility to respond shall be subject to applicable restrictions on Confidential Information and those imposed by Law.

EXHIBIT IRH-CWD-242

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NEWS

Homebuilding Stocks Reverse Higher As This Key Material Escapes Tariffs

JUAN CARLOS ARANCIBIA | 12:11 PM ET 04/04/2025

A number of beaten-down homebuilding stocks rebounded on Friday, leading a short list of advancing issues on the S&P 500 after the industry escaped tariffs on lumber. **NVR** (**NVR**) and **D.R. Horton** (**DHI**) led the rebound, with **Lennar** (**LEN**) and PultePHM not far behind. A housing market stock index was up nearly 3%.

Collectively, the 25-stock group gained 2.7% in midday trading. On a day when sellers remained in control of the stock market, that ranked among the 10 best of **197 industry groups**. But other housing market groups didn't fare so well. The mortgage lending group was down 2%, in the top 25% of group performance Friday.

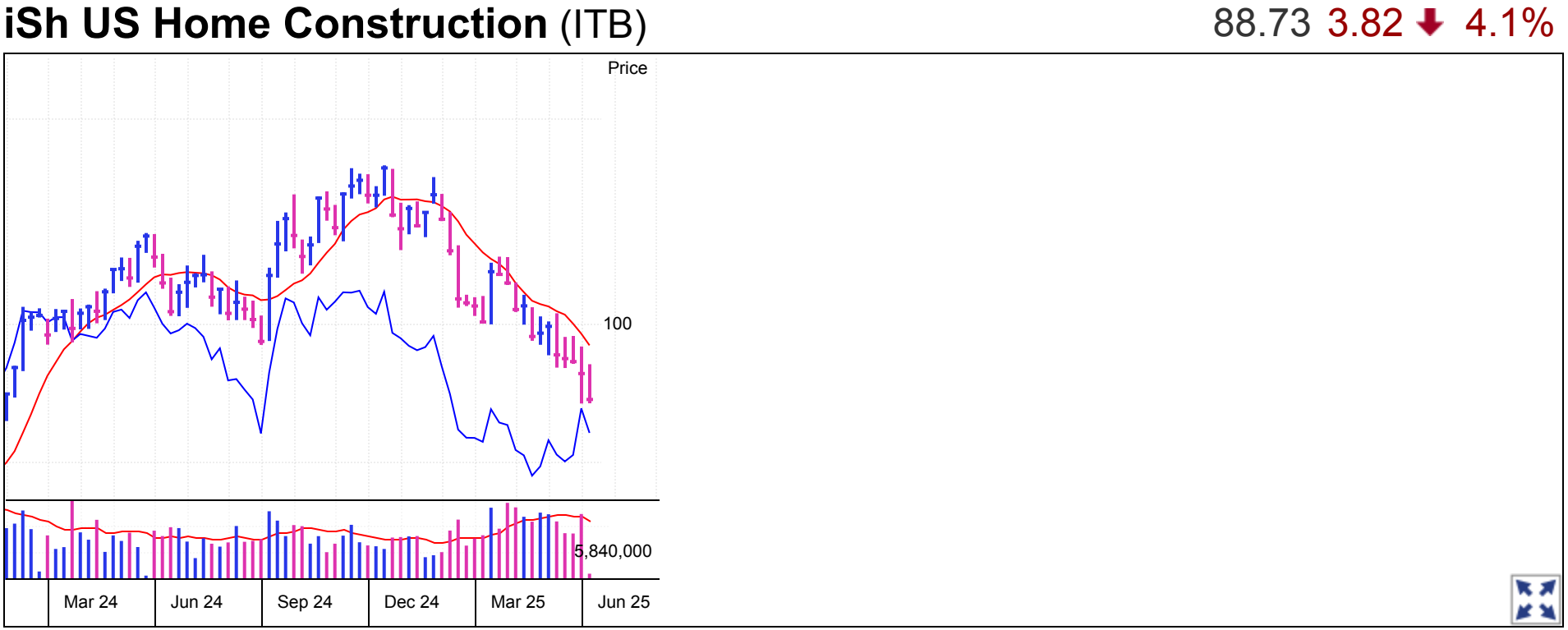
Trump's Sweeping Tariffs Wreck Stocks. Here's What Comes Next.

Tariff exceptions for Canada and Mexico "amount to a major win" for homebuilders, the National Association of Home Builders **said in a statement**. Canada accounts for about 85% of all U.S. softwood lumber imports and for nearly a quarter of the U.S. available supply.

Exemptions for Mexican products also favors the industry because it affects key construction cost drivers such as gypsum, concrete and near-shored appliances.

"While the complexity of these reciprocal tariffs makes it hard to estimate the overall impact on housing, they will undoubtedly raise some construction costs," NAHB Chairman Buddy Hughes said. "However, NAHB is pleased President Trump recognized the importance of critical construction inputs for housing and chose to continue current exemptions for Canadian and Mexican products, with a specific exemption for lumber from any new tariffs at this time."

Falling Rates May Help Housing Market



Meanwhile, the yield on the 10-year Treasury note has fallen more than 30 basis points this week, to 3.90%. It is below the 4% level for the first time in six months. Falling borrowing rates tend to favor the housing market.

For now at least, homebuilding stocks need to dig themselves out of a deep hole.

The group ranks No. 186 out of IBD's 197 industry groups and has been in the cellar for about a month.

Nearly all of the homebuilding stocks in IBD's database are trading below their **200-day** and **50-day moving averages**. However, NVR rallied more than 5% on Friday and retook its 50-day line for the first time since November. D.R. Horton staged a 5% gain that petered out just as it met resistance at its 50-day moving average.

Lennar and Pulte each gained more than 3%. D.R. Horton, Lennar, NVR and Pulte are the four largest stocks in the industry group, by market capitalization.

The iShares U.S. Home Construction ETF (**ITB**) reversed higher 2.8% Friday morning. It is down almost 10% year to date and touched a December 2023 low.

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EXHIBIT IRH-CWD-243

In Win for NAHB, Canadian Lumber Exempt from Trump's Global Reciprocal Tariffs

Material Costs

Published

Apr 03, 2025

President Trump on April 2 announced he will impose a 10% baseline tariff on all of America's trading partners, with the exception of Canada and Mexico, and elevated tariff rates on dozens of nations that will run as high as 50%. For example, the White House says South Korea charges an average tariff rate of 50% on U.S. goods and the U.S. will now charge a discounted reciprocal tariff rate of 25% on South Korean products entering the country.

The tariff exceptions for Canada and Mexico amount to a major win for NAHB, as Canada accounts for roughly 85% of all U.S. softwood lumber imports and accounts for nearly a quarter of the available supply in the U.S.

Further exempting Mexican products is also a big win given major construction cost drivers such as gypsum, concrete and near-shored appliances.

In an official statement to the media, NAHB Chairman Buddy Hughes said:

“While the complexity of these reciprocal tariffs makes it hard to estimate the overall impact on housing, they will undoubtedly raise some construction costs. However, NAHB is pleased President Trump recognized the importance of critical construction inputs for housing and chose to continue current exemptions for Canadian and Mexican products, with a specific exemption for lumber from any new tariffs at this time.”

The fight isn’t over on lumber given a current anti-dumping and anti-subsidy investigation by the Department of Commerce on Canadian lumber imports and the ongoing national security investigation into imported lumber and timber. But the fact that the president is not adding a reciprocal or baseline 10% tariff on Canadian lumber on top of existing tariffs is an important win. As of now, the Canadian lumber tariff rate remains at 14.5% but NAHB expects this rate will move higher later this year.

Moreover, while the lumber win is big, because of the complexity of the tariffs, manufacturers and suppliers will be impacted differently and builders should expect more volatility in pricing while companies work to understand and adjust to these new tariffs. NAHB will continue to advocate for lower tariffs on lumber and all other all building materials.

The Impact of Tariffs on Home Building

Tariffs on building materials act as a tax on American builders, home buyers and consumers. Builders estimate an average cost increase of $9,200 per home due to recent tariff actions, according to the March 2025 NAHB/Wells

Fargo Housing Market Index.

NAHB estimates that approximately 7.3% of all goods used in new residential construction originated from a foreign nation in 2024. The president’s global action on tariffs, which will go into effect later this month, means that costs will rise for steel, aluminum, copper, home appliances and scores of other building materials sourced outside of the U.S.

A new single-family home on average requires $174,155 worth of building materials for construction, with imports accounting for $12,713 of the total building material cost. In the short run, building materials prices will become volatile as they are typically driven by price expectations, which have moved higher by recently announced tariffs. In the long run, tariffs will reduce the availability of building materials, resulting in higher prices.

The tariffs are not only expected to raise the cost of building materials — which are up 34% since December 2020, far higher than the rate of inflation — but also wreak havoc on the building material supply chain. In turn, this will put even more upward price pressure on building materials.

Also of note, the impact of the reciprocal tariffs is expected to hit suppliers and supply chains based in Asia especially hard. For example, while Trump has assessed a reciprocal tariff rate of 34% on Chinese goods entering the U.S., these new Chinese tariffs are on top of the already significant tariffs put in place during Trump's first term and continued through the Biden administration. The result is some product categories from China are now subject to duties in excess of 50%.

What is NAHB Doing?

For years, NAHB has been leading the fight against tariffs because of their detrimental effect on housing affordability. NAHB has taken several actions to roll back tariffs and to boost domestic production of softwood lumber:

- NAHB filed a comment letter on March 31 with the Department of Commerce arguing that housing is a critical component of national security and that no further lumber tariffs should be imposed in the name of national security.

- On March 5, NAHB Chairman Buddy Hughes met with senior staff of U.S. Trade Representative Jamieson Greer to discuss how tariffs on building materials will drive up the cost to construct homes and harm housing affordability.

- The day before, **Hughes spoke on the same topic** (https://www.nahb.org/news-and-economics/press-releases/2025/03/5-key-supply-side-headwinds-hurt-housing-supply-nahb-tells-congress) while testifying before the House Financial Services Subcommittee on Housing and Insurance regarding the need to increase America's housing supply.

- NAHB Chief Advocacy Officer Ken Wingert and Senior Federal Legislative Director Alex Strong met with Quebec Premier Francois Legault and other top Canadian officials on Feb. 11 at the Canadian Embassy in Washington. Wingert told Legault the U.S. needs Canadian lumber and that NAHB supports Canadian efforts

to reach a new trade agreement between the two nations that is fair, equitable and would eliminate tariffs.

- NAHB sent a **letter to the White House** (https://www.nahb.org/-/media/NAHB/advocacy/docs/letter-to-president-potential-tariffs-013125.pdf?rev=c6ba63727dfc46fa984b40b4825572ac&hash=B42E4062A8F8F236F0A1FD1EDF4DE727) on Jan. 31 urging the president to exempt critical building materials from his proposed 25% tariffs on Canadian and Mexican goods.

- With NAHB's strong backing, the House in late January passed the **Fix our Forest Act** (https://www.nahb.org/blog/2025/01/house-passes-forestry-bill), legislation that would contribute to better forest management practices, help strengthen the nation's housing supply chain and promote affordable housing opportunities for all Americans.

- NAHB has been actively getting our message out to the media on the issue of tariffs. NAHB CEO Jim Tobin has been interviewed by several broadcast outlets including CBS News, CNN, Fox Business Network and Yahoo Finance TV. NAHB spokespeople have also been quoted in The Wall Street Journal, CNN, The New York Times, CNBC, Barron's, Bloomberg, The Washington Post, Associated Press, Business Insider and other notable news organizations.

Moving forward, NAHB will continue working with all relevant stakeholders to roll back **tariffs on building materials** (https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy/how-tariffs-impact-home-building), boost sawmill production and increase the domestic supply of timber from federally owned lands in an environmentally responsible manner to help fix building material supply chains and ease costs.

View the president's executive order on reciprocal tariffs (https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/).

View the reciprocal tariff fact sheet (https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/).

View the reciprocal tariff breakdown for each nation (https://www.nahb.org/-/media/NAHB/advocacy/docs/top-priorities/tariff-breakdown.pdf?rev=33a7916bfb4d441db3a117bfbb680f93&hash=D5355EEEB9170189DC866171945D39E2).

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(https://eyeonhousing.org/2025/04/manufactured-homes-an-alternative-means-of-housing-supply/)

EXHIBIT IRH-CWD-244

SCO ID: 0845-23OSC-539C

STATE OF CALIFORNIA - DEPARTMENT OF GENERAL SERVICES

STANDARD AGREEMENT

STD 213 (Rev. 04/2020)

AGREEMENT NUMBER	PURCHASING AUTHORITY NUMBER (If Applicable)
23OSC-539C	CDI-0845

1. This Agreement is entered into between the Contracting Agency and the Contractor named below:

CONTRACTING AGENCY NAME

California Department of Insurance

CONTRACTOR NAME

Milliman, Inc.

2. The term of this Agreement is:

START DATE

June 17, 2024 (OR UPON DGS/OLS APPROVAL)

THROUGH END DATE

December 31, 2025

3. The maximum amount of this Agreement is:

$2,837,500.00 (Two million, eight hundred thirty-seven thousand, five hundred dollars & zero cents)

4. The parties agree to comply with the terms and conditions of the following exhibits, which are by this reference made a part of the Agreement.

Exhibits	Title	Pages
Exhibit A	Scope of Work	11
Exhibit B	Budget Detail and Payment Provisions	2
Exhibit B	Attachment 1 - Work Plan	15
Exhibit C *	General Terms and Conditions	*SEE LINK
Exhibit D	Special Terms & Conditions	4
Exhibit E	Resumes	16

Items shown with an asterisk (*), are hereby incorporated by reference and made part of this agreement as if attached hereto.
These documents can be viewed at https://www.dgs.ca.gov/OLS/Resources

IN WITNESS WHEREOF, THIS AGREEMENT HAS BEEN EXECUTED BY THE PARTIES HERETO.

CONTRACTOR

CONTRACTOR NAME (if other than an individual, state whether a corporation, partnership, etc.)

Milliman, Inc

CONTRACTOR BUSINESS ADDRESS	CITY	STATE	ZIP
2261 Market Street, Suite 5485	San Francisco	CA	94114

PRINTED NAME OF PERSON SIGNING	TITLE
Nancy Watkins	Principal & Consulting Actuary

CONTRACTOR AUTHORIZED SIGNATURE	DATE SIGNED
Nancy P. Watkins	06/07/2024 NW 07/09/2024

SCO ID: 0845-23OSC-539C

STATE OF CALIFORNIA - DEPARTMENT OF GENERAL SERVICES
STANDARD AGREEMENT
STD 213 (Rev. 04/2020)

AGREEMENT NUMBER	PURCHASING AUTHORITY NUMBER (If Applicable)
23OSC-539C	CDI-0845

STATE OF CALIFORNIA

CONTRACTING AGENCY NAME
California Department of Insurance

CONTRACTING AGENCY ADDRESS	CITY	STATE	ZIP
300 Capitol Mall	Sacramento	CA	95814

PRINTED NAME OF PERSON SIGNING	TITLE
Crista Hill	FBMD/Division Chief

CONTRACTING AGENCY AUTHORIZED SIGNATURE	DATE SIGNED
Crista Hill	6-10-24 C H 7/9/24

CALIFORNIA DEPARTMENT OF GENERAL SERVICES APPROVAL	EXEMPTION (If Applicable)
APPROVED JUL 15 2024 ALW:NLR:abs OFFICE OF LEGAL SERVICES DEPT. OF GENERAL SERVICES	

EXHIBIT A

SCOPE OF WORK

1. SERVICES**:** Milliman, Inc. (Contractor) agrees to provide California CDI of Insurance (CDI) the consulting services as described herein.

2. LOCATION**:** The services shall be performed virtually or at a site mutually agreed upon by both parties.

3. HOURS**:** The services shall be provided during mutually agreed upon times.

4. PROJECT REPRESENTATIVE**:** Direct all inquiries to the Project Representative [1/]. The Project Representatives during the term of this Agreement shall be**:**

State Agency**:**	California Department of Insurance	Contractor**:**	Milliman, Inc.
Name**:**	Kathryn Taras	Name**:**	Nancy Watkins
Address**:**	300 Capitol Mall, 16th Floor, Sacramento, CA 95814	Address**:**	Remittance: PO Box 75553 Chicago, IL 60675 Local: 2261 Market Street, Suite 5485, San Francisco, CA 94114
Phone**:**	(916) 492-3675	Phone**:**	(415) 394-3733
Email**:**	Kathryn.Taras@insurance.ca.gov	Email**:**	Nancy.Watkins@milliman.com

[1/] Either party may make changes to the above contact information by giving written notice to the other party. Said changes shall not require an amendment to this Agreement.

5. DESCRIPTION OF SERVICES**:**
Though there are several rulemakings and areas of rate regulation for which the CDI seeks consultation services, a strong majority of the Contractor's services will be related to rulemaking and rate regulations processes regarding the allowance of California-only reinsurance for homeowners and commercial property in ratemaking.

The Contractor agrees to provide the CDI actuarial consulting services related to the CDI's Sustainable Insurance Strategy rulemakings and will include providing technical and actuarial science-based feedback regarding contemplated and proposed regulatory frameworks, actions, policies, and language.

The primary objective is to provide technical and actuarial science-based feedback and recommendations regarding contemplated and proposed regulatory frameworks, actions, policies, language and rate regulations processes.

To support this objective**:** The Contractor shall perform the identified services by completing the following tasks:

Task 1 – Provide technical and actuarial science-based feedback regarding contemplated and proposed regulatory frameworks, actions, arguments, and language.

Objective 1.1: Develop a consistent allocation methodology for the California net cost of reinsurance. The methodology developed should not require insurers to**:** (1) restructure current

reinsurance programs (2) enter into California-only reinsurance; or (3) require reinsurers to provide allocations of an insurer's broader reinsurance program to California (Goals).

Deliverable: Provide/Produce a developed Microsoft Word document that contains comments/explanation of the allocation methodology and how it achieves the stated Goals. Also, provide written documentation supporting the contractor's determination.

Task(s) to be completed in accordance with Task 1/Objective 1.1 of Exhibit B, Attachment 1-Work Plan

Objective 1.2: Discuss if the net-cost of California-only reinsurance should be extended to other catastrophe exposed lines/products, and provide written documentation supporting determination.

Deliverable: Provide/Produce a developed Microsoft Word document that contains comments/explanation of the application of the formula to the homeowners and commercial property business, and discusses whether the net-cost of California-only reinsurance should be extended to other catastrophe exposed lines/products. Also, provide written documentation supporting the contractor's determination.

Task(s) to be completed in accordance with Task 1/Objective 1.2 of Exhibit B, Attachment 1-Work Plan

Objective 1.3: Review formula in California Code of Regulations (CCR) section 2644.25 to determine how the current formula in the regulation text as applied to earthquake and medical malpractice can be applied to homeowners insurance and commercial property insurance, and potentially other lines with wildfire exposure, or create a new formula that is similar to the formula in CCR section 2644.25 specifically crafted for homeowners and commercial property insurance.

Deliverable: Provide/Produce a developed Microsoft Word document that contains comments/explanation of the application of the formula to the homeowners and commercial property business, and potentially to other lines with wildfire exposure, and discusses whether the net-cost of California-only reinsurance should be extended to other catastrophe exposed lines/products. Also, provide written documentation supporting the contractor's determination.

Task(s) to be completed in accordance with Task 1/Objective 1.3 of Exhibit B, Attachment 1-Work Plan

Objective 1.4: Review and analyze CCR section 2644.25 Reinsurance, and any other sections of CCR or Insurance Code (Ins. Code) that the Contractor determines may be directly or indirectly impacted by changes emanating from the Contractor's review of section 2644.25.

Deliverable: Provide a developed memorandum (Microsoft Word document) that provides a comprehensive analytic review of the relevant statutes and regulations.

Task(s) to be completed in accordance with Task 1/Objective 1.4 of Exhibit B, Attachment 1-Work Plan

Objective 1.5: Assist in drafting regulatory text and providing redline feedback on contemplated regulation text.

Deliverable: Participate in virtual meetings, as requested. To the extent that the CDI requests a summary of advice communicated orally in meetings, also provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor. Provide redline edits and comment response, or the drafting of original regulation text language, in a Microsoft Word document.

Task(s) to be completed in accordance with Task 1/Objective 1.5 of Exhibit B, Attachment 1-Work Plan

Objective 1.6: Virtually attend any CDI Discussion Workshop/Prenotice Public Discussion.

Deliverable: Virtually attend or in-person any rulemaking meeting for the entire duration of the rulemaking meeting(s).

Task(s) to be completed in accordance with Task 1/Objective 1.6 of Exhibit B, Attachment 1-Work Plan

Objective 1.7: Review, analyze, and discuss written and oral comments submitted to the CDI before the formal rulemaking process as well as CDI staff questions regarding discrete comments, provide technical or actuarial-science based feedback when advising how CDI might choose to respond, and advise CDI staff on the benefits and drawbacks of potential amendment to the proposed regulation text.

Deliverable: Participate in virtual and in-person meetings, as requested, to discuss any technical or actuarial-science based arguments made in the Discussion Workshop's oral or written comments. To the extent that the CDI requests a summary of advice communicated orally in meetings, also provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.

Task(s) to be completed in accordance with Task 1/Objective 1.7 of Exhibit B, Attachment 1-Work Plan

Objective 1.8: Assist in drafting language that provides technical or actuarial science-based explanation of the Dept’s decisions on the language of particular provisions of the regulation text.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that proposes new/original draft language. To the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 1/Objective 1.8 of Exhibit B, Attachment 1-Work Plan

Objective 1.9: Virtually attend any CDI Public Hearing.

Deliverable: Attend virtual or in-person rulemaking meetings for the entire duration of the rulemaking meeting.

Task(s) to be completed in accordance with Task 1/Objective 1.9 of Exhibit B, Attachment 1-Work Plan

Objective 1.10: Advise CDI staff on the benefits and drawbacks of potential amendments to the Regulation Text, including making a formal recommendation whether and how to amend the Regulation Text.

Deliverable: Participate in virtual and in-person meetings, as requested. Also, if requested, provide a developed Microsoft Word document that provides technical or actuarial-science based analysis of the technical or actuarial science-based arguments posted in written and oral comments, recommends whether the CDI should amend the Regulation Text, supports the contractor's determination, and identifies responsive, potential amendments to the regulation text.

Task(s) to be completed in accordance with Task 1/Objective 1.10 of Exhibit B, Attachment 1-Work Plan

Objective 1.11: If the CDI chooses to amend the Proposed Regulation Text, assist in drafting amendments to the Regulation Text, including providing redline feedback on proposed amended regulation text.

Deliverable: Provide redline edits and comment response, or the drafting of original regulation text language, in a Microsoft Word document.

Task(s) to be completed in accordance with Task 1/Objective 1.11 of Exhibit B, Attachment 1-Work Plan

Objective 1.12: Review, analyze, and discuss written and oral comments submitted to the CDI during the 15-Day Comment Period as well as CDI staff questions regarding discrete comments, provide technical or actuarial-science based feedback when advising how CDI might choose to respond, and advise CDI staff on the benefits and drawbacks of potentially amending the Amended Regulation Text further.

Deliverable: Participate in virtual and in-person meetings, as requested, to discuss any technical or actuarial-science based arguments made in 15-Day written comments. To the extent that the CDI requests a summary of advice communicated orally in meetings, also provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.

Task(s) to be completed in accordance with Task 1/Objective 1.12 of Exhibit B, Attachment

Objective 1.13: Advise CDI staff on the benefits and drawbacks of potential amendments to the Amended Regulation Text, including making a formal recommendation on whether and how to further amend the Amended Regulation Text.

Deliverable: Participate in virtual and in-person meetings, as requested. Also, provide a developed Microsoft Word document that provides technical or actuarial-science based

analysis of arguments posted in written and oral comments, recommends whether the CDI should further amend the Amended Regulation Text, supports the contractor's determination, and identifies responsive, potential amendments to the regulation text.

Task(s) to be completed in accordance with Task 1/Objective 1.13 of Exhibit B, Attachment 1-Work Plan

Objective 1.14: If the CDI chooses to further amend the Amended Regulation Text, assist in drafting amendments to the Amended Regulation Text, including providing redline feedback on proposed amendments to the Amended Regulation Text.

Deliverable: Provide redline edits and comment response, or the drafting of original regulation text language, in a Microsoft Word document.

Task(s) to be completed in accordance with Task 1/Objective 1.14 of Exhibit B, Attachment 1-Work Plan

Objective 1.15: Review, analyze, and discuss written and oral comments submitted to the CDI during the 2nd 15-Day Comment Period as well as CDI staff questions regarding discrete comments, provide technical or actuarial-science based feedback when advising how CDI might choose to respond, and advise CDI staff on the benefits and drawbacks of potentially issuing a 3rd 15-day Notice.

Deliverable: Participate in virtual and in-person meetings, as requested, to discuss any technical or actuarial-science based arguments made in the 2nd 15-Day written comments. Also, if requested, provide a summary of advice communicated orally in meetings, in a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.

Task(s) to be completed in accordance with Task 1/Objective 1.15 of Exhibit B, Attachment 1-Work Plan

Objective 1.16: Assist in drafting language that provides technical or actuarial-science based explanations of the CDI's decisions in response to arguments raised in written and oral comments submitted to the CDI in the formal rulemaking process.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. Also, if requested, and to the extent advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 1/Objective 1.16 of Exhibit B, Attachment 1-Work Plan

Objective 1.17: Develop related-rulemaking objectives through discussion in virtual meetings.

Deliverable: Participate in virtual meetings, as requested. Also, if requested, and to the extent that the CDI requests a summary of advice that is orally communicated in meetings,

provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.

Task(s) to be completed in accordance with Task 1/Objective 1.17 of Exhibit B, Attachment 1-Work Plan

Task 2 – Assist in assessing the economic impact on California business enterprises and individuals.

Objective 2.1: Provide analysis and feedback on any nonmonetary benefits to insurers that result from the regulation text.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. Also, if requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.1 of Exhibit B, Attachment 1-Work Plan

Objective 2.2: Analyze and provide feedback and propose edits to CDI analysis that identifies, evaluates, measures, and models the economic impact of the proposed alternatives to the proposed regulation, including the costs and benefits of the proposed alternatives to the proposed regulation.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.2 of Exhibit B, Attachment 1-Work Plan

Objective 2.3: Analyze the potential for innovation in insurer business practices due to the regulation.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.3 of Exhibit B, Attachment 1-Work Plan

Objective 2.4: Identify and estimate monetary direct costs and benefits of the regulatory alternatives on insurance rates.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.4 of Exhibit B, Attachment 1-Work Plan

Objective 2.5: Identify studies and provide data that could be used in the estimation of costs and benefits.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.5 of Exhibit B, Attachment 1-Work Plan

Objective 2.6: Identify and estimate monetary direct costs and benefits of the regulation on insurers business practices.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.6 of Exhibit B, Attachment 1-Work Plan

Objective 2.7: Identify and estimate monetary direct costs and benefits of the regulatory alternatives on insurers business practices.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.7 of Exhibit B, Attachment 1-Work Plan

Objective 2.8: Review and provide feedback on the cost and benefit write-ups in the economic analysis.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document

that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.8 of Exhibit B, Attachment 1-Work Plan

Objective 2.9: Review and provide feedback on economic models.

Deliverable: Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.

Task(s) to be completed in accordance with Task 2/Objective 2.9 of Exhibit B, Attachment 1-Work Plan

Task 3 – Assist the CDI in revising its Prior Approval Rate Application (PARA) and accompanying Prior Approval Rate Filing Instructions.

Objective 3.1: Revise the existing Rate Template and Exhibits to allow for the inclusion of a net cost of reinsurance provision for each applicable California residential and commercial property coverage.

Deliverable: Provide a revised set of Rate Template and Exhibits, typically in the form of Microsoft Excel workbooks/spreadsheets, including the modification of enabled macros, which have been modified to recognize the inclusion of the net cost of reinsurance. The revised set of exhibits should be compatible with each other, to provide for a seamless process for inclusion of the net cost of reinsurance by an insurer, as well as all the information required for a thorough review of the filing and assessment of the provisions and assumptions incorporated in the filing, by CDI staff.

Task(s) to be completed in accordance with Task 3/Objective 3.1 of Exhibit B, Attachment 1-Work Plan

Objective 3.2: Assist in drafting filing instructions for the new Rate Template and Exhibits.

Deliverable: Provide a Microsoft Word document that revises existing rate filing instructions to incorporate the changes required by the implementation of the Reinsurance rulemaking. Also, complete revisions to the rate filing instructions in response to feedback and redline edits from CDI staff. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document advice or recommendations that are provided orally.

Task(s) to be completed in accordance with Task 3/Objective 3.2 of Exhibit B, Attachment 1-Work Plan

Task 4 – Assist the CDI in various tasks related to rate regulation.

Objective 4.1: Review the Efficiency Standards and CDI parameter values to determine the impact of the inclusion of the net cost of reinsurance on those standards and values (which have been calculated using historic premium, loss, and expense data on a direct basis).

Deliverable: Provide a Microsoft Word document that identifies reports findings and makes recommendations.

Task(s) to be completed in accordance with Task 4/Objective 4.1 of Exhibit B, Attachment 1-Work Plan

Objective 4.2: Identify the documentation and create exhibits which insurers would have to submit to demonstrate the net cost of reinsurance which can be allocated to their California programs.

Deliverable: Provide Microsoft Word documents and Excel spreadsheets designed to collect the information which insurers will be required to file to support their proposed net costs of reinsurance for each California program.

Task(s) to be completed in accordance with Task 4/Objective 4.2 of Exhibit B, Attachment 1-Work Plan

Objective 4.3: Participate in developing and revising rate regulation processes that are necessary due to the implementation of Sustainable Insurance Strategy rulemakings.

Deliverable: Provide a Microsoft Word document that identifies reports findings and makes recommendations. Also, provide Microsoft Word documents and Excel spreadsheets designed to collect the information which insurers will be required to file to support their rate filings.

Task(s) to be completed in accordance with Task 4/Objective 4.3 of Exhibit B, Attachment 1-Work Plan

Task 5 – Assist in building and expanding CDI's internal subject matter expertise in matters developed by contractor's work.

Objective 5.1: Present the actuarial consulting firm's findings and recommendations to CDI management and executive staff.

Deliverable: Provide a Microsoft Word document which summarizes the firm's recommendations, as well as a PowerPoint presentation for the Rate Regulation Branch ("RRB") management team and the CDI's Executive Staff.

Task(s) to be completed in accordance with Task 5/Objective 5.1 of Exhibit B, Attachment 1-Work Plan

Objective 5.2: Develop a training curriculum and presentation materials on catastrophe reinsurance for the RRB and Rate Enforcement Branch ("REB") staffs. The training sessions will cover the new regulations, the principles of catastrophe reinsurance, the new Rate Templates and Standard Exhibits, the new Reinsurance Questionnaire, and the allocation of

the net cost of reinsurance to an insurer's California residential and commercial property coverages.

Deliverable: Provide a developed PowerPoint presentation that is sufficiently detailed to function as the primary document for both trainer and trainee. The contractor will initially provide training to RRB's management and actuarial staffs and will incorporate their feedback into a final, recorded training session for the entire RRB and REB staffs.

Task(s) to be completed in accordance with Task 5/Objective 5.2 of Exhibit B, Attachment 1-Work Plan

Task 6 – Establish guidelines for the review of an insurer's reinsurance program.

Objective 6.1: Meet regularly with RRB and REB staffs to discuss the proposed changes in the regulations and the Rate Templates and Exhibits.

Deliverable: Participate in virtual and in-person meetings, as requested. To the extent that the CDI requests a summary of advice communicated orally in meetings, provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback, comments, and/or edits provided by the contractor.

Task(s) to be completed in accordance with Task 6/Objective 6.1 of Exhibit B, Attachment 1-Work Plan

Objective 6.2: Establish a methodology and the associated templates and exhibits which will be used to allocate an insurer's countrywide reinsurance costs to specific California residential and commercial property coverages underlying a specific rate filing.

Deliverable: Provide Microsoft Word documents and Excel spreadsheets with instructions on what will be entered into associated templates and how the allocation of an insurer's countrywide reinsurance costs to California would be performed, along with the necessary formulae.

Task(s) to be completed in accordance with Task 6/Objective 6.2 of Exhibit B, Attachment 1-Work Plan

Objective 6.3: Develop new Exhibits to collect and reconcile the direct and net premium and loss data for California residential and commercial property coverages.

Deliverable: Provide an Excel workbook.

Task(s) to be completed in accordance with Task 6/Objective 6.3 of Exhibit B, Attachment 1-Work Plan

Objective 6.4: Develop a Reinsurance Questionnaire which an insurer will have to complete to support their net cost of reinsurance provision for each applicable California residential and commercial property coverage

Deliverable: Provide a Microsoft Word questionnaire document that solicits written responses from insurers that include information explaining the nature the contract and the function of involved parties.

Task(s) to be completed in accordance with Task 6/Objective 6.4 of Exhibit B, Attachment 1-Work Plan

Task 7 – Assist the CDI in various tasks related to the formal rulemaking process.

Objective 7.1: Assist with other tasks that may arise in the course of preparing for and completing the formal rulemaking process.

Deliverable: Participate in meetings and discussions, draft developed memorandum, advise CDI staff on discrete aspects of rate regulation, and analyze and revise CDI work product.

Task(s) to be completed in accordance with Task 7/Objective 7.1 of Exhibit B, Attachment 1-Work Plan

Task/Objective Timeline:
The target completion date for each task/objective is listed and specified in Exhibit B, Attachment 1 – Work Plan. Variations of the completion dates shall not require a formal amendment to this Agreement, if agreed to in writing in advance by both parties.

EXHIBIT B

BUDGET DETAIL AND PAYMENT PROVISIONS

1. INVOICING AND PAYMENT: For services satisfactorily rendered and upon receipt and approval of the invoices, the CDI agrees to compensate the Contractor for actual expenditures incurred in accordance with the rates specified herein.

   Itemized invoices shall include the Agreement Number and be submitted, via email, in arrears to the CDI Project Representative:

   California Department of Insurance
   Attention: Kathryn Taras
   Agreement Number**:** 23OSC-5~~93~~**9**C
   Email Address: Kathryn.Taras@insurance.ca.gov

   CH
   NW

2. BUDGET CONTINGENCY CLAUSE: It is mutually agreed that if the Budget Act of the current year and/or any subsequent years covered under this Agreement does not appropriate sufficient funds for the program, this Agreement shall be of no further force and effect. In this event, the State shall have no liability to pay any funds whatsoever to Contractor or to furnish any other considerations under this Agreement and Contractor shall not be obligated to perform any provisions of this Agreement.

   If funding for any fiscal year is reduced or deleted by the Budget Act for purposes of this program, the State shall have the option to either: cancel this Agreement with no liability occurring to the State, or offer an Agreement Amendment to Contractor to reflect the reduced amount.

3. PROMPT PAYMENT CLAUSE: Payment will be made in accordance with, and within the time specified in, Government Code Chapter 4.5, commencing with Section 927.

4. TRAVEL:
   a. Travel if authorized under this Agreement, shall be paid in accordance with California Department of Human Resources (CalHR) Administration Rules and Regulations, for non-represented employees. Contractor shall use the most recent version of reimbursement rates which can be found at http://www.calhr.ca.gov/employees/Pages/travel-reimbursements.aspx.
   b. Travel expenses are to be invoiced in accordance with the non-represented employee travel rules and regulations, and travel expense claims (with appropriate receipts and airline itineraries) should be attached to the invoice as supporting documentation.
   c. Travel expenses may be invoiced only if the travel has been pre-approved in writing by the CDI Project Representative.

5. EXPENSES: Contractor will be reimbursed for travel and other travel related expenses, in accordance with California Code of Regulations § 599.619 for excluded employees and upon submission of itemized monthly statements. All unusual expense items will be subject to the CDI's prior authorization.

   Additional actual costs incurred shall be reimbursed for actual out-of-pocket expenses with no mark up and be supported by documentation.

6. COST BREAKDOWN: Fees and expenses incurred shall be reimbursed at the following rates and as described in Exhibit B, Attachment 1, Work Plan.

DIRECT LABOR COST	HOURLY RATE
Nancy Watkins	$875
Aaron Koch	$825
Matt Chamberlain	$595
Max Mindel	$585
Garrett Bradford	$460
Heather Kanzlemar	$405
Other CAS Members	$260 to $850
Actuarial Analysts	$185 to $300
GIS & Data Scientists	$185 to $460
Support Staff	$170 to $320

Payment to be made in arrears, upon Contractor's submittal and acceptance by CDI of the Deliverable of each Task/Objective. CDI will notify Contractor in writing, via email, if deliverable is acceptable or not.

TOTAL CONTRACT NOT TO EXCEED: $2,837,500.00

EXHIBIT B – Attachment 1 – Work Plan

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Task 1 – Provide technical and actuarial science-based feedback regarding contemplated and proposed regulatory frameworks, actions, arguments, and language.			
Objective 1.1: Develop a consistent allocation methodology for the California net cost of reinsurance. The methodology developed should not require insurers to: (1) restructure current reinsurance programs (2) enter into California-only reinsurance; or (3) require reinsurers to provide allocations of an insurer's broader reinsurance program to California (Goals).	Provide/Produce a developed Microsoft Word document that contains comments/explanation of the allocation methodology and how it achieves the stated Goals. Also, provide written documentation supporting the contractor's determination.	1/1/2025	FY ~~23/24: $9,900~~ **FY 24/25: $9,900** FY 24/25: $118,300
		Objective 1.1 Subtotal:	**$128,200**
Objective 1.2: Discuss if the net-cost of California-only reinsurance should be extended to other catastrophe exposed lines/products, and provide written documentation supporting determination.	Provide/Produce a developed Microsoft Word document that contains comments/explanation of the application of the formula to the homeowners and commercial property business, and discusses whether the net-cost of California-only reinsurance should be extended to other catastrophe exposed lines/products. Also, provide written documentation supporting the contractor's determination.	1/1/2025	~~FY 23/24: $2,600~~ **FY 24/25: $2,600** FY 24/25: $30,700
		Objective 1.2 Subtotal:	**$33,300**
Objective 1.3: Review formula in California Code of Regulations (CCR) section 2644.25 to determine how the	Provide/Produce a developed Microsoft Word document that contains comments/explanation of the application of the formula to the homeowners and commercial property business,	1/1/2025	~~FY 23/24: $4,600~~ **FY 24/25: $4,600** FY 24/25: $54,100

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
current formula in the regulation text as applied to earthquake and medical malpractice can be applied to homeowners insurance and commercial property insurance, and potentially other lines with wildfire exposure, or create a new formula that is similar to the formula in CCR section 2644.25 specifically crafted for homeowners and commercial property insurance.	and potentially to other lines with wildfire exposure, and discusses whether the net-cost of California-only reinsurance should be extended to other catastrophe exposed lines/products. Also, provide written documentation supporting the contractor's determination.		
		Objective 1.3 Subtotal:	**$58,700**
Objective 1.4: Review and analyze CCR section 2644.25 Reinsurance, and any other sections of CCR or Insurance Code (Ins. Code) that the Contractor determines may be directly or indirectly impacted by changes emanating from the Contractor's review of section 2644.25.	Provide a developed memorandum (Microsoft Word document) that provides a comprehensive analytic review of the relevant statutes and regulations.	1/1/2025	~~FY 23/24: $2,100~~ **FY 24/25: $2,100** FY 24/25: $24,800
		Objective 1.4 Subtotal:	**$26,900**

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Objective 1.5: Assist in drafting regulatory text and providing redline feedback on contemplated regulation text.	Participate in virtual meetings, as requested. To the extent that the CDI requests a summary of advice communicated orally in meetings, also provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor. Provide redline edits and comment response, or the drafting of original regulation text language, in a Microsoft Word document.	1/1/2025	~~FY 23/24: $47,800~~ **FY 24/25: $47,800** FY 24/25: $572,800
		Objective 1.5 Subtotal:	**$620,600**
Objective 1.6: Virtually attend any CDI Discussion Workshop/Prenotice Public Discussion.	Virtually attend or in-person any rulemaking meeting for the entire duration of the rulemaking meeting(s).	4/30/2025	FY 24/25: $13,200
		Objective 1.6 Subtotal:	**$13,200**
Objective 1.7: Review, analyze, and discuss written and oral comments submitted to the CDI before the formal rulemaking process as well as CDI staff questions regarding discrete comments, provide technical or actuarial-science based feedback when advising how CDI might choose to respond, and advise CDI staff on the benefits and drawbacks of potential amendment to the	Participate in virtual and in-person meetings, as requested, to discuss any technical or actuarial-science based arguments made in the Discussion Workshop's oral or written comments. To the extent that the CDI requests a summary of advice communicated orally in meetings, also provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.	4/30/2025	~~FY 23/24: $4,400~~ **FY 24/25: $4,400** FY 24/25: $78,100

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
proposed regulation text.			
		Objective 1.7 Subtotal:	**$82,500**
Objective 1.8: Assist in drafting language that provides technical or actuarial science-based explanation of the Dept's decisions on the language of particular provisions of the regulation text.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that proposes new/original draft language. To the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $70,200
		Objective 1.8 Subtotal:	**$70,200**
Objective 1.9: Virtually attend any CDI Public Hearing.	Attend virtual or in-person rulemaking meetings for the entire duration of the rulemaking meeting.	8/31/2025	FY 24/25: $11,400 FY 25/26: $1,900
		Objective 1.9 Subtotal:	**$13,300**
Objective 1.10: Advise CDI staff on the benefits and drawbacks of potential amendments to the Regulation Text, including making a formal recommendation whether and how to amend the Regulation Text.	Participate in virtual and in-person meetings, as requested. Also, if requested, provide a developed Microsoft Word document that provides technical or actuarial-science based analysis of the technical or actuarial science-based arguments posted in written and oral comments, recommends whether the CDI should amend the Regulation Text, supports the contractor's determination, and identifies responsive, potential amendments to the regulation text.	10/31/2025	FY 24/25: $30,400 FY 25/26: $10,200
		Objective 1.10 Subtotal:	**$40,600**
Objective 1.11: If the CDI chooses to amend the Proposed	Provide redline edits and comment response, or the drafting of original regulation text	10/31/2025	FY 24/25: $32,800 FY 25/26: $11,000

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Regulation Text, assist in drafting amendments to the Regulation Text, including providing redline feedback on proposed amended regulation text.	language, in a Microsoft Word document.		
		Objective 1.11 Subtotal:	**$43,800**
Objective 1.12: Review, analyze, and discuss written and oral comments submitted to the CDI during the 15-Day Comment Period as well as CDI staff questions regarding discrete comments, provide technical or actuarial-science based feedback when advising how CDI might choose to respond, and advise CDI staff on the benefits and drawbacks of potentially amending the Amended Regulation Text further.	Participate in virtual and in-person meetings, as requested, to discuss any technical or actuarial-science based arguments made in 15-Day written comments. To the extent that the CDI requests a summary of advice communicated orally in meetings, also provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.	10/31/2025	FY 24/25: $13,300 FY 25/26: $4,500
		Objective 1.12 Subtotal:	**$17,800**
Objective 1.13: Advise CDI staff on the benefits and drawbacks of potential amendments to the Amended Regulation Text, including making a formal recommendation on whether and how to further amend the Amended Regulation Text.	Participate in virtual and in-person meetings, as requested. Also, provide a developed Microsoft Word document that provides technical or actuarial-science based analysis of arguments posted in written and oral comments, recommends whether the CDI should further amend the Amended Regulation Text, supports the contractor's determination, and identifies responsive, potential	10/31/2025	FY 24/25: $10,600 FY 25/26: $3,600

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
	amendments to the regulation text.		
		Objective 1.13 Subtotal:	**$14,200**
Objective 1.14: If the CDI chooses to further amend the Amended Regulation Text, assist in drafting amendments to the Amended Regulation Text, including providing redline feedback on proposed amendments to the Amended Regulation Text.	Provide redline edits and comment response, or the drafting of original regulation text language, in a Microsoft Word document.	10/31/2025	FY 24/25: $18,900 FY 25/26: $6,300
		Objective 1.14 Subtotal:	**$25,200**
Objective 1.15: Review, analyze, and discuss written and oral comments submitted to the CDI during the 2nd 15-Day Comment Period as well as CDI staff questions regarding discrete comments, provide technical or actuarial-science based feedback when advising how CDI might choose to respond, and advise CDI staff on the benefits and drawbacks of potentially issuing a 3rd 15-day Notice.	Participate in virtual and in-person meetings, as requested, to discuss any technical or actuarial-science based arguments made in the 2nd 15-Day written comments. Also, if requested, provide a summary of advice communicated orally in meetings, in a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.	10/31/2025	FY 24/25: $4,800 FY 25/26: $1,600
		Objective 1.15 Subtotal:	**$6,400**

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Objective 1.16: Assist in drafting language that provides technical or actuarial-science based explanations of the CDI's decisions in response to arguments raised in written and oral comments submitted to the CDI in the formal rulemaking process.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. Also, if requested, and to the extent advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	10/31/2025	FY 24/25: $37,700 FY 25/26: $12,600
		Objective 1.16 Subtotal:	**$50,300**
Objective 1.17: Develop related-rulemaking objectives through discussion in virtual meetings.	Participate in virtual meetings, as requested. Also, if requested, and to the extent that the CDI requests a summary of advice that is orally communicated in meetings, provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback provided by the contractor.	12/31/2025	FY 24/25: $116,700 FY 25/26: $58,400
		Objective 1.17 Subtotal:	**$175,100**
		Task 1 Total:	***$1,420,300***
Task 2 – Assist in assessing the economic impact on California business enterprises and individuals.			
Objective 2.1: Provide analysis and feedback on any nonmonetary benefits to insurers that result from the regulation text.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. Also, if requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $12,900
		Objective 2.1 Subtotal:	**$12,900**

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Objective 2.2: Analyze and provide feedback and propose edits to CDI analysis that identifies, evaluates, measures, and models the economic impact of the proposed alternatives to the proposed regulation, including the costs and benefits of the proposed alternatives to the proposed regulation.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $28,000
		Objective 2.2 Subtotal:	**$28,000**
Objective 2.3: Analyze the potential for innovation in insurer business practices due to the regulation.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $9,200
		Objective 2.3 Subtotal:	**$9,200**
Objective 2.4: Identify and estimate monetary direct costs and benefits of the regulatory alternatives on insurance rates.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $30,600

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
		Objective 2.4 Subtotal:	**$30,600**
Objective 2.5: Identify studies and provide data that could be used in the estimation of costs and benefits.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $16,900
		Objective 2.5 Subtotal:	**$16,900**
Objective 2.6: Identify and estimate monetary direct costs and benefits of the regulation on insurers business practices.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $28,000
		Objective 2.6 Subtotal:	**$28,000**
Objective 2.7: Identify and estimate monetary direct costs and benefits of the regulatory alternatives on insurers business practices.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $12,000

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
		Objective 2.7 Subtotal:	**$12,000**
Objective 2.8: Review and provide feedback on the cost and benefit write-ups in the economic analysis.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $23,000
		Objective 2.8 Subtotal:	**$23,000**
Objective 2.9: Review and provide feedback on economic models.	Provide a developed Microsoft Word document that either contains comments and proposes edits or additions to CDI staff's draft analysis, or a Microsoft Word document that contains proposes new/original draft language. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document that advice.	6/30/2025	FY 24/25: $12,000
		Objective 2.9 Subtotal:	**$12,000**
		Task 2 Total:	***$172,600***
Task 3 – Assist the CDI in revising its Prior Approval Rate Application (PARA) and accompanying Prior Approval Rate Filing Instructions.			
Objective 3.1: Revise the existing Rate Template and Exhibits to allow for the inclusion of a net cost of reinsurance provision for each	Provide a revised set of Rate Template and Exhibits, typically in the form of Microsoft Excel workbooks/spreadsheets, including the modification of enabled macros, which have been modified to recognize the	1/1/2025	FY 24/25: $52,800

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
applicable California residential and commercial property coverage.	inclusion of the net cost of reinsurance. The revised set of exhibits should be compatible with each other, to provide for a seamless process for inclusion of the net cost of reinsurance by an insurer, as well as all the information required for a thorough review of the filing and assessment of the provisions and assumptions incorporated in the filing, by CDI staff.		
		Objective 3.1 Subtotal:	**$52,800**
Objective 3.2: Assist in drafting filing instructions for the new Rate Template and Exhibits.	Provide a Microsoft Word document that revises existing rate filing instructions to incorporate the changes required by the implementation of the Reinsurance rulemaking. Also, complete revisions to the rate filing instructions in response to feedback and redline edits from CDI staff. If requested, and to the extent that advice is communicated orally, provide a written summary (Microsoft Word document or email) to document advice or recommendations that are provided orally.	12/31/2025	FY 24/25: $19,800 FY 25/26: $9,900
		Objective 3.2 Subtotal:	**$29,700**
		Task 3 Total:	***$82,500***
Task 4 – Assist the CDI in various tasks related to rate regulation.			
Objective 4.1: Review the Efficiency Standards and CDI parameter values to determine the impact of the inclusion of the net cost of reinsurance on those standards and values (which have been	Provide a Microsoft Word document that identifies reports findings and makes recommendations.	1/1/2025	FY 24/25: $14,500

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
calculated using historic premium, loss, and expense data on a direct basis).			
		Objective 4.1 Subtotal:	**$14,500**
Objective 4.2: Identify the documentation and create exhibits which insurers would have to submit to demonstrate the net cost of reinsurance which can be allocated to their California programs.	Provide Microsoft Word documents and Excel spreadsheets designed to collect the information which insurers will be required to file to support their proposed net costs of reinsurance for each California program.	1/1/2025	FY 24/25: $76,100
		Objective 4.2 Subtotal:	**$76,100**
Objective 4.3: Participate in developing and revising rate regulation processes that are necessary due to the implementation of Sustainable Insurance Strategy rulemakings.	Provide a Microsoft Word document that identifies reports findings and makes recommendations. Also, provide Microsoft Word documents and Excel spreadsheets designed to collect the information which insurers will be required to file to support their rate filings.	1/1/2025	FY 24/25: $76,100
		Objective 4.3 Subtotal:	**$76,100**
		Task 4 Total:	***$166,700***
Task 5 – Assist in building and expanding CDI's internal subject matter expertise in matters developed by contractor's work.			
Objective 5.1: Present the actuarial consulting firm's findings and recommendations to CDI management and executive staff.	Provide a Microsoft Word document which summarizes the firm's recommendations, as well as a PowerPoint presentation for the Rate Regulation Branch ("RRB") management team and the CDI's Executive Staff.	1/1/2025	FY 24/25: $76,400
		Objective 5.1 Subtotal:	**$76,400**

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Objective 5.2: Develop a training curriculum and presentation materials on catastrophe reinsurance for the RRB and Rate Enforcement Branch ("REB") staffs. The training sessions will cover the new regulations, the principles of catastrophe reinsurance, the new Rate Templates and Standard Exhibits, the new Reinsurance Questionnaire, and the allocation of the net cost of reinsurance to an insurer's California residential and commercial property coverages.	Provide a developed PowerPoint presentation that is sufficiently detailed to function as the primary document for both trainer and trainee. The contractor will initially provide training to RRB's management and actuarial staffs and will incorporate their feedback into a final, recorded training session for the entire RRB and REB staffs.	12/31/2025	FY 24/25: $67,900 FY 25/26: $34,000
		Objective 5.2 Subtotal:	**$101,900**
		Task 5 Total:	***$178,300***
Task 6 – Establish guidelines for the review of an insurer's reinsurance program.			
Objective 6.1: Meet regularly with RRB and REB staffs to discuss the proposed changes in the regulations and the Rate Templates and Exhibits.	Participate in virtual and in-person meetings, as requested. To the extent that the CDI requests a summary of advice communicated orally in meetings, provide a developed Microsoft Word document that identifies the technical and actuarial-science based feedback, comments, and/or edits provided by the contractor.	12/31/2025	FY 24/25: $90,200 FY 25/26: $45,100
		Objective 6.1 Subtotal:	**$135,300**

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Objective 6.2: Establish a methodology and the associated templates and exhibits which will be used to allocate an insurer's countrywide reinsurance costs to specific California residential and commercial property coverages underlying a specific rate filing.	Provide Microsoft Word documents and Excel spreadsheets with instructions on what will be entered into associated templates and how the allocation of an insurer's countrywide reinsurance costs to California would be performed, along with the necessary formulae.	1/1/2025	FY 24/25: $167,900
		Objective 6.2 Subtotal:	**$167,900**
Objective 6.3: Develop new Exhibits to collect and reconcile the direct and net premium and loss data for California residential and commercial property coverages.	Provide an Excel workbook.	1/1/2025	FY 24/25: $43,000
		Objective 6.3 Subtotal:	**$43,000**
Objective 6.4: Develop a Reinsurance Questionnaire which an insurer will have to complete to support their net cost of reinsurance provision for each applicable California residential and commercial property coverage.	Provide a Microsoft Word questionnaire document that solicits written responses from insurers that include information explaining the nature the contract and the function of involved parties.	1/1/2025	FY 24/25: $80,800
		Objective 6.4 Subtotal:	**$80,800**
		Task 6 Total:	***$427,000***
Task 7 – Assist the CDI in various tasks related to the formal rulemaking process.			

Objectives	Deliverable	Target Completion Date [1/]	Total Cost [2/]
Objective 7.1: Assist with other tasks that may arise in the course of preparing for and completing the formal rulemaking process.	Participate in meetings and discussions, draft developed memorandum, advise CDI staff on discrete aspects of rate regulation, and analyze and revise CDI work product.	12/31/2025	~~FY 23/24: $10,600~~ **FY 24/25: $10,600** FY 24/25: $253,000 FY 25/26: $126,500
		Objective 7.1 Subtotal:	**$390,100**
		Task 7 Total:	***$390,100***
		Total Project/Contract Cost:	**$2,837,500**

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[1/] Targeted Completion Dates are estimated. Changes to Targeted Completion Dates will not require a formal agreement amendment if agreed to in writing in advance by both parties.

[2/] Budget shifts of ten (10) percent or less from one Task and/or Objective to another will not require a formal agreement amendment if agreed to in writing in advance by both parties. Any budget shift in excess of ten (10) percent will require a formal agreement amendment. The agreement amendment must be fully executed in advance of any cost incurred in excess of ten (10) percent. In case of an agreement amendment the updated Work Plan will be incorporated.

EXHIBIT D

SPECIAL TERMS AND CONDITIONS

1. CANCELLATION PROVISIONS**:** Either party may, in writing with thirty (30) days advance notice, cancel this agreement any time. If canceled, payment shall be made only for performance authorized up to the date of cancellation. In the case of early termination, a final payment will be made to the Contractor upon receipt of an invoice covering all costs incurred, which were previously authorized prior to notice of cancellation or termination.

2. AGENCY LIABILITY**:** The Contractor warrants by execution of this Agreement, that no person or selling agency has been employed or retained to solicit or secure this Agreement upon agreement or understanding for a commission, percentage, brokerage, or contingency fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty, the State shall, in addition to other remedies provided by law, have the right to annul this Agreement without liability, paying only for the value of the work actually performed, or otherwise recover the full amount of such commission, percentage, brokerage, or contingency fee.

3. POTENTIAL SUBCONTRACTORS**:** Nothing contained in this Agreement or otherwise shall create any contractual relation between the State and any subcontractors, and no subcontract shall relieve the Contractor of its responsibilities and obligations hereunder. The Contractor agrees to be as fully responsible to the State for the acts and omissions of its subcontractors and of persons either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by the Contractor. The Contractor's obligation to pay its subcontractors is an independent obligation from the State's obligation to make payments to the Contractor. As a result, the State shall have no obligation to pay or to enforce the payment of any moneys to any subcontractor.

4. CONFIDENTIALITY OF DATA AND WORK PRODUCT**:** No reports, information, inventions, improvements, discoveries, or data obtained, repaired, assembled, or developed by the Contractor pursuant to this Contract shall be released, published, or made available to any person (except to the State) without prior written approval from the State.

   Contractor's work is prepared solely for the use and benefit of the State in accordance with its statutory and regulatory requirements. Contractor recognizes that materials it delivers to the State may be public records subject to disclosure to third parties, however, Contractor does not intend to benefit and assumes no duty or liability to any third parties who receive Contractor's work and may include disclaimer language on its work product so stating. The State agrees not to remove any such disclaimer language from Contractor's work. To the extent that Contractor 's work is not subject to disclosure under applicable public records laws, the State agrees that it shall not disclose Contractor 's work product to third parties without Contractor 's prior written consent; provided, however, that the State may distribute Contractor 's work to: (i) its professional service providers who are subject to a duty of confidentiality and who agree to not use Contractor 's work product for any purpose other than to provide services to the State, or (ii) any applicable regulatory or governmental agency, as required.

   Contractor by acceptance of this Contract is subject to all of the requirements of California Civil Code Sections 1798-1798.1, et seq., regarding the collections, maintenance, and disclosure of personal and confidential information about individuals.

5. SETTLEMENT OF DISPUTES: In the event of a dispute, Contractor shall file a "Notice of Dispute" with CDI, Chief Deputy within ten (10) days of discovery of the problem. Within ten (10) days, the CDI Chief Deputy shall meet with the Contractor and Project Representative for purposes of resolving the dispute.

   In the event any dispute arising out of or relating to this Agreement is not resolved by the CDI Chief Deputy, the parties **will meet and confer to determine whether** ~~that~~ **to participate in** ~~will be resolved~~ ~~inal and binding~~ **nonbinding arbitration in an effort to resolve the dispute or proceed directly to court.** ~~under~~ **If the parties agree to arbitration, the arbitration shall be governed by** the Commercial Arbitration Rules of the American Arbitration Association~~.~~ ~~The arbitration~~ **and** shall take place before a panel of three arbitrators. Within 30 days of the commencement of the arbitration, each party shall designate in writing a single neutral and independent arbitrator. The two arbitrators designated by the parties shall then select a third arbitrator. The arbitrators shall have a background in either insurance, actuarial science or law. The arbitrators shall have the authority to permit limited discovery, including depositions, prior to the arbitration hearing, and such discovery shall be conducted consistent with the Federal Rules of Civil Procedure. The arbitrators shall have no power or authority to award punitive or exemplary damages **or otherwise bind the parties.** ~~The arbitrators may, in their discretion, award the cost of the arbitration, including reasonable attorney fees, to the prevailing party.~~ Any award **agreement reached after such nonbinding arbitration** may be confirmed in any court having jurisdiction. ~~Any arbitration shall be confidential, and except as required by law, neither party may disclose the content or results of any arbitration hereunder without the prior written consent of the other party, except that disclosure is permitted to a party's auditors and legal advisors.~~

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6. CONFLICT OF INTEREST**:** Contractor certifies that its employees and the officers of its governing body shall avoid any actual or potential conflicts of interest, and that no officer or employee who exercises any functions or responsibilities in connection with this Agreement shall have any personal financial interest or benefit which either directly or indirectly arises from this Agreement.

   Contractor shall establish safeguards to prohibit its employees or its officers from using their positions for a purpose which could result in private gain or which gives the appearance of being motivated for private gain for themselves or others, particularly those with whom they have family, business, or other ties.

7. DESIGNATED POSITION**:** If at any time CDI determines the scope of work under the contract falls under a designated position within CDI's Conflict of Interest Code, located at Cal. Code of Reg., title 10 section 2690 et seq., that person is required to complete a Statement of Economic Interest (also known as the Fair Political Practices Commission Form 700) within thirty (30) days of assuming or leaving the position, and annually by April 1 of each year. The position must also complete an ethics training course chosen by CDI within six (6) months of being hired and once during each two-year-period for the duration of the contract.

8. POLITICAL REFORM ACT**:** If CDI designates any or all of Contractor's key personnel as "consultant" under the Political Reform Act, the contractor will ensure that any individuals so designated will timely submit the information required for the designated disclosure category pursuant to CDI's Conflict of Interest Policy.

9. NON-EXCLUSIVE AGREEMENT**:** This is a non-exclusive Agreement for services. CDI offers no guarantee of any specified amount of business to Contractor under this Agreement.

10. EXECUTIVE ORDER N-6-22 – RUSSIA SANCTIONS**:** On March 4, 2022, Governor Gavin Newsom issued Executive Order N-6-22 (the EO) regarding Economic Sanctions against Russia and Russian entities and individuals. "Economic Sanctions" refers to sanctions imposed by the U.S. government in response to Russia's actions in Ukraine, as well as any sanctions imposed under state law. The EO directs state agencies to terminate contracts with, and to refrain from entering any new contracts with, individuals or entities that are determined to be a target of Economic Sanctions. Accordingly, should the State determine Contractor is a target of Economic Sanctions or is conducting prohibited transactions with sanctioned individuals or entities, that shall be grounds for termination of this agreement. The State shall provide Contractor advance written notice of such termination, allowing Contractor at least 30 calendar days to provide a written response. Termination shall be at the sole discretion of the State/CDI.

11. GENERATIVE ARTIFICIAL INTELLIGENCE (GENAI) DISCLOSURE NOTIFICATION CLAUSE: ~~The State of California seeks to realize the potential benefits of GenAI, through the development and deployment of GenAI tools, while balancing the risks of these new technologies.~~

    During the term of the contract, Contractor must notify the State in writing **if their services or any work under this contract** ~~if the solution or service~~ includes, or makes available, any GenAI technology, including GenAI from third parties or subcontractors. ~~The State has developed a GenAI Disclosure & Factsheet to be completed by the Contractor~~. **Contractor shall immediately complete the GenAI Reporting and Factsheet (**STD 1000**) to notify the State of any new or previously unreported GenAI technology.**

    At the direction of the State, Contractor shall discontinue the use of any new or previously undisclosed GenAI technology that materially impacts functionality, risk or contract performance, until use of such GenAI technology has been approved by the State.

    Failure to disclose GenAI **use** to the State and submit the GenAI ~~Disclosure~~ **Reporting** & Factsheet (STD. 1000) **may be considered a breach of the Contract by the State at its sole discretion and the State may consider such failure to disclose GenAI and/or failure to submit the GenAI Reporting and Factsheet (**STD 1000**) as grounds for the immediate termination of the contract**. ~~will result in disqualification of the Contractor and may void any resulting contract~~. The State ~~reserves its right~~ is entitled to seek any and all relief it may be entitled to as a result of such non-disclosure.

    ~~Upon receipt of a Contractor GenAI Disclosure & Factsheet the state reserves the right to incorporate GenAI Special Provisions into the final contract or reject bids/offers that present an unacceptable level of risk to the state.~~
    The State reserves the right to amend the contract, without additional cost, to incorporate GenAI Special Provisions into the contract at its sole discretion and/or terminate any contract that presents an unacceptable level of risk to the State.

12. CONTRACTOR EVALUATION: Within sixty (60) days after the completion of this Agreement, the Project Representative shall complete a written evaluation of Contractor's performance under this Agreement. If Contractor did not satisfactorily perform the work, a copy of the evaluation [Contract/Contractor Evaluation (STD. 4)] will be sent to the California Department of General Services, Office of Legal Services, and to Contractor within 15 working days of the completion of the evaluation via email.

13. PROGRESS PAYMENT**:** This agreement consists of separate and distinct tasks. Progress payments are allowed. Ten (10) percent of each invoiced amount shall be withheld. Funds withheld with regard to a particular task and/or objective may be paid upon final satisfactory completion of the task and/or objective.

14. CONTRACTOR STAFF CHANGES**:** The Contractor shall not reassign or change any key personnel identified in its proposal and this contract without the prior written approval of the CDI. Resumes for the designated key personnel are attached as Exhibit E. Said changes shall not require an amendment to this Agreement

15. INDEPENDENT ADVICE**:** Contractor agrees it will not underwrite any transaction on which Contractor is providing advice under this contract.

16. CONFLICT MITIGATION: In the performance of this contract, the Contractor will avoid all conflicts of interest and all appearances of conflicts of interest. Because it is possible that another group of actuaries at Contractor's firm may provide services that could present a conflict of interest, the Contractor represents to the Department that in the event of such a conflict or the appearance of a conflict, the Contractor will implement and maintain all appropriate and customary information and personnel barriers between the group providing services to the Department and any other group at the Contractor's firm providing services that could create such a conflict of interest or the appearance thereof.

17. LIMITATION OF LIABILITY: Contractor will perform all services in accordance with applicable professional standards. In the event of any claims arising from services provided by Contractor under this Agreement, the aggregate liability of Contractor, its officers, directors, agents and employees to the State shall not exceed $5,000,000. This limit includes any claims made for indemnification pursuant to the General Terms and Conditions and applies regardless of the theory of law under which a claim is brought, including negligence, tort, contract or otherwise. The foregoing limitation of liability shall not apply to: (i) Contractor's gross negligence, willful misconduct, or fraud; (ii) personal injury, death or tangible property damages resulting from the acts or omissions of Contractor personnel; (iii) infringement of the intellectual property rights of a third party; or (iv) liability that may not be limited or excluded as a matter of law. In no event shall Contractor be liable to the State for any special, indirect, incidental, consequential, or punitive damages of any kind, including, without limitation, lost profits.

18. TOOLS: Contractor shall retain all rights, title and interest (including, without limitation, all copyrights, patents, service marks, trademarks, trade secret and other intellectual property rights) in and to all technical or internal designs, data, databases, methods, ideas, concepts, know-how, techniques, generic documents and templates ("Tools") that have been previously developed by Contractor or such Tools developed during the course of the provision of the Services provided such Tools do not contain and/or are not based upon or derived from any State proprietary data. Rights and ownership by Contractor of its Tools shall not extend to or include all or any part of the State's proprietary data. To the extent that Contractor may include in the materials any Tools, Contractor agrees that State shall be deemed to have a fully paid up perpetual license to make copies of the Tools as part of this engagement for its internal business purposes and provided that such Tools cannot be modified or distributed outside the State without the written permission of Contractor or except as otherwise permitted herein.

19. USE OF NAME: The State agrees that it shall not use Contractor's name, trademarks or service marks, or refer to Contractor directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, customer lists, referral lists, websites or business presentations without Contractor's prior written consent for each such use or release, which consent shall be given in Contractor's sole discretion.

EXHIBIT E

RESUMES

NANCY P. WATKINS
Milliman, Inc.
2261 Market Street, Suite 5485
San Francisco, CA 94114 USA
(415) 394-3733

PROFESSIONAL EXPERIENCE

1997 to present	MILLIMAN, INC.: Atlanta, GA and San Francisco, CA Principal and Consulting Actuary — Manages San Francisco property & casualty consulting practice.
1991 to 1997	WATKINS CONSULTING CO.: Atlanta, GA President — Owned and managed independent actuarial consulting firm.
1989 to 1991	PRICE WATERHOUSE, LLP: Atlanta, GA Senior Manager and Consulting Actuary
1986 to 1989	JOHN HANCOCK REINSURANCE: Boston, MA Actuarial Analyst
1983 to 1986	AETNA LIFE & CASUALTY: Hartford, CT Actuarial Student

EDUCATION AND CREDENTIALS

B.S. in Mathematical Sciences, University of North Carolina at Chapel Hill

Fellow, Casualty Actuarial Society

Member, American Academy of Actuaries

AWARDS

American Academy of Actuaries Outstanding Volunteerism Award, November 2018

Casualty Actuarial Society Above and Beyond Achievement Award, October 2006

PROFESSIONAL SERVICE

Member, California CDI of Insurance Catastrophe Model Workgroup

Member, California Office of the State Fire Marshal Risk Modeling Advisory Workgroup

Leader, Milliman Climate Resilience Initiative

Member, United Nations Capital Development Fund Climate Insurance Linked Resilient Infrastructure Finance Working Group

Advisory Board Member, The Wharton Risk Center Policy Incubator Initiative

Chair, American Academy of Actuaries Committee on Property and Liability Financial Reporting

Member, American Academy of Actuaries Casualty Practice Council

Member, American Academy of Actuaries Financial Reporting Council

Co-Chair, American Academy of Actuaries Best Estimates Working Group

Member, Casualty Actuarial Society Committee on Special Interest Seminars

Member, Casualty Actuarial Society Committee on Reinsurance Research

INVITED PRESENTATIONS

2023	Topic	Audience
Nov	Risk management: embracing adaptability and forwardthinking planning	CoreLogic DC Government Forum
Nov	Wildfire solutions: Community risk mitigation and modeling	FHFA Insurance Symposium
Nov	Implications of growth in residual markets	FHFA Insurance Symposium
Oct	Wildfire risk and insurance	Rural Community Representatives of California
Sep	Fire, Community Resilience and Adaptation	State Insurance Trade Associations
Sep	The elephant in the market: what happens when residual insurance plans get too big?	State Insurance Trade Associations
Sep	Stabilizing markets: view from around the country	Environmental Defense Fund Climate Risk and Insurance conference
Sep	Impact of the Disaster Insurance Industry on the Mortgage and Housing Markets	FRMC Enterprise Risk Community Town Hall
Sep	Addressing wildfire insurance issues in California	Marin Conservation League
Sep	Addressing wildfire insurance issues in California	Tuolomne County Fire Safety Advisory Committee
Aug	From Risk To Resilience: Bank Readiness for Climate Risk Regulation	CoreLogic, Newmark and Trepp Webinar series

Jul	Finding a path forward for the property insurance market	APCIA Western Region General Counsel Conference
Jul	Addressing climate impacts on the US insurance market: A cross-sector conversation	Milliman Climate Resilience Forum
Jul	Catastrophe Modeling and Insurance	CDI Virtual Workshop
Jul	US flood insurance market	NAIC Catastrophe Risk (E) Subgroup
Jun	Future State of the Private Flood Market	National Flood Conference
Jun	Looking Forward: Insurance and Catastrophe Modeling	CA Assembly Insurance Committee / Emergency Management Committee
May	Risky Business: How Climate Change is Changing Insurance Markets	CA Senate Insurance Committee
May	Future of Cat Modeling	Texas Insurance Council
May	Rising Tides and Rates: Evolution of CRE Insurance in Stormier Times	CREFC Sustainability Summit
Apr	Using catastrophe models in CA homeowners rate formula	CA Climate Insurance Working Group
Mar	Risky Business: How Climate Change is Changing Insurance Markets	U.S. Senate Committee on the Budget
Mar	Catastrophe models for wildfire mitigation	Stanford Law School Wildfire Science and Policy Lab
Mar	Why insurance must align business strategies with talent strategy	Milliman Labs
Mar	Collaborating to reduce wildfire risk in CA and the West	Reinsurance Association of America Extreme Events Committee
Mar	Collaborating to reduce wildfire risk in CA and the West	Fire Districts Association of California 2023 Annual Conference
Feb	The Elephant in the Market	Florida Insurance Market Summit
Jan	Catastrophe models for wildfire mitigation: A Milliman perspective	CoreLogic IntrConnect

2022	Topic	Audience
Dec	Actuaries and a sustainable world	Caribbean Actuarial Association Conference
Nov	Sparking Solutions: Wildfire Risk and Insurance	Resources For the Future
Nov	PG&E: Corporation and Climate Risk in the Real World	Stanford University Graduate School of Business and Sustainability Accelerator
Nov	Perfect Partners: Fire Chiefs and Insurers	Property Insurance Reports National Conference
Aug	Milliman Bungalow: Development of Proprietary Flood Program	Casualty Actuaries in Reinsurance
Jun	Diversity and Inclusion in Practice	CAS Seminar on Reinsurance
Jun	State of the Private Flood Market - Industry Perspective	National Flood Conference
May	Understanding California Sea Level Rise Studies and Guidance	Smart Coast California
May	Economic Consequences of Sea Level Rise	Smart Coast California
Apr	Intersecting Issues of Climate Change, Insurance, Modeling and Risk Measurement	Sandia BASES
Feb	U.S. Private Flood Market	NAIC Catastrophe Risk (E) Subgroup
Jan	State of the Homeowners Fire and Flood Insurance Market	California Association of REALTORS Public Policy Forum

2021	Topic	Audience
Nov	Calling all actuaries: The Need for Risk Experts to Shape Climate Action	CAS Annual Meeting
Sep	Dialogue with Spencer Glendon on Our Climate Future	Milliman Climate Resilience Forum
Sep	Private Flood Market Development	NAIC Insurance Summit
Aug	A Climate Crisis in Insurance Markets?	Wharton Risk Center
Jun	Current State of the U.S. Private Flood Market	National Flood Conference
Jun	Role of RR 2.0 in Future Loss Reduction	National Flood Conference
Jun	Insurance Implications of Climate Change	CREFC Sustainability Initiative
May	The Risk of Rapid Sea-Level Rise and the Financial Risks to U.S. Coastal Communities	The House Select Committee on the Climate Crisis
Apr	A New Strategy for Addressing the Wildfire Epidemic in California	Stanford Woods Institute for the Environment Webinar

Mar	Climate Risk and Market Value: Data Innovations for Real Estate	ULI Climate Data Webinar
Mar	Climate Change: From Emerging Risk to Real Life Danger	Milliman Climate Resilience Forum
Mar	U.S. Insurance Regulatory Climate Leadership	Milliman Climate Resilience Forum
Mar	Unprecedented, Predictable, and Uninsurable: The Risks Posed by Climate Change	Milliman Climate Resilience Forum

2020	Topic	Audience
Dec	The Case for Change: Regulatory Approval of Catastrophe Models	California CDI of Insurance Virtual Meeting
Dec	Climate Data, Disclosure, and Industry Impacts	ULI Resilience Summit
Oct	Private Flood Insurance: Then, Now, What's to Come?	FAIR Conference
Sep	Regulatory Workshop on Private Flood Insurance	Southeastern Zone Regulators Association
Sep	B2C Insurtech Strategy	NYCA Insurance Symposium
Sep	Insurance Innovations: It's Not Your Grandmother's Flood Insurance	Floodplain Management Association Annual Meeting
Jul	Clearing the Way for Regulatory Approval of Catastrophe Models	NAIC Catastrophe Insurance Working Group Meeting
Jun	The Climate-Savvy Investor: Assessing Resilience in U.S. Markets	ULI Spring Meeting
Jun	The State of the Private Flood Market	National Flood Conference
May	The Role of Insurance in Climate Resilience	Council on Foreign Relations
May	Regulatory Risk: Finding Safe Passage Through Flood's Choppy Waters	RMS Exceedance
Feb	Making Communities Flood Resilient	UNC Clean Tech Summit
Feb	The Economic and National Security Dimensions of Climate Change	UNC Clean Tech Summit
Feb	Climate Change and Real Estate Panel	ULI SF Climate Change in Real Estate

2019	Topic	Audience
Dec	National Flood Insurance Program – The Need for Change	NAIC Winter National Meeting
Nov	Clearing the Way for Regulatory Approval of Catastrophe Models	Property Insurance Report National Conference

Oct	Staging Your State for Private Flood	NAIC SE Regional Insurance Commissioners Meeting
Aug	Staging Your State for Private Flood	NAIC Summer National Meeting
Jul	Is California Catastrophe Regulation Leading to a Homeowners Rate Crisis?	APCIA Western Region General Counsel Conference
Jun	NFIP Reauthorization - How to Bridge the Flood Insurance Gap	PCI National Flood Conference
Apr	Underwriting Private Flood Insurance	RAA Board Meeting
Apr	Insurance: Transferring and Assessing Risk	Hinshaw Sea Level Rise/Climate Change

2018	Topic	Audience
Nov	Global Corporate Responsibility	Climate Resilience Summit
Oct	The Future of Flood Insurance	Risk Mitigation Leadership Forum
Jul	The Rising Private Flood Insurance Market	Torrent Flood Seminar
Jun	Overview of the Private Flood Market	CAS Underwriting Collaboration Seminar
Jun	NFIP Risk Rating and Policy Forms Redesign	PCI National Flood Conference
May	What Federal Flood Insurance Reform Means to You	RMS Exceedance
Mar	The Rising Flood Insurance Market	Florida Insurance Market Summit

DATE	Topic	Audience
Mar ‘17	Competitive Analysis: Know the Data, Know the Market	CAS Ratemaking, Product and Modeling Seminar
Mar ‘17	Private Flood Insurance	CAS Severe Weather Workshop
Feb ‘17	Insuring Flood in the United States	RAA Cat Risk Management Conference
Mar ‘16	Flood Insurance Pricing	CAS Severe Weather Workshop
Mar ‘16	Flood Insurance - Private Market Alternatives	Florida Insurance Market Summit
Sep ‘15	Strategies for Homeowners Profitability and Growth	Casualty Actuaries of the Northwest
Sep ‘14	Assessing and Integrating Risk into Actuarial Practices	California Insurance Commissioner / Risky Business Climate Risk Forum: Bridging Climate Science and Actuarial Practice

Sep ‘14	Property Analytics Using Third Party Data	Guy Carpenter ERM and Capital Modeling Conference
Apr ‘14	Homeowners Profitability and Growth	CSC Executive Innovation Series for Florida Residential Property
Nov ‘13	Best Practices Rating Model	Property Casualty Insurers Association of America “Caught in the Middle” Roundtable
Oct ‘13	Caught in the Middle Panel	Property Casualty Insurers Association of America Annual Meeting
Jun ‘13	Best Practices in Catastrophe Ratemaking	Wharton Risk Management and Decision Processes Center National Cat Solutions Meeting
May ‘13	Homeowners Profitability	CAS Spring Meeting
Mar ‘12	Beach Plan Deficit: Cost to N. C. Policyholders and Taxpayers	North Carolina Legislative Research Subcommittee on Property Insurance Ratemaking
May ‘10	Using Predictive Analytics to Profitably Grow your Business	Duck Creek Insurance Forum
Mar ‘10	Practical Applications of Predictive Modeling in Homeowners Insurance	Casualty Actuarial Society Ratemaking and Product Management Seminar
Mar ‘09	California Private Passenger Auto Ratemaking — A Case Study	Casualty Actuarial Society Ratemaking and Product Management Seminar
Oct ‘08	Beach Plan Deficit: Cost to N.C. Policyholders and Taxpayers	North Carolina General Assembly Joint Select Study Committee
Sep ‘08	Issues and Opportunities	Fiserv Insurance Executive Summit
Jul ‘08	Auto Class Plan Filings	Association of California Insurance Companies General Counsel Seminar
Apr ‘08	Reinsurance — Risk Transfer Overview	Crittenden Medical Insurance Conference
Jan ‘08	Reinsurance: Accounting, Actuarial and Real World Perspectives	International Association of Insurance Receivers Insolvency Workshop
Sep ‘07	Hot Topics in P&C Accounting and Reinsurance	Fiserv Client Conference

Aug '07	Impact of Auto Rating Factor Regulations	Association of California Insurance Companies General Counsel Seminar
Aug '07	Reinsurance Risk Transfer Practices	Crittenden Reinsurance Conference
Nov '06	Finite Risk	Casualty Actuarial Society Risk Transfer Limited Attendance Seminar
Sep '06	Hot Topics in P&C Accounting, Reporting and Reinsurance	Fiserv Client Conference
Sep '06	Reinsurance Client Panel: Finite Reinsurance	Fiserv Client Conference
May '06	Finite Reinsurance and Risk Transfer: Activities of the American Academy of Actuaries	Reinsurance Association of American Current Issues Forum
Oct '05	Accounting Issues Update: Reinsurance Risk Transfer	National Risk Retention Association Annual Conference
Sep '05	Insurance Risk Transfer — An Issues Update	Casualty Loss Reserve Seminar
Sep '04	Issues Regarding Statutory Statements of Actuarial Opinion	Southern California Casualty Actuarial Club Fall Meeting
Sep '03	NAIC/AAA Loss Reserve Symposium for Readers and Writers of Loss Reserve Opinions	Casualty Loss Reserve Seminar
Jun '01	Why Establish a Virtual Company?	Virtual Insurance Operations Conference
Nov '00	Actuaries and the Internet	Casualty Actuarial Society Annual Meeting
Nov '00	Virtual Insurance Companies	Virtual Insurance Operations Forum

PUBLICATIONS

"A Community-Based Solution: How Actuaries and Fire Chiefs Can Tackle WUI Risk Together." Carrier Management, August 2023

"Conversations about Risk Rating 2.0." Wharton Risk Center, May 2022

"Climate risk and real estate: Emerging practices for market assessment." ULI Knowledge Finder, October 2020

"At a crossroads."
Milliman Insight, September 16, 2020

"Trial by Wildfire: Will Efforts to Fix Home Insurance in California Stand the Test of Time?" - Milliman Insight, September 2020

"U.S. Private Flood Insurance: The Journey to Build a New Market." Carrier Management, Insurance Journal, September 2019

"Climate change is making Americans anxious. Insurers can help." Milliman Insight, April 2019
"Four Ways Hurricane Florence Could Ricochet Across the Insurance Industry" Milliman Insight, September 14, 2018
"What Could Private Flood Insurance Look Like in New Jersey and New York?" Milliman Insight, July 24, 2018
"Could Private Flood Insurance be Cheaper than the NFIP?" Milliman Insight, July 10, 2017
"Why Big Data is a Big Deal" - Insurance ERM, July 13, 2013
"Being Virtual Has Its Virtues" - National Underwriter, September 4, 2000

EXPERT WITNESS ASSIGNMENTS

Howard Mills, Superintendent of Insurance of State of New York vs. Everest Reinsurance Company, expert on behalf of defendant, October 2006.
Mercury Casualty Company, expert in support of rate filing #13-716 being considered by the California CDI of Insurance for Mercury's California Homeowners business, June 2013.
Monterey Bay Military Housing, LLC, et al. v. Pinnacle Monterey LLC, et al., expert in support of plaintiffs Monterey Bay Military Housing, LLC, et al., June 2014.
State Farm Fire & Casualty Company, et al. v. Bruce L. Brown, et al., expert in support of defendants State Farm Fire & Casualty Company, et al. February 2017.
Farmers Insurance Exchange & Mid Century Insurance Company v. Roger Harris, Duane Brown, & Brian Lindsey, expert in support of defendants Farmers Insurance Exchange & Mid Century Insurance Company, November 2018.
American Property Casualty Insurance Association, et al., and Petitioner Intervenor National Association of Mutual Insurance Companies, v. Office of the Insurance Commissioner of the State of Washington and Insurance Commissioner Mike Kreidler, expert in support of petitioner intervenor NAMIC, June 2021.
Taqueria El Primo LLC, et al. v. Farmers Group, Inc., et al., expert in support of defendants Farmers Group, Inc., et al., August 2021.
Farmers Insurance Exchange v. Daniel De Sloover, expert in support of plaintiff & crossdefendant Farmers Insurance Exchange, March 2022.
Eileen-Gayle Coleman and Robert Castro, on behalf of themselves and all others similarly situated v. United Services Automobile Association and USAA General Indemnity Company, expert in support of defendants United Services Automobile Association and USAA General Indemnity Company, May 2022.
Jessica Day, individually and on behalf of all others similarly situated v. GEICO Casualty Company, GEICO Indemnity Company, and GEICO General Insurance Company ("GEICO"), expert in support of defendants GEICO, August 2022.
Adamma Ison, et al., v. Commissioner of the California CDI of Insurance, expert in support of petitioner intervenors Farmers Insurance Exchange and Mid-Century Insurance Company, June 2023.
Elinor DeKoven and Sidney Scholl, on behalf of themselves and all others similarly situated, v. Farmers Insurance Exchange and Mid-Century Insurance Company, expert in support of defendants, July 2023.
Boobuli's LLC, a California limited liability company, on behalf of itself and all others similarly situated, v. State Farm General Insurance Company and State Farm Mutual Automobile Insurance Company, expert in support of defendants, July 2023.

Rejoice! Coffee Company, LLC, a California limited liability company, on behalf of itself and all others similarly situated, v. The Hartford Financial Services Group, Inc. and Sentinel Insurance Company, Ltd., expert in support of defendants, October 2023.

EXPERT TESTIMONY AT RATE HEARINGS

Hearing Date	Company	Filing #	Line of Business	State
11/9/2006	St. Johns	FCP 06-11223	HO	Florida
11/16/2006	United P&C	FCP 06-13037	HO	Florida
10/29/2009	Olympus Ins Co	FCP 09-17588	HO	Florida
2/10/2010	First Home	FCP 09-23287	HO	Florida
3/2/2010	ACA Home	FCP 10-00311	HO	Florida
10/21/2010	First Community	FCP 10-14149	DF	Florida
12/7/2010	First Home	FCP 10-17219	HO	Florida
3/10/2011	Olympus	FCP 11-00692	HO	Florida
3/22/2011	First Community	FCP 11-00972	HO	Florida
5/12/2011	Fidelity National	FCP 11-04301	HO	Florida
9/8/2011	Fidelity Fire & Casualty/First Protective	FCP 11-11215	DF	Florida
5/17/2012	Sunshine State	FCP 12-0376 FCP 12-04939	HO DF	Florida
9/20/2012	Citizens Property Insurance Corporation	FCP 12-13991 FCP 12-13992	HO (Coastal) HO	Florida
5/30/2013	Fidelity National	FCP-13-07023	HO	Florida
1/7/2016	State Farm General	CDI 14-8381	HO	California

ARBITRATIONS

Sunshine State Insurance Company (SSIC) and Florida State Board of Administration (SBA), served on an arbitration panel of three actuaries appointed to conduct the resolution of a dispute between the Florida Hurricane Catastrophe Fund and SSIC, November 2010.

Kramer-Wilson Company, Inc. and National General Holding Corp. arbitration. Party arbitrator for Kramer-Wilson Company, Inc., May 2019.

MAX MINDEL
FCAS, MAAA
Max.mindel@milliman.com
+1 415 394 3742

Current Responsibility

Max Mindel is a principal and consulting actuary with the Property and Casualty Practice in Milliman's San Francisco office. He joined the firm in 2008.

Professional Work Experience

Max's areas of expertise include:

- Predictive modeling to help companies improve loss ratios and overall profitability on poor performing segments of business, including developing tools to help guide marketing initiatives
- Property ratemaking in catastrophe-exposed areas, including developing rating plans and territorial definitions, incorporating the use of catastrophe models, and using other advanced analytical metrics to better understand coastal risks
- Personal lines ratemaking for Auto, Homeowners, Personal Umbrella, and Pet Insurance, including profitability reviews, rate-plan analyses, generalized linear modeling, and competitor comparisons
- Ratemaking and rate and rule filings for General Liability, Commercial Property, and Commercial Package lines of business
- General state regulatory compliance
- Specialized experience in the regulatory environment surrounding Florida's insurance industry
- Personal lines and commercial lines reserving for insurers

Prior to joining Milliman, Max was a pricing manager with the Auto Club Group in Dearborn, Michigan, and an associate actuary at CNA Insurance Group in Chicago, Illinois.

Professional Designations

- Fellow, Casualty Actuarial Society
- Member, American Academy of Actuaries

Education

- BS, Mathematics, University of California at Santa Cruz
- Masters of Science, Mathematics, Michigan State Universit

MATT CHAMBERLAIN
FCAS, CSPA, MAAA
matt.chamerlain@milliman.com
+1 415 394 3785

Current Responsibility

Matt Chamberlain is a principal and consulting actuary with the Property and Casualty Practice in Milliman's San Francisco office. He joined the firm in 2011.

Professional Work Experience

Matt's experience is primarily in pricing natural catastrophe exposed property insurance. His work often involves designing creative solutions to novel insurance problems.

He is the Lead Actuary for the Risk Rating 2.0 initiative, which is the first ground-up redesign of the rates for the National Flood Insurance Program, the largest flood insurer in the United States, since the program was created 50 years ago. He has also designed flood insurance rating plans for private companies.

Matt has worked extensively on evaluating catastrophe models and assessing their fitness for purpose. He has spoken on this subject on prominent industry conferences.

He has developed by-peril rating plans for Homeowners, Dwelling Fire, and Mobile Homeowners in regions exposed to substantial catastrophe risks from multiple perils. He has developed new rating variables that enable a more accurate pricing of hurricane risk.

Matt has also worked on projects evaluating the impact of mitigation on wildfire risk and the impact of sea level rise.

Prior to joining Milliman, Matt was senior actuary at Geovera Holdings, Inc. Prior to Geovera, he worked for Unitrin Direct and the Massachusetts Workers' Compensation Rating & Inspection Bureau.

Professional Designations

- Fellow, Casualty Actuarial Society
- Certified Specialist in Predictive Analytics
- Member, American Academy of Actuaries

Education

- BS, Physics, The Ohio State University, Columbus, Ohio
- BA, Classics, The Ohio State University, Columbus, Ohio
- MS, Physics, Auburn University, Auburn, Alabama

Presentations and Publications

Matt has published articles and presented on the pricing of natural catastrophe exposed property insurance for all major perils. The conferences he has spoken at include the National Flood Conference, the Reinsurance Association of America's Catastrophe Management conference, meetings of the Casualty Actuarial Society, and the Actuarial Society of South Africa.

GARRETT BRADFORD
GISP
garret.bradford@milliman.com
+1 415 394 3792

Current Responsibility

Garrett Bradford directs the Geographic Information Systems (GIS) work for the Property and Casualty Practice in Milliman's San Francisco office and manages the Milliman PinPoint product. He joined the firm in 2010.

Professional Work Experience

Garrett manages and produces GIS data for visualization, analysis, underwriting, and rating.

His expertise includes:

- Spatial analysis for catastrophe modeling
- Construction of custom territories and other GIS datasets for rating and underwriting
- Development and implementation of geospatial capabilities
- Use of third-party GIS data
- Cartographic production and graphic design

Garrett is an expert in data visualization and produces maps and charts that enable insurers to understand their data across a range of geographic scales so they can make sound business decisions.

Through the use of GIS and mapping at every step of an analysis, Garrett helps clients identify unique spatial patterns that can drive pricing and underwriting strategies.

Garrett has many years of experience with third-party GIS data from a variety of sources such as the United States Geological Survey, the National Oceanic and Atmospheric Administration, the Florida Geological Survey, and the United States Census. When combined with insurance data, these GIS resources enhance Milliman's predictive modeling capabilities. With GIS datasets that describe the physical drivers of catastrophe risk, our clients are able to incorporate granular rating and underwriting rules. Third-party demographic and exposure data allow insurers to drill down on target marketing areas and identify drivers of non-catastrophe losses.

Garrett helps our clients adopt new geospatial capabilities by both providing access to custom location-based services and training them to develop and manage their own geospatial services. Garrett develops and manages Milliman PinPoint, a cloud-based service where a single property location returns any number of custom geographic attributes. Example outputs from PinPoint include rating territory, census geographies, distance-to-coast, distance-to-river, elevation, and relative elevation. Whether using PinPoint or in-house systems, Garrett's expertise allows our clients the flexibility to use their own, custom GIS datasets in pricing and underwriting.

Professional Designations

Certified GIS Professional (GISP)

Education

- BA, Geography, University of California, Berkeley
- MS, Geographic Information Science, San Francisco State University

Presentations and Publications

Garrett has frequently prepared the data visualization components of actuarial presentations and articles. He has given presentations on the use of GIS, third-party data, and data visualization in addition to developing hands-on GIS training workshops. Garrett has also published articles and given presentations on the use of GIS in studies of surface roughness length and the influence of the built environment on ground-level wind speeds.

AARON C. KOCH
FCAS, MAA
aaron.koch@milliman.com
+1 781 213 6272

Current Responsibility

Aaron Koch is a principal and consulting actuary based in Northern Virginia. He joined Milliman in 2011.

Professional Work Experience

Aaron develops innovative solutions for the rapidly growing catastrophe risk and alternative capital markets. He works with leaders in these fields—including specialist hedge funds and reinsurers—to provide independent analyses for asset valuation, post-event loss reserving, and modeling of new or unusual risks to the ILS market. Aaron is a frequent writer and speaker on alternative financing structures for catastrophe risk.

Aaron's actuarial experience includes consulting for a diverse set of clients throughout the property and casualty insurance industry, including corporations and government entity risk pools. He frequently develops models for low-frequency, high-severity risks, e.g., property catastrophe and commercial liability risks such as product liability and medical malpractice.

Professional Designations

- Fellow, Casualty Actuarial Society
- Member, American Academy of Actuaries

Affiliations

CAS Joint Program Committee for Reinsurance Seminars (Chair 2020-2021; Vice-Chair 2018-2019)

Education

BA, Mathematics and BA, Philosophy, Dartmouth College

Presentations and Publications

Selected Presentations

- "COVID-19: Spotlight on Business Interruption." IFoA GIRO Webinar Series, 2021.
- "ILS Valuation and the Market Experience from Harvey, Irma, and Maria." ILS Convergence, November 2018.
- "Analyzing the Future of ILS: Independent Modeling for non-Cat Issuances." ILS Convergence, November 2017.
- "Locked Collateral: How Much is it Costing You?" ILS Convergence, November 2016.
- "On Beyond Cat Bonds: How Alternative Capital is Reshaping the Reinsurance Industry." CAS Webinar, February 2016.

Selected Publications

- "A tale of two catastrophes: Demand surge and inflation put property insurers in a bind." Milliman Insight, January 2022.
- "Casualty: The next ILS frontier?" Carrier Management and Insurance Journal, July/August 2018.
- "Non-NatCat insurance-linked securities: Identifying market opportunities for diversifying perils." Milliman Insight, November 2017.
- "Surveying the damage: The impact of Harvey, Irma, and Maria on the alternative capital market." Milliman Insight, October 2017.
- "Measuring the impact of 'locked collateral' on collateralized reinsurance returns." Milliman Insight, April 2016.
- "A new model for weathering risk: CDOs for natural catastrophes." CAS E-Forum, May 2015.

HEATHER KANZLEMAR
FCAS
Consulting Actuary
heather.kanzlemar@milliman.com
415 394 3795

Current Responsibility
Heather Kanzlemar is an actuary with the Property and Casualty Practice in Milliman's San Francisco office. She joined the firm in 2022.

Professional Work Experience
Heather's areas of expertise include**:**

Analyzing rate adequacy, including on-leveling premium, evaluating trends, and assessing potential policyholder dislocation

Facilitating the development and introduction of predictive models, tiering, and/or new rating variables within both existing and new insurance programs

Preparing and reviewing personal and commercial lines rate filings to be submitted to regulators in various states

Researching topics and trends impacting claims frequency and severity

Prior to joining Milliman, Heather was an Actuarial Pricing Director with State Auto Insurance Companies. She and her former teams performed ratemaking and product development for Small Commercial Package, Private Passenger Auto, Commercial Auto, and Homeowners lines of business.

Professional Designations
Fellow, Casualty Actuarial Society

Education
BS, Actuarial Science, The Ohio State University

EXHIBIT IRH-CWD-245

DEPARTMENT OF INSURANCE
EXECUTIVE OFFICE
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
Tel. (916) 492-3500 Fax (916) 445-5280

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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of: **STATE FARM GENERAL INSURANCE COMPANY,** Applicant.	File No. PA-2015-00004 **ORDER ADOPTING REVISED PROPOSED DECISION** (Cal. Ins. Code § 1861.08, Cal. Govt. Code § 11517)

This matter came for hearing before John H. Larsen, Administrative Law Judge (hereafter "ALJ") of the Administrative Hearing Bureau. On October 7, 2016, the Commissioner received the attached Revised Proposed Decision.

Now, therefore, pursuant to the provisions of California Insurance Code Section 1861.08(c) and California Government Code Section 11517(c)(2)(A), IT IS SO ORDERED that the attached Revised Proposed Decision is hereby adopted by the Insurance Commissioner as his Decision in the above entitled matter.

It is further ordered that the entirety of this Decision is designated precedential pursuant to Government Code section 11425.60, subdivision (b).

It is so ordered.

DATED: November 7, 2016.

Dave Jones

DAVE JONES
Insurance Commissioner

CWD-642

DEPARTMENT OF INSURANCE
ADMINISTRATIVE HEARING BUREAU
45 Fremont Street, 22nd Floor
San Francisco, CA 94105
Telephone: (415) 538-4251
FAX No.: (415) 904-5854
www.insurance.ca.gov

BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of	)	
	)	
STATE FARM GENERAL INSURANCE COMPANY,	)	FILE NO.: PA-2015-00004
	)	
	)	
Applicant.	)	
	)	

REVISED PROPOSED DECISION

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Introduction

On December 4, 2014, State Farm General Insurance Company (Applicant or SFG) applied for an increase in its homeowner's insurance lines in California of 6.9% to be effective July 15, 2015.[1]

I. California Prior Approval Under Proposition 103

In 1988, Californians authorized the Insurance Commissioner to regulate homeowner's insurance rates by passing Proposition 103. This initiative replaced an open competition system of insurance rates in favor of a prior approval system.[2] The initiative provided that no rate shall be approved or remain in effect which is excessive, inadequate, or unfairly discriminatory.

> In considering whether a rate is excessive, inadequate or unfairly discriminatory, no consideration shall be given to the degree of competition and the commissioner shall consider whether the rate mathematically reflects the insurance company's investment income.[3]

The California Supreme Court upheld Proposition 103 and its regulations in 1994.[4]

When a rate is approved, it is projected to be in effect for a one-year rating period.[5] So theoretically, an insurer may apply for an insurance rate change every year. But in practice, rates remain in effect until the insurer files another rate application – sometimes many years later. Under the Commissioner's prior approval regulations, an insurer may set for itself whatever rate it chooses, provided the rate is neither excessive nor inadequate.[6]

Using a consistent methodology, the Commissioner determines whether rates are excessive or inadequate based on the aggregate earned premium the rates are expected to

---

[1] Rate application number 14-8381.
[2] *20th Century Co. v. Garamendi* (1994) 8 Cal.4th 216, 300.
[3] Ins. Code §1861.05, subd. (a).
[4] *20th Century v. Garamendi*, *supra*, 8 Cal.4th at p. 282.
[5] Cal. Code Regs., tit. 10, § 2642.5.
[6] Cal. Code Regs., tit. 10, § 2641.1 et seq.

produce.[7] Insurance is a promise to provide compensation in the event a specific loss event occurs during a defined period in the future. Consequently, the costs associated with an insurance product are not known at the point of sale and must be estimated.[8] Such costs are uncertain or unpredictable. But such costs become more predictable the more they are aggregated among large groups of individuals.[9]

The rate review process involves estimating various industry-specific factors used to set maximum premiums. These factors go into a regulatory formula that establishes a range of rates from a minimum to a maximum permitted earned premium.[10] The maximum permitted earned premium is determined by the following formula:[11]

$$\frac{\textit{(losses + defense and containment costs) x (1-fixed invest. income factor) – ancil. income}}{\textit{1.0 – efficiency standard – profit factor + variable investment income factor}}$$

Many of these factors are determined on a national, industry-wide basis using consolidated or group data. This is true of factors determining the amount of investment income in the above formula. In addition, the leverage factor, surplus ratio, and reserve ratio are calculated using consolidated data as published in AM Best's Aggregates and Averages.[12] Along with the projected yield, these factors impute an amount of surplus to determine an insurer's investment income. Insurers, the California Department of Insurance (CDI) and other parties in a rate

[7] Cal. Code Regs., tit. 10, § 2643.3, subd. (a).
[8] Werner & Modlin, Basic Ratemaking (Casualty Actuarial Society 2010), p.1.
[9] Cooter & Ulen, Law and Economics (6th ed. 2012), §X.D., p. 47.
[10] The formulas for calculating the maximum and minimum earned premiums are identical, with the exception of the applicable profit factor. The maximum profit factor is applied to determine the maximum premium, while the minimum profit factor is applied to determine the lower end of permitted premiums.
[11] Cal. Code Regs., tit. 10, § 2644.2.
[12] Cal. Code Regs., tit. 10, § 2644.17, subd. (b) and § 2644.21.

hearing use this formula to calculate the maximum permitted earned premium with the assistance of a template and online instructions.[13]

By definition, a rate is excessive if it is higher than the maximum permitted earned premium.[14] If the Commissioner finds a proposed rate is excessive, the rate shall not be used. Instead, the Commissioner shall indicate the highest rate that would not be excessive.[15]

Parties requesting relief from the maximum permitted earned premium may request one or more variances, which results in an alternate rate. The burden of proving, by a preponderance of the evidence, every fact necessary to show that its rate is not excessive, inadequate or unfairly discriminatory rests with the insurer.[16]

II. Rate Review Process

Rate applications are framed, in part, using an effective date upon which the rate is projected to become effective. The filing of a rate application sets in motion a lengthy review by the Department of Insurance.[17] The Application must include all data referred to in Insurance Code section 1861.05, subdivision (b); the requirements of Insurance Code section 1861.01 through 1861.16; and California Code of Regulations sections 2641.1 through section 2644.28; and any other supporting information the Commissioner may require. All information provided

[13] Exhibits (Exh.) 1 and 377. References to the transcript of the hearing are "Tr." followed by the page number(s), and where line references are used, a ":" followed by the line number(s). For example, a reference to Tr. 35:14-18 is to page 35, lines 14-18 of the transcript. Exhibits are referred to by the numbers assigned to them in the Exhibit Lists filed by the parties.

[14] Cal. Code Regs., tit. 10, § 2644.1.

[15] *Ibid.*

[16] Cal. Code Regs., tit. 10, § 2646.5; *In the Matter of the Rate Application of American Healthcare Indemnity Company*, PA-2002-25739, pp. 10-11.

[17] Exh. 377-1: Every insurer wishing to introduce new, or change existing, rules, rates or forms, or to introduce a new program, must complete a Prior Approval Rate Application (Application), and, if applicable, a Prior Approval Rate Template (Rate Template) and a Standard Exhibits Template, in compliance with the California Code of Regulations and file it with the Commissioner.

to the Commissioner for the purpose of regulating insurance rates is available for public inspection.[18]

Applications are deemed approved sixty days after public notice unless (1) a consumer requests a hearing, (2) the Commissioner decides to hold a hearing, or (3) the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines, in which case the Commissioner must hold a hearing upon a timely request.[19]

Summary of Findings

Having considered the evidence and arguments, the Administrative Law Judge concludes Applicant's proposed rate increase of 6.9% is excessive. Instead, the rate formula supports an overall decrease in Applicant's homeowners insurance rates by 7.0% retroactive to July 15, 2015, at the rate of 2.25 percent per annum. By subline, the rate formula supports decreases in Applicant's homeowners insurance in the following percentages: 5.37% for non-tenant homeowners, 20.39% for renters, and 13.81% for condominium unit owners. Applicant failed to prove by a preponderance of the evidence it was entitled to a leverage factor variance or that the rates indicated by the rate formula would be confiscatory.

Procedural History

On December 4, 2014, SFG applied for an increase in its homeowner's insurance lines in California of 6.9% to be effective July 15, 2015.

On January 26, 2015, Consumer Watchdog (CW) and Consumer Federation of California (CFC) filed Petitions for Hearing and Petitions to Intervene, which were granted on February 10, 2015.

[18] Ins. Code § 1861.07 (referring to information provided pursuant to Article 10, Insurance Code §1861.01-1861.16.)
[19] Ins. Code § 1861.05, subd. (c).

On February 11, 2015, Applicant waived the sixty-day deemed approved date.[20] On April 30, 2015, Applicant filed a revised rate application and submitted additional data to complete it. The California Department of Insurance (CDI) issued and served a Notice of Hearing on the revised application on June 22, 2015. On July 13, 2015, State Farm filed a Notice of Defense to the Notice of Hearing.

On July 14, 2015, Administrative Law Judge (ALJ) John H. Larsen noticed a scheduling conference including a proposed hearing schedule based on presenting data through the end of second quarter of 2015. Subsequently, the parties stipulated to cut-off the update of data and to use 2014 as the recorded period for SFG's application. In addition to revising some initial document submission deadlines, the ALJ adopted the parties' stipulation regarding the data cut-off period at a status conference on July 24, 2015.

On July 24, 2015, State Farm submitted a second revised rate application with additional variances and a revised effective date of April 15, 2016. On July 31, 2015, ALJ Larsen held a scheduling conference during which the ALJ adopted the parties' proposed hearing dates along with deadlines for filing discovery motions, direct written testimony, and motions to strike. In addition, the ALJ heard arguments regarding objections to Applicant revising the effective date of its rate application. Based on arguments made in the parties' Joint Scheduling Conference Statement and at the scheduling conference, the ALJ sustained CDI's and Intervenors objections and ordered the hearing to proceed with the July 15, 2015 effective date, as publicly noticed by CDI.

[20] Ins. Code § 1861.05, subd. (c).

On September 8, 2015, Intervenors CW and CFC filed Motions to Compel Discovery alleging SFG failed to produce relevant and necessary documents. Following a hearing, the ALJ granted in part, and denied in part, CW's motions.[21]

On September 21, 2015, SFG lodged the written direct testimony of Dr. David Appel, Jim Larson, Minchong Mao, Karen Terry and Nancy Watkins.[22] CDI, CW and CFC moved to strike portions of the direct testimony. After hearing oral argument on the motions on October 9, 2015, the ALJ issued orders granting in part, and denying in part, the motions to strike. Notably, the ALJ's Order found that SFG's testimony regarding the use of SFG's individual, as opposed to consolidated annual statement, constituted impermissible relitigation, pursuant to California Code of Regulations, title 10, section 2646.4(c).[23]

On September 16, 2015, the parties filed a Joint Statement of Undisputed Facts. The parties updated the Joint Statement on October 8, 2015 and November 13, 2015.

On or about October 19, 2015, CDI filed written direct testimony of Dr. Rachel Hemphill and Isabel Spiker; CW filed written direct testimony of Allan Schwartz; and CFC filed written direct testimony of Mark Priven.

On October 23, 2015, Applicant moved to strike certain pre-filed testimony and exhibits of the three other parties. Following responses and oral argument, the ALJ issued Final Rulings on Applicant's Motion to Strike Pre-filed Direct Testimony and Exhibits on November 10, 2015.

In accordance with the parties' Protective Order, CDI, CW and CFC filed objections to SFG's confidentiality designations. On October 27, 2015, Applicant moved to seal Confidential Hearing Exhibits. Following the parties responses and oral argument on November 6, 2015, the

[21] Final Rulings and Order on Motion to Compel Discovery by Consumer Watchdog, issued September 17, 2015. CFC withdrew its motion to compel.
[22] Ms. Mao's testimony was later withdrawn after the parties stipulated to a modeled Fire Following Earthquake (FFEQ) provision.
[23] Final Rulings and Order on Motions to Strike Applicant's Direct Testimony, issued October 14, 2015.

ALJ issued a ruling deferring resolution of the confidentiality issue until the end of the evidentiary hearing.

The evidentiary hearing commenced on November 16, 2015 and cross-examination of pre-filed direct testimony continued until November 23, 2015.

All parties filed rebuttal testimony on December 2, 2015. The ALJ heard motions to strike portions of the rebuttal testimony on January 5, 2016. The evidentiary hearing reconvened on January 6, 2016 and the parties conducted cross-examination on the rebuttal testimony until January 13, 2016. Prior to the cross-examination of rebuttal testimony, each witness was given an hour for surrebuttal.

On February 4, 2016, SFG filed a renewed Motion to Seal exhibits and testimony. On February 12, 2016, CDI, CW and CFC filed responses in opposition. On February 17, 2016, SFG filed a Further Memorandum Concerning Waiver or Judicial Estoppel Concerning Application of Insurance Code section 1861.07. On February 18, 2016, SFG filed a Motion for Leave to Submit Surrebuttal Testimony. After a hearing on these motions on February 19, 2016, the ALJ issued final rulings on the admission of the remaining exhibits. The ALJ denied the motions to submit surrebuttal testimony and to confidentially seal exhibits and testimony. However, the ALJ stayed the ruling unsealing documents until the effective date of the Commissioner's decision in this matter during which time exhibits and testimony designated conditionally confidential remain filed under seal.[24]

During the evidentiary hearing, the ALJ ordered the parties to jointly submit rate calculations. On February 19, 2016, the parties filed 23 different rate template calculations.

[24] Final Rulings on Motion to Seal, Admission of Exhibits, Closing Evidentiary Hearing and Briefing, issued March 3, 2016.

The parties filed post-hearing opening briefs on April 11, 2016 and reply briefs on May 18, 2016. Requests for official notice were filed throughout the hearing. The ALJ ruled on these requests on May 27, 2016 along with motions to strike portions of post-hearing briefs. On June 6, 2016, the parties filed redacted post-hearing briefs in accordance with the May 27, 2016 ruling on official notice.

On June 1, 2016, SFG, CDI, and CW resubmitted rate calculations clarifying disputed values in them. Subsequently, the ALJ ordered the parties to file additional rate calculations using specific values for the catastrophe adjustment factor. After CDI and SFG submitted letters clarifying their approaches to weighting catastrophe load ratios, the ALJ specified one approach to weighting and ordered the filing of additional rate template calculations in Excel format with catastrophe adjustment factor worksheets. On June 6, 2016, the parties jointly submitted their final rate calculations. On June 9, 2016, the ALJ closed the record. And on July 6, 2016, the ALJ submitted a Proposed Decision to the Commissioner.

On August 8, 2016 the Commissioner declined to adopt the ALJ's Proposed Decision and referred the matter to ALJ Larsen to obtain additional evidence and argument regarding whether Applicant should be required to pay interest on amounts to be refunded, in the event Applicant is required to do so, and which interest rate, if any, would be appropriate.

As a result, ALJ Larsen opened the record and ordered the parties to meet and confer to define issues in dispute, submit evidence and legal argument in response to the Commissioner's referral order, and appear for a hearing. In response, the parties filed opening briefs on August 29, 2016 and appeared on September 2, 2016. On September 2, 2016, the ALJ admitted exhibits relevant to an appropriate interst on refunds. On September 12, 2016, the ALJ ordered the parties to appear at a pre-briefing conference. And on September 20, 2016, the parties filed reply briefs

including argument regarding dates for accruing interest as requested by the ALJ. In conclusion, the ALJ reclosed the record on September 26, 2016.

Disputed Issues

The parties disputed two factors used to determine the maximum permitted earned premium produced by the regulatory formula and two variances from the maximum permitted earned premium. The parties also disputed whether refunds may be ordered retroactively to the effective date.[25] More specifically, the parties disputed the following questions:

1. What is Applicant's Catastrophe Adjustment Factor pursuant to California Code of Regulations, title 10, section 2644.5?
2. What is Applicant's projected yield pursuant to California Code of Regulations, title 10, section 2644.20, subdivision (a)?
3. Does Applicant qualify for a leverage variance pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(3)?
4. Does Applicant qualify for a confiscation variance pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(9)?
5. If the current rates are excessive, should refunds be ordered retroactively with simple interest to the effective date of July 15, 2015 and at what interest rate?[26]

[25] The parties stipulated to granting variances pursuant to Cal. Code Regs., tit. 10, § 2644.27, subd. (f)(7) and 2644.27, subd. (f)(8) for the non-tenant homeowners subline due to policies renewing to higher deductibles; Exh. 1-80; Tr. 450:1-17; Hearing on Motion to Compel dated September 29, 2015 Tr. pp 7:1-10:1. The parties also stipulated to granting a variance under California Code of Regs., tit. 10, § 2644.27, subd. (f)(2)(a) to adjust the efficiency standard by +0.5% overall. Second Supplemental Joint Statement of Undisputed Issues, dated November 13, 2015.

[26] Along with the parties' Joint Statement of Undisputed Issues, the parties filed exhibits providing the undisputed ratemaking data needed to calculate the maximum permitted earned premiums for each subline of homeowner's insurance using the ratemaking template.

Summary of Parties' Contentions

Applicant seeks an increase in its California homeowners insurance rates due, in part, to the potential for increased wildfire insurance losses in California. To quantify an increase based on this potential, Applicant proposes adjusting its historical catastrophe losses upwards to reflect what Applicant sees as a positive trend in its wildfire losses.

To ensure Applicant has sufficient surplus funds to pay homeowners insurance claims stemming from wildfires and fires following earthquakes, Applicant maintains a portfolio of liquid assets. Applicant objects to using the consolidated assets of the State Farm Group to calculate State Farm General's projected yield.

A ratio of insurers' premium to its surplus, called the leverage factor, is imputed to insurers as part of determining their maximum permitted earned premium. The leverage factor is determined using national, industry-wide data from consolidated statements. Applicant argues it is entitled to a variance from this factor due to a greater perceived risk from its concentration of homeowners insurance business in California. Applicant bases this and many other arguments on its view that SFG operates separately from the State Farm Group. Applicant also seeks to delay the effective date of its new rates to avoid refunding rates retroactively.

With regard to Applicant's catastrophe losses in California, no other parties agree that Applicant's catastrophe loss data reveals an upwards trend through 2014, the period through which the parties agreed to analyze Applicant's data. With regard to Applicant's projected yield, CDI, CW and CFC also agree the Regulations clearly require Applicant's projected yield to be calculated using Applicant's consolidated annual statement.

CDI contends Applicant does not qualify for the leverage factor variance based on Applicant's concentration of business in California. CDI, CW and CFC further contend the

investment risk of Applicant's California business is not riskier than the homeowners line as a whole countrywide. Lastly, CDI and CFC concur with CW's position that the Commissioner must apply an indicated rate decrease retroactively to July 15, 2015 and refund rates.

Background

The ALJ finds by a preponderance of evidence the following background facts:

I. The State Farm Group

The State Farm Group (State Farm) refers collectively to State Farm Mutual Automobile Insurance Company (State Farm Mutual) and its subsidiaries and affiliated property and casualty insurance companies.[27] As its full name indicates, State Farm Mutual started as an automobile insurer and continues to write auto insurance throughout the U.S., including California. In addition to writing automobile insurance, State Farm Mutual is the holding or parent company that owns and directly controls its subsidiaries as the lead or managing entity of the group.[28] Collectively, the State Farm Group operate in all states.[29] The group form of organization is typical of most large insurers in California and the U.S.[30] The term mutual refers to the fact that State Farm Mutual is owned by its policyholders.[31]

[27] Exh. 43-2.
[28] Exh. 10-124, Group Code 00176, Column 11.
[29] Exh. 43-7.
[30] Schwartz Pre-Filed Rebuttal Testimony (PRT), 28.
[31] Tr. 2408.

Property and Casualty Affiliates Within the State Farm Group

Operating in California During the Period From 1990 through 2014

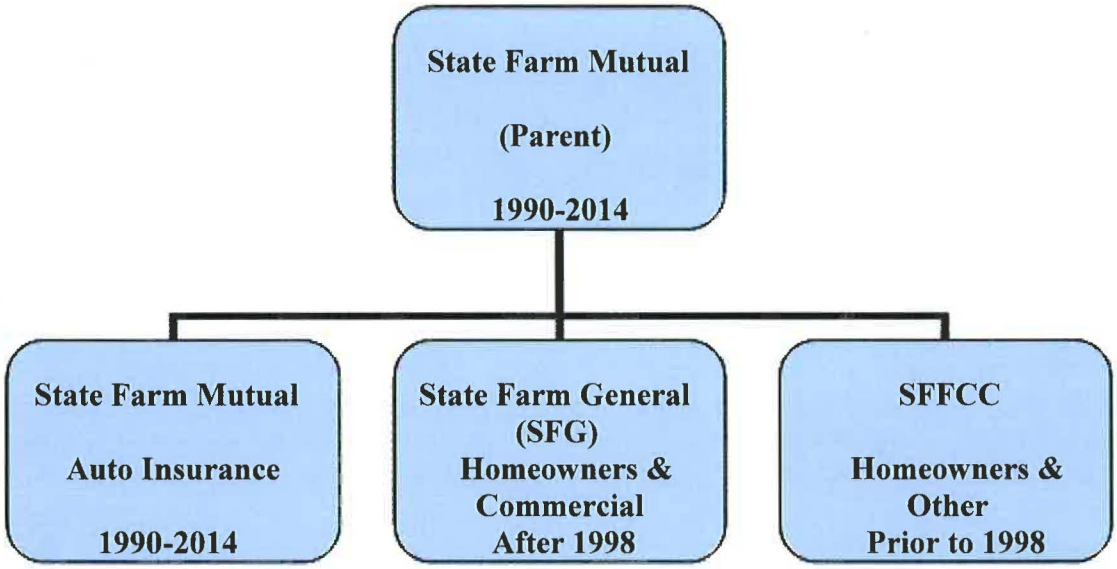

Figure 1

The State Farm Group is the largest homeowners insurance company in the U.S. based on premium.[32] The State Farm Group includes eight affiliated property and casualty carriers including SFG and State Farm Fire and Casualty Company (SFFCC).[33] The State Farm Group's significant size, geographic diversification, market share, and exclusive independent agency force give it distinct advantages over competitors. State Farm companies benefit from tremendous brand-name recognition, cost-efficient exclusive agents, strong customer loyalty and diversified financial service capabilities.[34] The total countrywide direct earned premium shown on this rate application for 2014 equals $57 billion.[35] Of that figure, $5.2 billion, or 9.2%, was earned from Applicant's California homeowner's insurance.

[32] Schwartz PRT, 28:6-11.
[33] Exh. 43-5 – 43-6.
[34] Exh. 43-8.
[35] Exh. 1-21.

State Farm Mutual is headquartered in Bloomington, Illinois where departments, boards and committees combine resources to underwrite, monitor, and evaluate risks divided among State Farm Mutual's affiliates. State Farm Mutual employees provide affiliates with actuarial, underwriting, claims handling, legal, enterprise risk management, and investment services.[36] These and other services are provided through a shared services agreement.[37] The public is familiar with State Farm's brand, logo and marketing, whereby independently licensed agents cross-sell personal insurance lines, including auto, homeowners and life insurance throughout the country.[38] State Farm Mutual affiliates facilitate cross-selling insurance lines by offering discounts to State Farm policyholders who also buy another State Farm policy, for example, a homeowners policy and an auto policy.[39]

A trend in the U.S. system of state-based insurance regulation has been to regulate insurers operating in a group on a group basis. Changes in insurance regulation are coordinated through the National Association of Insurance Commissioners (NAIC) that develops model laws and regulations for adoption by states. Laws that regulate transactions and risks shared within groups are conceptualized as "windows" and "walls." Regulatory walls are designed to protect the capital of the insurer from other exposures within its group with windows through which group activity can be scrutinized to assess their potential impact on the ability of insurers to pay claims.[40]

Following the global financial crisis in 2008, U.S. insurance regulators enhanced the regulatory system by strengthening group capital assessment, broadening the Holding Company System Annual Registration statements to include financial statements of all affiliates, and

[36] Larson Pre-filed Direct Testimony (PDT), 7:24-8:2; Tr. 912.
[37] Hemphill PDT, 33-34.
[38] Exh. 43-5.
[39] Hemphill PDT, 33.
[40] Exh. 421.

requiring risk to be reported on an enterprise or group basis.[41] The NAIC establishes model frameworks for assessing insurer risk.[42] Following the NAIC framework, California requires insurers to perform risk management at all levels of a group as a supplement to a legal-entity view, when an insurer is part of a group.[43]

The NAIC calculates and publishes a variety of ratios used to assess insurance investment risk. For example, for the property and casualty lines, the NAIC publishes ratios of net premium to surplus to measure the adequacy of policy holder surplus.[44]

State Farm Mutual's enterprise risk management is sophisticated and more advanced than other U.S. personal line insurers. State Farm Mutual's employees manage State Farm's most significant risks using computer models to test the ability to pay claims under the stress of catastrophic conditions. With this information, State Farm Mutual develops strategies to mitigate risks.[45] For example, by adjusting capital and reinsurance,[46] State Farm manages to avoid depleting surplus even during record catastrophe loss years, such as 2011.[47]

The U.S. insurance industry's rating organization, AM Best, describes State Farm as "well diversified and gives it a superior rating of A++ for financial strength.[48] This rating encompasses the financial data included in Applicant's consolidated annual statement and reflects State Farm's strong risk adjusted capitalization, liquidity, favorable earnings, and its dominant business profile. As a result of diversification and other risk management strategies,

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[41] Exh. 421; Tr. 1089-1090.
[42] The NAIC Own Risk Solvency Assessment (ORSA) Guidance Manual dated July, 2014, p. 1-2. On May 27, 2016, the ALJ took official notice of this manual, which is available on the NAIC website.
[43] Insurance Code section 935.1 et seq. including section 935.4 requires the insurance group of which the insurer is a member to regularly conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual. ORSA Guidance Manual dated July, 2014, p. 6. Tr. 2476:7-9.
[44] Exh. 907.
[45] Exh. 43-8, 44-2, and 44-7.
[46] Exh. 44-12.
[47] Exh. 43-15.
[48] Exh. 43-3, 9.

AM Best reports that State Farm is able to accept volatility in its markets in exchange for higher profits from its above average holdings in equities.[49] The State Farm affiliates holding a significant part of their asset portfolio in stocks includes SFFCC and State Farm Mutual, who holds 40% of its assets in stocks.[50]

State Farm is a family of insurance and financial services companies that together serve tens of millions of customers in the U.S. According to NAIC instructions, State Farm is required to file a consolidated or combined annual statement with state regulators because it has the ability to exercise control over its affiliates based on the one or more of the following criteria:

1. Similar types of affiliated insurance companies in a holding company system that have direct or indirect ownership between them; or
2. Those affiliated companies that have intercompany reinsurance between them; or
3. Those affiliated companies that have intercompany pooling arrangements between them.[51]

State Farm Mutual has control over SFG by virtue of its 100% direct ownership and intercompany reinsurance.[52] State Farm Mutual's ownership of SFG is reflected in the inclusion of SFG's assets in State Farm Mutual's combined annual statement.[53]

Prior to 1998, State Farm homeowner's insurance in California was sold through SFFCC.[54] In 1998, State Farm Mutual reconfigured SFG to write only property and casualty insurance by transferring all SFFCC's California homeowner's business to SFG and ceding business written or assumed by SFG in other states to SFFCC.[55] This served to reduce the

[49] Exh. 43-9.
[50] Exh. 701; Larsen PDT, 8:3-10.
[51] Exh. 13-1.
[52] Larson PDT, 9.
[53] Exh. 14-1.
[54] Tr. 1760:16-25.
[55] Exh. 44-4. Tr. 1760:16-25.

exposure of other State Farm affiliates to catastrophe losses in California. State Farm Mutual similarly reconfigured its subsidiaries in Florida and Texas.[56]

From 1990 through 2014, State Farm Mutual and SFFCC wrote separate lines of property and casualty insurance in California.[57] SFFCC wrote homeowners insurance in California before 1998 and other property and casualty insurance after 1998. In addition to leading the State Farm Group, State Farm Mutual wrote automobile insurance in California and the U.S. throughout this period.[58]

II. State Farm General Insurance Company (SFG)

SFG has been incorporated since 1962 and is wholly owned by State Farm Mutual.[59] The value of State Farm Mutual's ownership of SFG is equivalent to SFG's surplus. Accordingly, changes in SFG's surplus change in an equal amount on the consolidated annual statement of State Farm Mutual.[60]

SFG is headquartered in Bloomington, Illinois where it is managed by State Farm Mutual's employees.[61] SFG's board of directors and board committees consist entirely of employees of State Farm Mutual, some of whom are also members of State Farm Mutual's board of directors.[62] Under a shared services agreement, State Farm Mutual employees provide legal, risk management, and any other services SFG needs to serve SFG's policyholders.[63] As a result, SFG has no employees of its own.[64]

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[56] Larson PDT, 3:15:24.
[57] Exhs. 43-5, 43-6, 44-4.
[58] Exh. 186-187.
[59] Exh. 44-4.
[60] Exh. 10-4, line 2901; Tr.1093-1094, 2225-2241, 2420-2422.
[61] Exh. 44-4 and 44-20.
[62] Tr. 2278; Spiker PDT, 9:19-28.
[63] The description of enterprise risk management and other services State Farm Mutual provides SFG is almost identical in AM Best's credit reports on SFG and State Farm Mutual. Exh. 43-9 and 44-7.
[64] Tr. 327-328, 923:1-7, 924.

For example, Karen Terry, is an actuary who holds the titles of Assistant Vice-President and Assistant Secretary-Treasurer as an officer for State Farm Mutual, SFG, and SFFCC. She also supervised the preparation of SFG's rate application.[65] Jim Larson is an Assistant Vice President for accounting for State Farm Mutual and an Assistant Secretary-Treasurer of SFG.[66]

After reconfiguring SFG's business in 1998, State Farm Mutual transferred $2.5 million in capital to SFG plus additional amounts that totaled $1.9 billion by the end of 2014. Capitalizing SFG to write only homeowners and commercial property lines in California served to segregate the State Farm's Group's exposure to California's property insurance losses.[67] In 2014, SFG's $5.2 billion in direct earned premium represented 99.3% of its direct earned premium in California and 9.2% of the total direct earned premium earned countrywide by the State Farm Group.[68]

SFG is currently the largest writer of homeowners insurance in California with 20% of the market.[69] SFG's personal homeowners line includes sublines for non-tenant homeowners, renters and condominiums. SFG does not write personal earthquake insurance. SFG's homeowners insurance comprises 70% of SFG's mix of business. The remaining 30% is commercial insurance, which includes coverage for earthquakes.[70]

SFG's exposure to California's catastrophic earthquakes and fires has not resulted in underwriting losses in the five years reported in AM Best's 2014 credit report. During this time, underwriting performance has been better than the industry average. AM Best attributes this to the superior business profile of the State Farm Group. Its business profile provides a below average expense structure, cost efficient marketing, and claims handling through an exclusive

[65] Terry PDT, 1; Tr. 447.
[66] Larson PRT , 1.
[67] Tr. 1032.
[68] Exh. 1-21.
[69] Terry PDT, 32:1-4.
[70] Tr. 489-497.

agency sales force. In addition, AM Best credits State Farm's management of affiliates, such as SFG, for improving underwriting performance by reducing exposure in higher catastrophe risk areas.[71]

State Farm Mutual provides several other benefits to SFG to mitigate the impact of potential losses or to enhance SFG's ability to pay them. State Farm Mutual provides SFG with the majority of its catastrophe reinsurance protection with the remainder being provided by third-party reinsurers.[72] State Farm Mutual provides SFG with a liquidity pool and a half a billion dollar line of credit to avoid the cost of selling investments at a bad time, if the need arises.[73] The liquidity of SFG's investments is sound because SFG's surplus is invested 100% in bonds.[74] As a result of SFG's diversified portfolio of fixed term investments, SFG was able to avoid losses from the 2008 recession.[75] All of these factors comfortably support AM Best's superior rating of A+.[76]

Discussion

Turning back to the contentions of the parties, the ALJ now provides an analysis of the pertinent law and facts leading to conclusions necessary for calculating Applicant's maximum permitted earned premium.

I. Maximum Permitted Rate Without A Variance

To calculate the maximum permitted earned premium without any variances, the Commissioner must determine two factors in dispute: the Catastrophe Adjustment Factor and Applicant's projected yield.

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[71] Exh. 43-11.
[72] Exh. 44-9; Tr. 898-905.
[73] Tr. 905-907, 928-931, 2291-2292; Exh. 8-2; Larson PRT, 4.
[74] Larson PDT, 7:24-8:2.
[75] Tr. 916:7-917:7.
[76] Exh. 44-12 and 423.

A. Catastrophe Adjustment Factor

Central to the determination of the maximum permitted earned premium is an estimation of Applicant's projected losses. Projected losses are determined using the insurer's historical losses per exposure adjusted by several factors, including a catastrophe adjustment.

In terms of property/casualty ratemaking methodology, catastrophes are relatively infrequent events or natural phenomena that cause large aggregate losses.[77] If an insurer includes catastrophic losses in the ratemaking analysis, the indicated rates may increase immediately after a year with large losses and may decrease after a year following no catastrophic losses. Due to this extreme volatility, catastrophe losses generally require separate and different treatment from other losses in ratemaking.

California regulators and actuaries remove catastrophe losses from ratemaking data to avoid distorting the ratemaking analysis. To evaluate catastrophe losses over time, the removed catastrophe losses are divided by a common exposure unit. Ultimately, the removed catastrophe loss data is replaced with a factor representing average expected catastrophe losses - the Catastrophe Adjustment Factor.[78]

The parties disagree over six aspects of calculating the Catastrophe Adjustment Factor:[79] 1) the ratio used to express catastrophe experience per year known as the CAT load ratio; 2) the number of years used to calculate the Catastrophe Adjustment Factor;[80] 3) whether and to what degree a catastrophe trend should be applied;[81] 4) treatment of the 1991 Oakland Hills Fire;[82] 5)

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[77] Actuarial Standard of Practice 39: Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking, para. 2.2.
[78] In this application, the parties stipulated to 2014 as the recorded period required by Cal. Code Regs., tit. 10, § 2242.6.
[79] Hemphill PDT, 4.
[80] Appendix A-13, column 1.
[81] See Appendix A-13, column 3.
[82] The catastrophe load ratio, the number of years of data, and the treatment of the Oakland Hills Fire are all reflected in the column 2 of the catastrophe adjustment factor worksheets in Appendix A-13.

how the catastrophe ratios should be weighted, if at all;[83] and 6) the method of determining all three forms or sublines.[84] Since components of the Catastrophe Adjustment Factor are determined by the same regulation, the ALJ makes findings regarding a common set of facts before analyzing each disputed component separately.

1. Applicable Law

Non-catastrophe projected losses are adjusted by a loss trend factor separately from the catastrophe losses.[85] Projected losses are the insurer's historic losses per exposure, adjusted by catastrophe adjustment, by loss development, and by loss trend.[86]

The catastrophe adjustment is determined by Regulation section 2644.5, which states in full:

> In those insurance lines and coverages where catastrophes occur, 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. The number of years over which the average shall be calculated shall be at least 20 years for homeowners multiple peril fire, and at least 10 years for private passenger auto physical damage. Where the insurer does not have enough years of data, the insurer's data shall be supplemented by appropriate data. The catastrophe adjustment shall reflect any changes between the insurer's historical and prospective exposure to catastrophe due to a change in the mix of business.

2. Findings of Fact Regarding Catastrophe Adjustment Factor

The ALJ finds by a preponderance of evidence the following facts regarding Applicant's catastrophe data relevant to calculating the Catastrophe Adjustment Factor.

Prior to 1992, Applicant defined a catastrophe as an event causing more than 300 claims and causing more than $300,000 in losses. Sometime after 1992, Applicant altered its definition

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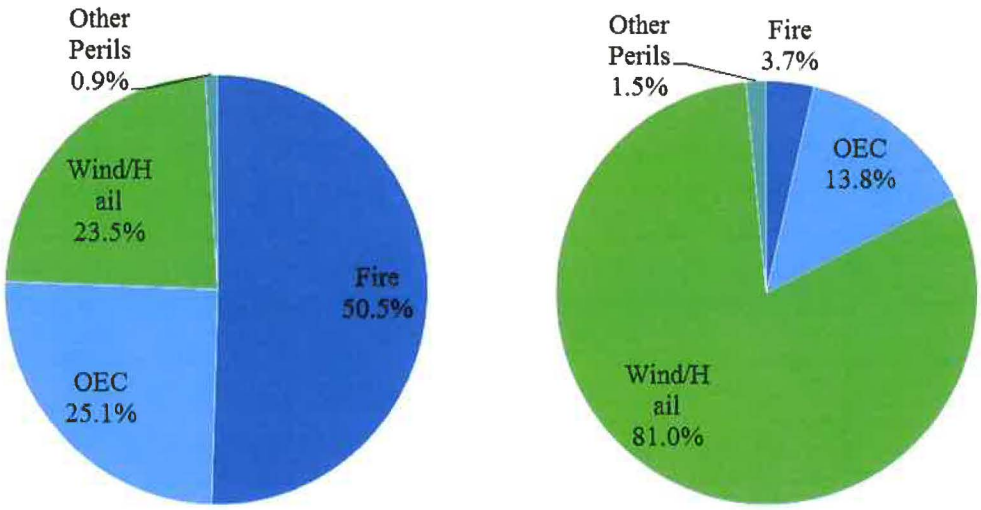
[83] See Appendix A-13, column 5.
[84] Hemphill PDT, 4.
[85] Cal. Code Regs., tit. 10, § 2644.4, subd. (b).
[86] Cal. Code Regs., tit. 10, § 2644.4, subd. (a), § 2644.5, § 2644.6, and § 2644.7.

to an event causing more than 500 claims and totaling more than $500,000 in losses across all lines of insurance in California.[87] Applicant does not know when it changed its catastrophe threshold because it does not have "raw" data from 1980-1989.[88] Nor does Applicant have catastrophe data prior to 1980. Applicant used this fixed-dollar threshold to remove and separately analyze its catastrophe loss data.

As shown in Figure 2 below, Applicant's average historical homeowners catastrophe losses in California fall into three categories: fire - 50.5%, wind and rainstorms - 23.5%, and other extended coverage (OEC), which is typically triggered by water and freeze damage – 25.1%.[89] Although wildfires account for roughly 50% of the Applicant's homeowner's insurance losses they account for less than 15% of the catastrophe occurrences.[90]

State Farm's Catastrophe Losses by Peril



California **Nationwide**

Figure 2

[87] Tr. 1786.
[88] Exhibit 413-4, 5; Tr. 2060-2062, 2069-2074, 2154-2155.
[89] Exh. 317; Tr. 107.
[90] Terry PDT, 9:18-20.

From 1990 to 2014, Applicant's annual catastrophe losses have generally remained at or below $100 million per year. Notable exceptions are three spikes in losses that exceeded $200 million in one year.[91] The losses in those years resulted from the Oakland Hills Fire in 1991, fires in San Diego and San Bernadino counties in 2003, and a fire in San Diego County in 2007.

Catastrophes in other states differ in their type of peril, frequency, and severity from those in California. Countrywide, excluding hurricanes, the largest catastrophic homeowners losses are due to wind and hail damage. Such losses account for 80.9% of State Farm's countrywide homeowners losses with fire losses accounting for only 3.7 %.[92]

Wildfire insurance losses in California are attributed to a variety of factors, including construction materials, vegetation surrounding homes, and the availability and effectiveness of fire suppression or fire-fighting. While Fires in California are often caused by lightning, humans are responsible for the fires that burn the majority of areas in California.[93]

While wildfires caused relatively low losses to structures insured by Applicant from 2011-2014, thousands of acres of uninhabited, public land burned during the same time period.[94] For example, the 2013 Rim Fire burned 257,314 acres in Tuolumne County without causing significant damage to structures.[95] Research into the risks and causes of fires in California is ongoing and complex due, in part, to shifts in housing growth patterns to the wildland urban interface (WUI) and back to urban areas. Because published research on wildfire risk is not based on recent data, conclusions regarding the shifting nature of wildfire exposure are difficult to form.[96]

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[91] Exh. 106.
[92] Exh. 105; Tr. 369-373,
[93] Exh. 108.3-2.
[94] Exh 108.1-7 through 108.1-10.
[95] Tr. 1988, 2002-2004; On May 27, 2016, the ALJ took official notice of the California Department of Forestry Large Fire Lists for 2007, 2011, 2012, 2013, and 2014, which are available on the Department of Forestry's website.
[96] Exh. 108.1-2; Tr. 1807-1818.

Prior to 1990, Applicant did not keep specific data on its wildfire exposure. In 1990, Applicant began developing data on its wildfire exposure on a zip code level and later in relation to a home's latitude and longitude.[97] Applicant bases its wildfire risk levels on definitions provided by the California Department of Forestry and Fire Protection (Cal Fire) in 2005.[98] In general, the risk of wildfires is moderate in urban areas and desert regions and high in the Sierra Nevada and Southern California foothills.[99]

By at least 1998, Applicant began to reduce its California wildfire risk by conducting surveys and inspecting homes. As a result, policyholders could be non-renewed for non-compliance with wildfire underwriting eligibility requirements. Once zip codes with a significant wildfire risk were identified, Applicant began restricting all new homeowners business in these areas with some accommodations to existing homeowners. In 2014, Applicant restricted its homeowners business further in 245 zip code areas.[100] As a result of these restrictions, the distribution of Applicant's homeowners insurance policies exposed to high wildfire risk decreased.[101]

Applicant's 1980 to 1989 data is deficient in important respects. State Farm does not know what its catastrophe threshold was during that time. Prior to 1990, Applicant aggregated data by combining all sublines together. And in 1990, State Farm changed its method of recording data from an accident-year basis to a calendar year basis.[102]

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[97] Tr. 1692-1697.
[98] Tr. 1697-1698.
[99] Exh. 109-5.
[100] Exh. 320, 424; Tr. 74, 203.
[101] Exh. 109-3, 109-4, 512, Tr. 1699-1707, 1742.
[102] Accident-year catastrophe data represents all the loss transactions made for catastrophes that occurred during a given 12-month period, irrespective of the year in which the loss transaction occurred, the claim was made, or the policy was issued. Calendar year catastrophe data represent all the catastrophe loss transactions – such as claim payments, allocated loss adjustment expenses, or changes in reserves – that occur during a 12-month period, irrespective of the year in which the catastrophe occurred, the year the loss was reported, or the year in which the policy was issued; Exh. 1, 503; Tr. 787-793, 1691-1696, 2154-2155.

Catastrophe load ratios are commonly calculated by either dividing annual catastrophe (CAT) losses by an exposure unit known as the "amount of insurance years" or AIY or by dividing catastrophe losses by non-catastrophe losses. The resulting catastrophe load ratios are abbreviated as CAT/AIY or CAT/non-CAT ratios. Figure 3 below shows how catastrophe losses, non-catastrophe losses, and AIY varied from 1990 to 2014.[103]

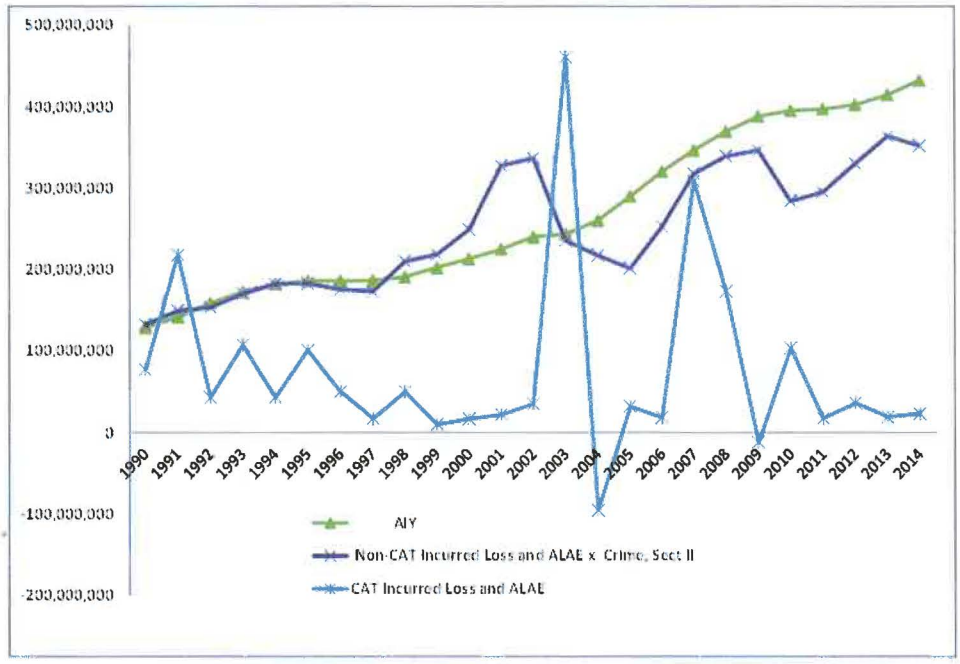

Figure 3

Applicant adjusted its historical catastrophe data in several ways before calculating catastrophe adjustment factors. First, In 2014, Applicant increased its homeowners insurance deductibles on some California policies.[104] Accordingly, Applicant removed losses from its data during the years when deductibles were lower.[105]

Second, in 1997, Applicant revised its guaranteed cost replacement provision. Previously, some homeowners policies provided for replacement cost of the dwelling even if the actual

[103] Exh. 1-70, 106; Hemphill PDT, 19:25, 20; Terry PDT, 23:26-24:7; Tr. 52:16-18.
[104] Watkins PDT, 20:19-24.
[105] Tr. 71-73.

replacement cost exceeded policy limits. In 1997, Applicant changed that provision from an unlimited guarantee to a 20% limit beyond the policy coverage. Consequently, Applicant adjusted its historical catastrophe losses to reflect the changes in these coverage limitations.

Lastly, as a result of the large numbers of underinsured homeowners from the 1991 Oakland Hills Fire, Applicant began improving its methods of calculating the ratio of insurance coverage purchased to the replacement value of the property known as insurance-to-value (ITV).[106] As a result, Applicant removed amounts from its losses that were paid to Oakland Hills Fire policyholders due to the unique circumstances of that event.[107] Applicant did not adjust its data to take into account wildfire underwriting restrictions.[108]

3. Contentions Regarding the Catastrophe (CAT) Load Ratio

a. Applicant's Proposed Catastrophe CAT Load Ratio

Applicant proposes using the CAT/AIY ratio over the CAT/non-CAT ratio, excluding crime and liability losses for the following reasons: (1) strong upward and downward trends in non-CAT losses exist for all forms that do not appear to relate to catastrophe losses, and (2) the trend in AIY is much smoother and more consistent than the trend in the non-CAT losses.[109]

b. CDI's Proposed Catastrophe Load Ratio

The California Department of Insurance (CDI) proposes using a CAT to non-CAT load ratio excluding crime and liability losses primarily because CDI argues that Applicant's CAT/AIY ratios are subject to distortion due to changes Applicant implemented in insurance to value (ITV) over time.[110]

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[106] Hemphill PDT, 20:25-26-21:17; Terry PDT, 24:19-25:1, 25:18-20; Tr. 46, 364-368.
[107] Watkins PRT, 47:22-48:6; 49, Tr. 1771.
[108] Tr. 451:13-22.
[109] Watkins PDT, 19:12-17.
[110] Hemphill PDT, 7:15-18 and 19:22-28; CDI's Post-Hearing Opening Brief, 26-33.

4. Analysis and Conclusions Regarding Catastrophe Load Ratio

The methodology for determining average catastrophe loading is provided in general actuarial terms in Regulation section 2644.5. Section 2644.5 does not determine how catastrophe losses should be evaluated over time or averaged. However, the parties agree that catastrophe losses must first be expressed as a ratio annually and then averaged. But the parties disagree on which exposure unit to use to divide Applicant's annual catastrophe losses.

For guidance, actuaries frequently turn to Actuarial Standards of Practice (ASOPs) and statements of principles of the Casualty Actuarial Society (CAS). The Statement of Principles Regarding Property and Casualty Insurance Ratemaking states that "the determination of an appropriate exposure unit or premium basis is essential," and "it is desirable that the exposure unit vary with the hazard and be practical and verifiable."[111]

Essentially, Applicant and CDI disagree over whether Applicant's changes in ITV over the experience period impacted AIY and whether such changes distort Applicant's CAT/AIY ratios.[112] The ALJ does not find sufficient evidence to measure the impact of Applicant's ITV changes on AIY or how such changes might have distorted CAT/AIY ratios over time.[113] Qualitatively, the CAT/AIY ratio fits the data better because the AIY trend in the data from 1990 through 2014 is much smoother and more consistent than the trend in the non-catastrophe losses.[114]

Even assuming Applicant's ITV changes impacted Applicant's CAT/AIY ratio, no methodology for determining the catastrophe load is perfect or without disadvantages.[115] As CFC noted, the non-catastrophe loss exposure base is potentially distorted as well. For example, water

[111] Watkins PDT, 18:24-19:6; Tr. 56; Hemphill PDT, 6:22-27.
[112] SFG's Post-Hearing Opening Brief, 62:15- 67:7; CDI Post-Hearing Opening Brief, 27:11-33:7.
[113] Tr. 48-49, 77, 206-207, 284-285, 2009-2010, 2014-2015.
[114] Watkins PRT, 53-55; Tr. 62:23-63:14.
[115] Hemphill PDT, 24:15-20; Tr. 45, 50-53, 274:2-11.

leaks which account for a significant percentage of non-catastrophe losses, excluding theft and liability, would not vary with catastrophe losses from wildfires.[116]

CFC found AIY to be an appropriate exposure base, and CW uses it in its analysis.[117] Accordingly, based on all the reasons above, the ALJ concludes that the CAT/AIY ratio is most actuarially sound in accordance with the regulations for this rate application.

5. Analysis and Conclusions Regarding the Number of Years of Experience

Regulation section 2644.5 requires the catastrophe adjustment factor to be based on at least 20 years of reliable data. Applicant calculated the Catastrophe Adjustment Factor using experience from 1990-2014 (25 years) and from 1980-2014 (35 years). Initially, all parties considered using 25 to 35 years of data, but closer examination revealed flaws in the 1980-1989 data.[118]

Based on the evidence presented, the ALJ concludes 25 years should be used. First, during these years, Applicant used a different catastrophe threshold.[119] Second, the first ten years of data included less information on wildfire risk and other policy level data. Third, prior to 1990, Applicant aggregated its data by combining all three sublines so factors cannot be calculated for each subline independently prior to 1990. And fourth, this data is in the form of accident-year data instead of the calendar year data used for the next 25 year. Accordingly, the ALJ concludes the 25 years of data from 1990-2014 data is the most actuarially sound and most reliable.

[116] CFC's Post-Hearing Opening Brief, 6:25-7:7.
[117] CFC's Post-Hearing Opening Brief, 6:8-13; 5-8; CW's Post-Hearing Opening Brief, 11; Tr. 800
[118] CDI's Post-Hearing Opening Brief, 33-35; CFC's Post-Hearing Opening Brief, 8-10.
[119] Tr. 2154-2155.

6. Analysis and Conclusions Regarding Weighting Catastrophe Data

The Regulations do not specifically call for weighting catastrophe data. However, section 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. The facts demonstrate, Applicant changed its mix of business in recent years by changing deductibles, replacement cost provisions, and wildfire underwriting restrictions. Giving more weight to Applicant's recent years reflects the recent changes in Applicant's mix of business in the catastrophe adjustment factor pursuant to section 2644.5.

When calculating a catastrophe adjustment factor, actuaries may give all years of data equal weight, give more weight to years with a higher volume of exposure using a dollar weighted average, or give more recent years greater weight, as the Applicant and CFC did.[120] CDI advocated different weighting methodologies depending on whether the 1991 Oakland Hills Fire is considered a 1 in 50 year event.[121] CDI's actuary explained that the straight-average method results in giving older, high-catastrophe years more weight and thereby overstates catastrophe losses and indicated rates. A straight average for 25 years would result in each year getting equal weight. Methods that give weight to more recent low catastrophe years would reduce catastrophe loads and result in lower indicated rates.

To gives its more recent years higher weight, SFG weighted its 2014 catastrophe load 6.5%, gradually decreased the weight to 3% in 1999, and applied the 3% weight for the remaining years back to 1990.[122] CFC generally accepted Applicant's weighting methodology,

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[120] Hemphill PDT 24:15-20; CDI's Post-Hearing Opening Brief, 36-37.
[121] CDI's Post-Hearing Opening Brief, 36-37.
[122] Watkins PDT, 29-30; Exhs. 76-2 and 77-2, column 5; Hemphill PDT, 7:23-8:2, 22:14-23:4; Terry PDT, 25:13-20; SFG's weights are shown in Exhibit 77-2, columns 5;

but used a narrower range, from 5% in 2014 down to 3.1% in 1990.[123] CW did not dispute the weighting approaches.

By weighting some years higher than 5%, SFG's weighting approach weights the most recent years higher than the weight that would be afforded a straight average of 20 years. If each year is weighted equally for 20 years, each year would be weighted 5% (100% divided by 20 years). And SFG's approach is not uniform because it is flat for the first ten years.

The ALJ finds CFC's weights to be the most actuarial sound. First, CFC's approach does not weight any year more than 5%. Second, the weights are applied evenly over the 25 year period. And third, CFC applies more weight to recent years to reflect recent changes in Applicant's mix of business in accordance with section 2644.5. Accordingly, the ALJ uses CFC's weights to calculate Applicant's Catastrophe Adjustment Factor.[124]

7. Treatment of the 1991 Oakland Hills Fire

a. CDI's Proposed Treatment of the Oakland Hills Fire

CDI proposes reducing the impact of the 1991 Oakland Hills Fire by spreading it over a 50-year period because it is an anomalous 1 in 50 year event.[125] CDI defines a 1 in 50 year event as an event with a 2% probability that the event will cause losses of that magnitude or higher in any given year on an industry-wide basis.[126] In addition, CDI contends Applicant's losses were inflated by Applicant paying claims over the amount of policy limits to a degree that is unlikely to reoccur.[127] CW agrees with CDI's position.[128]

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[123] Priven PDT, 20:6-7; CFC's Post-Hearing Opening Brief, 12-13; Exh. 502, column 5.
[124] Appendix A-13, column 5.
[125] CDI's Post-Hearing Opening Brief, 37-39.
[126] Hemphill PDT, 17:4-22.
[127] Hemphill PDT, 18:25-19:12.
[128] CW's Post-Hearing Opening Brief, 15.

b. SFG's Contentions Regarding the Oakland Hills Fire

Applicant argues the Oakland Hills Fire should not be treated as a 1-in-50 year event because Applicant adjusted its losses downward 31% by removing losses that would not normally be incurred,[129] and applying industry data to support any adjustment due to the Oakland Hills Fire is not supported by the regulation.[130] CFC takes the position that given Applicant's method of weighting its data, making additional adjustments for the Oakland Hills Fire is unnecessary.[131]

c. Analysis and Conclusions Regarding Oakland Hills Fire

Applicant removed losses from the Oakland Hills Fire and weighted more recent years. This tempered the impact of the Oakland Hills Fire.[132] The ALJ notes Applicant's losses due the Oakland Hills Fire (shown in Figure 3 in 1991) are less than the spikes in losses from other fires (shown in Figure 3 in 2003 and 2007). The ALJ also does not find regulatory support for CDI's use of industry-wide data to further adjust Applicant's data. Accordingly, the ALJ finds the adjustments Applicant made to its losses from the Oakland Hills fire are actuarially sound in accordance with section 2644.5.

8. Catastrophe Trend Factor

a. Applicable Law

Section 2644.5 states that "where the insurer does not have enough years of data, the insurer's data shall be supplemented by appropriate data." Section 2644.5 further states that "the catastrophe adjustment shall reflect changes between the insurer's historical and prospective exposure to catastrophe due to a change in the mix of business."

[129] Tr. 1770-1771.
[130] SFG's Post-Hearing Opening Brief, 68.
[131] CFC's Post-Hearing Opening Brief, 2, 13.
[132] Tr. 547-549: "The impact of comparing a 1-in-43-year treatment of Oakland Hills versus a 1-in-50-year treatment of Oakland Hills is ultimately only a .2 percent difference on the rate indication or the indicated change per the template."

b. Applicant's Proposed Catastrophe Trend Factor

Applicant initially proposed a catastrophe trend factor of 2%.[133] But during the evidentiary hearing, Applicant's actuary proposed an alternative trend based on three trend intervals. Applicant proposed a 2% trend for the period from 1990 to 2007, a 0% trend from 2007 to 2014, and a -0.8% trend from 2014 to 2016.[134] Applicant cites the following reasons for applying trend factors to its catastrophe data: 1) as costs increase more events will exceed the definition of a catastrophe and be classified as a catastrophe producing what Applicant called a leveraging effect;[135] 2) changes in the distribution of business in catastrophe-prone areas; and 3) changes over time in the nature of exposure underlying the catastrophic data.[136] Applicant bases its argument for trending catastrophe loss data and its trend selections on national catastrophe data and Cal Fire data.[137]

c. CDI and CW Catastrophe Trend Factor Contentions

CDI disagrees that a catastrophe trend is required and even observable in Applicant's California catastrophe data.[138] CW agrees with CDI that no trend is contemplated by the regulations.[139]

CDI contends Applicant's California data is 100% credible and may not be supplemented under the Regulations. Even assuming Applicant were permitted to supplement its California data, CDI and CW contend Applicant's countrywide and non-insurance fire data is irrelevant and inappropriate to use in selecting a catastrophe trend.

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[133] Watkins PDT, 28:19-23.
[134] Watkins PRT, 59; Tr. 1955-1956; SFG's Post-Hearing Opening Brief, 59:18-61:5
[135] Terry PDT, 26:10-15; Terry PRT, 9-10.
[136] Watkins PDT, 19:25-21:4; Watkins PRT, 3-16; Terry PDT, 25:21-26:1; Tr. 1673:23-1674:15.
[137] Watkins PDT, 21:5-29:2.
[138] CDI's Post-Hearing Opening Brief, 9.
[139] CW's Post-Hearing Opening Brief, 15.

d. CFC's Proposed Catastrophe Trend Factor

CFC contends Applicant's California catastrophe data is partially credible but supplements it with different data than Applicant. CFC supplemented Applicant's California catastrophe data with data from an industry service known as Fast Track. As a result, CFC proposes a catastrophe trend factor of negative 4.1%.[140]

e. Analysis and Conclusions Regarding Catastrophe Trend Factor

i. The Regulations Do Not Contemplate Trending Catastrophe Losses

The Regulations explicitly require trending non-catastrophe losses.[141] Regulation section 2644.5 does not contemplate trending catastrophe losses. Instead, catastrophic losses in the recorded period are replaced by a loading based on a multi-year, long-term average of catastrophe claims. Actuarial Standard of Practice (ASOP) 39 gives a reason for this. Catastrophe losses are removed from non-catastrophe data in projecting losses because "historical insurance data used to determine a provision for catastrophe losses will often extend over much longer time periods than data used in most other ratemaking procedures."[142] Considered together, these regulations preclude the trending of catastrophe losses based on the principle that the expression of one thing in a statute ordinarily implies the exclusion of other things (expressio unius est exclusio alterius).[143] But this principle of statutory construction is not applied invariably.

Applicant contends instead that catastrophe trend factors must be applied to catastrophe loss data because the last sentence of section 2644.5 states that the catastrophe adjustment "shall reflect any changes between the insurer's historical and prospective exposure to catastrophe due

[140] CFC's Post-Hearing Opening Brief, 48.
[141] Cal. Code Regs., tit. 10, § 2644.4, subd. (a) and (b).
[142] Exhibit 903: Actuarial Standard of Practice 39, para. 3.3.1.e.
[143] *In re J.W.* (2002) 29 Cal.4th 200, 209.

to a change in the mix of business." Applicant also contends ASOP 39, paragraph 3.3.1.c contemplates applying catastrophe trend factors to catastrophe loss data.[144] But nothing in Regulation section 2644.5 suggests using ASOP 39 to determine a catastrophe adjustment factor.

Applicant's reliance on this vague portion of section 2644.5 is not persuasive, especially since changes in Applicant's business can be reflected in catastrophe data in other ways considered in this case. For example, Applicant has already adjusted its loss data to reflect changes in deductibles and replacement cost coverage. Even assuming the Regulations or ASOPs permit trending catastrophe loss data, the ALJ does not find Applicant's trending of catastrophe loss data to be persuasive, as described below.

ii. Applicant's Countrywide Data is Not Relevant to Determine a California Catastrophe Trend

Applicant relies on State Farm's countrywide catastrophe data to support a 2% positive trend arguing Applicant's California data alone lacked full credibility.[145] CDI, CW, and CFC argue that Applicant's countrywide data is not relevant because the frequency, severity, and type of catastrophe losses in other states differ significantly from those in California.[146]

The ALJ concludes Applicant's countrywide data is irrelevant. ASOP 25 states that related experience should be similar in frequency, severity, and other characteristics.[147] The frequency and severity of catastrophe losses countrywide, which are dominated by wind and hail

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[144] ASOP 39, paragraph 3.3.1.c recommends considering making adjustments to historical insurance data to reflect conditions likely to prevail during the period in which the rate will be in effect. Such adjustments should take into account the impact of changes in the exposure to loss, including coverage differences, the underlying portfolio of insured risks, population shifts, and other considerations. Watkins PDT, 19:24-20:25.
[145] Watkins PDT, 20:24-21:4, 28:19-22; Terry PDT, 25:21-26:9; Tr. 93-98, 398-399.
[146] Hemphill PDT, 12:13-16, Tr. 546, 720-721; CFC's Post-Hearing Opening Brief, 32-36; CW's Post-Hearing Opening Brief, 12-14.
[147] Exhibit 395: Actuarial Standard of Practice (ASOP) 25: Credibility Procedures, section 3.3.

losses, are fundamentally different than the catastrophe losses in California caused by wildfires and a lower percentage of wind, rainstorms, and freezes as shown in Figure 2 above.[148]

iii. Cal Fire Loss Data is Not Relevant

Section 2644.5 requires at least 20 years of data to be sufficient and states that an insurer may supplement data only when it lacks sufficient data as defined by Regulation. In this case, Applicant has 25 years of catastrophe loss ratios to average and as such is not permitted by the Regulations to supplement its data.

Assuming again that trending catastrophe loss ratios is appropriate, neither Regulation section 2644.5 nor various ASOPs support using Cal Fire data.[149] Cal Fire data is not similar to or reasonably related to Applicant's insurance data.[150] For example, Applicant's Cal Fire data does match the frequency and severity of Applicant's water-related data as required by ASOP 39.[151] Nor does Applicant's use of Cal Fire data meet the standards of external and internal consistency required by ASOP 23.[152] And Applicant's use of Cal Fire data to supplement catastrophe loss data is by no means "common," as required by ASOP 13. As a result, Cal Fire data is not relevant and appropriate data for this purpose, regardless of any statistical characteristics it may have.[153]

iv. Evidence of a Leveraging Effect Due To a Fixed-Dollar Threshold is Unsupported

Applicant argues for adjusting its catastrophe load ratios upwards because its fixed-dollar catastrophe definition allegedly impacts its catastrophe data.[154] Applicant defines a catastrophe as an event causing more than 500 claims totaling over $500,000 in losses across all its lines of

[148] Tr. 864, 1864.
[149] CFC's Post-Hearing Opening Brief, 36-45; CW's Post-Hearing Opening Brief, 12-14.
[150] CW's Post-Hearing Opening Brief, 12-13.
[151] CDI's Post-Hearing Opening Brief, 24-26, CFC's Post-Hearing Opening Brief, 32, 40-41.
[152] CFC's Post-Hearing Opening Brief, 37.
[153] CFC's Post-Hearing Opening Brief, 41; Priven PRT, 13-18; Tr. 804-808, 866.
[154] CFC's Post-Hearing Opening Brief, 46-48.

business. Based on that definition, Applicant concludes that "it makes sense that over time as costs increase more events will exceed this threshold and be classified as a catastrophe, thus producing an increasing trend in the catastrophe data."[155] Applicant also adds that "as catastrophe data dates back to 1980, such events would be more prevalent in the older data, given the impact of inflation moving forward."[156]

The ALJ is not persuaded by Applicant's argument regarding the possibility of a leveraging effect, in part, because Applicant based its position on insufficient and inaccurate data.[157] For example, later testimony revealed that Applicant's catastrophe definition was likely lower prior to 1992 when a leveraging effect might have its greatest impact.[158]

v. A Positive Trend in Applicant's Overall Catastrophe Losses is Unsupported

Applicant focuses its argument for a positive catastrophe trend on a potential change in its mix of business due to wildfire losses. However, as Applicant's actuary testified, the "changes over time in the nature of exposure underlying the catastrophic data" is only a potential driver of a catastrophe trend.[159] Californians are well aware that after several years of extremely dry weather, the risk of wildfires across the State has increased.[160] To justify an insurance rate increase though, a potential increased risk must be quantified and evaluated in relation to Applicant's mix of business. This is reasonable because actual losses due to wildfires are dependent on a variety of factors that unevenly distribute losses on private and public property in urban and rural areas depending on an insurer's actual mix of business.[161]

Applicant's outside actuary also noted that a balance needs to be struck "between

[155] Terry PDT, 26:10-15.
[156] Terry PRT, 10:17-19.
[157] Tr. 209-210,452, 782-787, 2097-2098, 2170-2171.
[158] Exhibit 413-4, 5; Tr. 2060-2062, 2069-2074, 2154-2155.
[159] Tr. 402:14-403:12, 696.
[160] Watkins PDT, 27:20-27.
[161] Exh. 108.1, 108.2, and 108.3; Tr. 1817-1818, 1910-1918.

ignoring new evidence and over-reacting to it."[162] Applicant's arguments react to the potential for increased wildfire losses in wildfire-prone areas but ignore potential changes in areas with lower wildfire risk and ignore the other 50% of its losses not involving fires. If a potential for increased wildfires exists during dry years, one can reasonably infer that a potential exists for decreased losses from wind, rain, and cold weather during the same dry years.

The primary driver of catastrophe losses is not the potential for change, but actual changes "in the distribution of business in catastrophe prone areas,"[163] which would be dependent on growth in the number and value of insured properties in the wildland-urban interface.[164] This further supports the finding that the data most relevant to the catastrophe adjustment is Applicant's actual California catastrophe data, which includes 20% of the California homeowners insurance market.[165]

Considering changes in Applicant's business in California's high wildfire prone areas, Applicant's data does not support a positive trend. In fact, Applicant's alternate trend based on California data is not entirely positive. Using California data only, Applicant proposes a 2% trend for the period from 2000-2007, a 0% trend for the period from 2007-2014, and a negative 0.8% trend for the period from 2014-2016, which is the period of the effective date of Applicant's proposed new rates.[166] The ALJ does not find this trend selection of multiple intervals to be actuarially sound or to comply with section 2644.5 because it consists of three intervals of short duration and the overall period of multiple trends is less than the 20 years required by section 2644.5.

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[162] Watkins PRT, 19:15 – 22.
[163] CFC's Post-Hearing Opening Brief, 14:24-15:2; Tr. 402:24-403:3.
[164] Tr. 246-247.
[165] CDI's Post-Hearing Opening Brief, 21.
[166] Watkins PRT, 59.

CDI, CW, and CFC argue that if any catastrophe trend should be applied to Applicant's catastrophe data, it should be negative. Some parties attribute this negative trend to Applicant's effort to restrict underwriting in wildfire prone areas.[167]

CFC argues that a negative 4.1% trend should be applied to Applicant's catastrophe data based on California Fast Track data. California Fast Track consist of insurance statistics prepared for the insurance industry. However, the ALJ does not find California Fast Track data to be sufficiently similar to California catastrophe data to be relevant and reliable for this purpose.

In sum, Applicant's 25 years of volatile, catastrophe loss data is too short of time to provide reliable, appropriate data to discern a trend as Applicant's actuary noted in the beginning of her analysis.[168]

9. Methodology for Calculating Catastrophe Adjustment Factor for Each Subline

Applicant calculates catastrophe adjustment factors for each of its three sublines by first calculating the catastrophe adjustment factor for all forms combined.[169] Next, Applicant allocates the catastrophe adjustment factor to each form separately using a method Applicant calls its "Beta Method." Applicant calculates a "beta factor" for each form by comparing the catastrophe experience of individual forms countrywide to the catastrophe experience for all homeowners policy forms combined countrywide. [170] To estimate this relationship, Applicant only uses the most recent ten years of data (2005-2014).

Applicant's method of estimating catastrophe adjustment factors for each subline is problematic and unnecessary. First, the California data is more relevant than countrywide data. Second, Applicant uses only the last 10 years of data (2004-2014) to allocate the factors, which

[167] Tr. 1731-1754, 2715-2717.
[168] Watkins PDT, 21:21-24.
[169] Non-tenant homeowners, condominiums, and renters.
[170] Exhibit 1-71; Terry, PDT, 27:20-22; Tr. 128:25-131, 210:23-211:14, 214-216.

include less than the 20 years required by section 2644.5. Accordingly, the ALJ uses available California data to independently calculate the Catastrophe Adjustment Factor for each subline of homeowners insurance.[171]

10. Applicant's Catastrophe Adjustment Factors

Based on the conclusions above, the ALJ finds Applicant's catastrophe adjustment factors for each homeowners insurance subline to be those shown in Appendix A, page 12.

B. Projected Yield

An insurer's projected yield is an independent variable of the ratemaking data used to calculate investment income factors, federal income tax factors, and profit factors, all of which are used to calculate the maximum permitted earned premium.[172]

1. Applicable Law

Regulation section 2644.20, subdivision (a) specifies the exact method of calculating the projected yield:

> "Projected yield" means the weighted average yield computed using the insurer's actual portfolio and yields currently available on securities in US capital markets. The weights shall be determined using the insurer's most recent **consolidated statutory annual statement**, and shall be computed by dividing the insurer's assets in each separate asset class shown on page 2, lines 1 through 9 of the insurer's consolidated statutory annual statement, by the total of lines 1 through 9. The yields for each asset class shall be based on an average of the most recent available 3 complete months, as of the date of filing. [emphasis added]

The current definition of the projected yield became operative on April 3, 2007. Prior to 2007, section 2644.20, subdivision (a) determined an "imbedded yield" calculated using other factors.[173]

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[171] CFC's Post-Hearing Opening Brief, 11-12; CDI's Post-Hearing Opening Brief, 35-36.
[172] Cal. Code Regs., tit. 10, § 2644.19 and § 2644.18.
[173] "Projected yield" means the insurer's imbedded yield in the most recent year for which investment results have been reported, plus an average of the insurer's realized capital gains over the most recent five years. Imbedded yield shall be calculated as the insurer's net investment income, excluding capital gains, divided by the average of the

EXHIBIT IRH-CWD-246

2014 CALIFORNIA P & C MARKET SHARE REPORT

Line of Business: HOMEOWNERS MULTIPLE PERIL [04]

Sorted by Market Share

Source: NAIC Database

Licensed companies only

Rec #	Group #	Naic #	Company Name	Written Premium	Market Share	Earned Premium	Incurred Losses	Loss Ratio
1	176	25151	State Farm Gen Ins Co	1,485,730,133	20.6285%	1,476,593,533	655,124,921	44.37%
2	8	19232	Allstate Ins Co	544,729,126	7.5632%	555,634,680	232,110,900	41.77%
3	69	21660	Fire Ins Exch	537,230,726	7.4591%	506,698,749	231,448,623	45.68%
4	69	21687	Mid Century Ins Co	510,097,617	7.0824%	533,768,986	266,933,719	50.01%
5	1278	15539	CSAA Ins Exch	471,832,147	6.5511%	463,223,697	196,296,419	42.38%
6	1318	15598	Interins Exch Of The Automobile Club	397,363,319	5.5172%	387,845,429	259,541,857	66.92%
7	660	11908	Mercury Cas Co	265,831,649	3.6909%	261,051,743	151,915,883	58.19%
8	3548	36137	Travelers Commercial Ins Co	221,546,399	3.0760%	220,171,521	96,472,771	43.82%
9	140	19100	Amco Ins Co	169,818,232	2.3578%	166,372,688	87,151,399	52.38%
10	200	25941	United Serv Automobile Assn	163,188,464	2.2658%	163,841,382	79,420,040	48.47%
11	111	42404	Liberty Ins Corp	155,261,670	2.1557%	88,632,503	44,179,962	49.85%
12	200	25968	USAA Cas Ins Co	139,130,931	1.9318%	141,468,324	67,263,510	47.55%
13	2898	37850	Pacific Specialty Ins Co	127,195,263	1.7660%	121,856,420	45,104,825	37.01%
14	38	20281	Federal Ins Co	120,726,200	1.6762%	116,822,715	54,465,530	46.62%
15	12	19402	AIG Prop Cas Co	119,109,709	1.6538%	114,599,669	33,700,528	29.41%
16	761	21873	Firemans Fund Ins Co	109,178,357	1.5159%	107,930,678	38,565,644	35.73%
17	69	11185	Foremost Ins Co Grand Rapids MI	86,457,587	1.2004%	85,035,689	45,889,457	53.96%
18	111	24732	General Ins Co Of Amer	71,558,272	0.9935%	62,172,619	36,562,125	58.81%
19	111	24740	Safeco Ins Co Of Amer	71,063,155	0.9867%	71,558,680	32,184,236	44.98%
20	140	42579	Allied Prop & Cas Ins Co	67,089,494	0.9315%	65,799,593	35,867,233	54.51%
21	802	13544	California Capital Ins Co	60,337,968	0.8378%	58,080,204	34,284,561	59.03%
22	2538	44300	Tower Ins Co Of NY	59,313,582	0.8235%	62,327,954	34,090,179	54.69%
23	111	39012	Safeco Ins Co Of IL	55,605,842	0.7721%	57,038,530	27,935,966	48.98%
24	111	24724	First Natl Ins Co Of Amer	55,234,598	0.7669%	57,520,364	33,752,278	58.68%
25	4	29068	IDS Prop Cas Ins Co	52,085,024	0.7232%	49,582,277	25,027,166	50.48%
26	91	30104	Hartford Underwriters Ins Co	51,768,164	0.7188%	51,827,844	30,913,552	59.65%
27	361	23469	American Modern Home Ins Co	49,250,467	0.6838%	45,953,472	23,139,266	50.35%
28	215	10914	Kemper Independence Ins Co	48,671,725	0.6758%	47,517,872	25,260,607	53.16%
29	473	11005	Homesite Ins Co Of CA	48,626,821	0.6752%	44,025,169	20,868,125	47.40%
30	71	10759	Universal N Amer Ins Co	48,104,153	0.6679%	45,123,674	21,534,364	47.72%
31		26905	Century Natl Ins Co	47,010,213	0.6527%	47,444,861	19,019,942	40.09%
32	800	15776	Residence Mut Ins Co	44,513,147	0.6180%	43,052,095	18,809,320	43.69%
33	796	39217	QBE Ins Corp	43,872,639	0.6091%	43,632,716	21,179,616	48.54%
34	70	34525	First Amer Specilaty Ins Co	42,048,334	0.5838%	41,743,369	21,439,007	51.36%
35	33	20117	California Cas Ind Exch	40,178,427	0.5579%	41,849,942	19,446,781	46.47%
36	8	10358	Encompass Ins Co	33,602,126	0.4665%	33,757,522	12,553,669	37.19%
37	626	18279	Bankers Standard Ins Co	30,613,556	0.4251%	29,404,543	15,555,984	52.90%
38	91	29424	Hartford Cas Ins Co	27,713,537	0.3848%	29,261,419	16,215,093	55.41%
39	140	25453	Nationwide Ins Co Of Amer	27,696,258	0.3845%	26,809,449	14,919,391	55.65%
40	28	19976	Amica Mut Ins Co	26,990,748	0.3748%	27,466,428	13,921,477	50.69%
41	19	10111	American Bankers Ins Co Of FL	26,718,694	0.3710%	25,323,298	8,568,849	33.84%
42	323	18953	CSE Safeguard Ins Co	24,831,269	0.3448%	24,830,243	10,062,066	40.52%
43		10683	Wawanesa Gen Ins Co	24,423,361	0.3391%	24,010,913	18,391,729	76.60%
44	200	18600	USAA Gen Ind Co	24,053,045	0.3340%	21,314,681	13,522,612	63.44%
45	200	21253	Garrison Prop & Cas Ins Co	23,234,262	0.3226%	22,005,808	13,020,778	59.17%
46	660	38342	California Automobile Ins Co	21,063,163	0.2924%	4,006,602	3,469,131	86.59%
47	323	10693	Civil Serv Employees Ins Co	19,642,355	0.2727%	19,943,276	7,737,190	38.80%

2014 CALIFORNIA P & C MARKET SHARE REPORT

Line of Business: HOMEOWNERS MULTIPLE PERIL [04]

Sorted by Market Share

Source: NAIC Database

Licensed companies only

Rec #	Group #	Naic #	Company Name	Written Premium	Market Share	Earned Premium	Incurred Losses	Loss Ratio
48	4765	25180	Stillwater Ins Co	19,110,153	0.2653%	17,778,796	10,500,622	59.06%
49	91	27120	Trumbull Ins Co	18,739,311	0.2602%	14,585,023	8,272,105	56.72%
50	241	25321	Metropolitan Drt Prop & Cas Ins Co	17,562,948	0.2439%	16,393,981	11,031,500	67.29%
51	91	11000	Sentinel Ins Co Ltd	16,087,184	0.2234%	12,897,391	7,129,614	55.28%
52	91	34690	Property & Cas Ins Co Of Hartford	15,617,141	0.2168%	13,724,645	9,404,231	68.52%
53	300	22578	Horace Mann Ins Co	12,885,616	0.1789%	12,775,586	5,515,880	43.18%
54	796	25747	Unigard Ins Co	12,332,116	0.1712%	12,430,278	5,002,463	40.24%
55	920	19615	American Reliable Ins Co	12,069,666	0.1676%	13,628,653	7,932,408	58.20%
56	408	11048	Pacific Prop & Cas Co	10,849,618	0.1506%	10,483,979	6,545,474	62.43%
57	212	21326	Empire Fire & Marine Ins Co	9,943,254	0.1381%	10,296,132	-87,335	-0.85%
58	69	11800	Foremost Prop & Cas Ins Co	9,886,959	0.1373%	9,857,594	5,185,948	52.61%
59	19	42978	American Security Ins Co	9,819,276	0.1363%	9,641,933	5,908,641	61.28%
60	3098	10945	Tokio Marine Amer Ins Co	9,781,238	0.1358%	9,674,724	2,397,584	24.78%
61	69	21652	Farmers Ins Exch	8,814,511	0.1224%	9,007,603	3,019,382	33.52%
62	140	18961	Crestbrook Ins Co	8,253,747	0.1146%	5,263,925	5,666,990	107.66%
63	70	37710	First Amer Prop & Cas Ins Co	7,928,940	0.1101%	8,369,070	1,627,755	19.45%
64	83	22101	Grange Ins Assn	7,824,486	0.1086%	7,858,600	4,262,882	54.24%
65	4765	16578	Stillwater Prop & Cas Ins Co	7,193,809	0.0999%	7,360,609	3,539,124	48.08%
66	2538	29742	Integon Natl Ins Co	7,063,438	0.0981%	3,508,391	2,003,238	57.10%
67	411	23876	Mapfre Ins Co	6,988,224	0.0970%	4,407,113	2,628,565	59.64%
68	2538	12832	Personal Express Ins Co	5,932,946	0.0824%	5,774,689	1,624,773	28.14%
69	761	21865	Associated Ind Corp	5,743,537	0.0797%	5,911,683	1,686,596	28.53%
70	140	23779	Nationwide Mut Fire Ins Co	5,471,106	0.0760%	5,675,995	2,653,698	46.75%
71	300	22756	Horace Mann Prop & Cas Ins Co	5,141,140	0.0714%	5,186,122	2,088,279	40.27%
72	645	14907	Oregon Mut Ins Co	5,036,454	0.0699%	5,217,508	1,602,261	30.71%
73	796	37257	Praetorian Ins Co	4,974,191	0.0691%	4,971,377	1,574,367	31.67%
74	161	18031	Topa Ins Co	4,322,553	0.0600%	4,347,920	2,754,092	63.34%
75		41459	Armed Forces Ins Exch	4,134,772	0.0574%	4,121,943	1,413,256	34.29%
76	69	10317	Neighborhood Spirit Prop & Cas Co	3,907,903	0.0543%	3,947,124	1,135,757	28.77%
77	802	12890	Eagle W Ins Co	3,853,109	0.0535%	3,530,359	1,734,342	49.13%
78	2878	15768	Merced Prop & Cas Co	3,646,613	0.0506%	3,625,816	1,455,321	40.14%
79	8	19240	Allstate Ind Co	2,727,809	0.0379%	2,624,048	1,673,401	63.77%
80		39861	Golden Bear Ins Co	2,603,978	0.0362%	2,415,530	1,052,824	43.59%
81	800	13625	Western Mut Ins Co	2,502,807	0.0348%	2,548,394	601,687	23.61%
82	69	10315	Civic Prop & Cas Co	1,945,390	0.0270%	1,932,686	1,465,572	75.83%
83	4664	12873	Privilege Underwriters Recp Exch	1,935,810	0.0269%	484,368	234,092	48.33%
84	57	21261	Electric Ins Co	1,926,442	0.0267%	1,922,644	516,935	26.89%
85	38	20397	Vigilant Ins Co	1,709,508	0.0237%	1,805,351	197,629	10.95%
86	4698	43460	Aspen Amer Ins Co	1,601,129	0.0222%	1,451,663	191,250	13.17%
87	212	39306	Fidelity & Deposit Co Of MD	1,548,500	0.0215%	1,543,931	572,119	37.06%
88	313	33898	Aegis Security Ins Co	1,483,797	0.0206%	2,506,664	1,158,022	46.20%
89	411	13161	Commerce W Ins Co	1,458,391	0.0202%	2,291,181	1,867,694	81.52%
90	19	42986	Standard Guar Ins Co	1,225,376	0.0170%	1,140,653	-11,396	-1.00%
91	225	23248	Occidental Fire & Cas Co Of NC	895,101	0.0124%	427,188	300,222	70.28%
92		27480	California Mut Ins Co	880,665	0.0122%	873,399	480,334	55.00%
93		32107	Sutter Ins Co	769,722	0.0107%	774,353	29,998	3.87%
94	361	23450	American Family Home Ins Co	756,822	0.0105%	3,687,212	1,737,232	47.12%

2014 CALIFORNIA P & C MARKET SHARE REPORT

Line of Business: HOMEOWNERS MULTIPLE PERIL [04]

Sorted by Market Share

Source: NAIC Database

Licensed companies only

Rec #	Group #	Naic #	Company Name	Written Premium	Market Share	Earned Premium	Incurred Losses	Loss Ratio
95	69	10318	Exact Prop & Cas Co Inc	752,165	0.0104%	771,820	482,429	62.51%
96	38	20346	Pacific Ind Co	731,478	0.0102%	727,783	96,709	13.29%
97	785	28932	Markel Amer Ins Co	721,576	0.0100%	721,576	195,126	27.04%
98	91	29459	Twin City Fire Ins Co Co	488,654	0.0068%	430,003	685,448	159.41%
99	215	31968	Merastar Ins Co	312,111	0.0043%	327,842	59,977	18.29%
100	65	10014	Affiliated Fm Ins Co	212,878	0.0030%	214,665	102,029	47.53%
101	215	16063	Unitrin Auto & Home Ins Co	196,872	0.0027%	204,242	100,335	49.13%
102	215	10915	Unitrin Direct Prop & Cas Co	153,055	0.0021%	151,565	15,431	10.18%
103	3829	10182	Geovera Specialty Ins Co	106,164	0.0015%	154,331	51,010	33.05%
104	4672	12502	Dongbu Ins Co Ltd	93,129	0.0013%	123,220	177,408	143.98%
105	3548	36161	Travelers Prop Cas Ins Co	89,922	0.0012%	1,133,036	-4,015,739	-354.42%
106	761	21881	National Surety Corp	63,804	0.0009%	62,866	60,906	96.88%
107	140	23787	Nationwide Mut Ins Co	55,733	0.0008%	55,733	0	0.00%
108	761	21857	American Ins Co	47,212	0.0007%	46,786	5,271	11.27%
109	2538	22985	Sequoia Ins Co	25,256	0.0004%	40,474	-11,787	-29.12%
110	244	10677	Cincinnati Ins Co	13,265	0.0002%	13,774	597	4.33%
111	3548	19070	Standard Fire Ins Co	11,169	0.0002%	125,269	-74,909	-59.80%
112		13250	Workmens Auto Ins Co	9,981	0.0001%	8,911	10,000	112.22%
113	88	22306	Massachusetts Bay Ins Co	2,222	0.0000%	2,189	0	0.00%
114	111	23043	Liberty Mut Ins Co	2,193	0.0000%	1,341	-210,281	-15680.91%
115	111	21458	Employers Ins of Wausau	1,178	0.0000%	1,178	617	52.38%
116		40550	Pacific Pioneer Ins Co	694	0.0000%	764	0	0.00%
			Line Total:	**7,202,319,845**	**100.0000%**	**7,031,937,018**	**3,351,846,286**	**47.67%**

EXHIBIT IRH-CWD-247

2018 CA Property & Casualty Insurers' Premium and Loss Information

By Line of Business by Company Written Premium (WP)

Source: NAIC Database, Licensed Companies Only

Line of Business:	04 - HOMEOWNERS MULTIPLE PERIL

Company	Written Premium	Market Share	Earned Premium	Incurred Loss	Loss Ratio
04	**8,266,332,994**	**100.0000%**	**7,983,075,132**	**13,577,455,112**	**170.08%**
State Farm Gen Ins Co - 25151	1,469,169,092	17.7729%	1,405,884,532	1,256,335,521	89.36%
Fire Ins Exch - 21660	633,192,611	7.6599%	610,270,420	1,124,910,734	184.33%
CSAA Ins Exch - 15539	544,787,815	6.5904%	527,551,619	1,249,536,147	236.86%
Interins Exch Of The Automobile Club - 15598	510,730,515	6.1784%	506,005,813	263,904,701	52.15%
Allstate Ins Co - 19232	444,276,215	5.3745%	440,000,731	1,190,489,289	270.57%
Mid Century Ins Co - 21687	440,728,426	5.3316%	442,445,316	719,829,679	162.69%
California Automobile Ins Co - 38342	439,905,326	5.3217%	413,981,881	460,836,189	111.32%
Travelers Commercial Ins Co - 36137	266,389,244	3.2226%	257,172,363	569,695,764	221.52%
Liberty Ins Corp - 42404	215,681,448	2.6092%	204,114,378	170,533,213	83.55%
United Serv Automobile Assn - 25941	186,845,988	2.2603%	177,490,801	251,658,746	141.79%
Pacific Specialty Ins Co - 37850	175,569,647	2.1239%	165,705,426	98,563,943	59.48%
Amco Ins Co - 19100	171,847,573	2.0789%	173,628,565	243,456,366	140.22%
USAA Cas Ins Co - 25968	160,368,877	1.9400%	150,140,187	225,164,260	149.97%
AIG Prop Cas Co - 19402	152,343,162	1.8429%	150,494,441	1,303,423,136	866.09%
Federal Ins Co - 20281	139,830,729	1.6916%	139,175,740	414,166,658	297.59%
Farmers Ins Exch - 21652	132,649,082	1.6047%	116,770,176	199,779,649	171.09%
Integon Natl Ins Co - 29742	129,097,297	1.5617%	117,956,474	293,034,930	248.43%
General Ins Co Of Amer - 24732	128,186,690	1.5507%	121,052,175	71,981,039	59.46%
Foremost Ins Co Grand Rapids MI - 11185	112,348,816	1.3591%	106,948,966	334,652,853	312.91%
Homesite Ins Co Of CA - 11005	107,060,989	1.2951%	106,510,807	206,607,216	193.98%
Bankers Standard Ins Co - 18279	89,111,319	1.0780%	86,131,384	208,882,161	242.52%
Safeco Ins Co Of Amer - 24740	67,651,613	0.8184%	66,946,858	43,916,740	65.60%
IDS Prop Cas Ins Co - 29068	67,042,114	0.8110%	64,453,746	81,273,675	126.10%
Property & Cas Ins Co Of Hartford - 34690	65,880,864	0.7970%	64,236,601	221,532,677	344.87%
Allied Prop & Cas Ins Co - 42579	65,839,676	0.7965%	66,579,151	88,609,437	133.09%
QBE Ins Corp - 39217	61,970,223	0.7497%	57,314,266	36,214,315	63.19%
California Capital Ins Co - 13544	60,715,932	0.7345%	60,449,393	269,018,066	445.03%
Safeco Ins Co Of IL - 39012	58,798,760	0.7113%	57,987,135	62,486,152	107.76%
Kemper Independence Ins Co - 10914	58,233,723	0.7045%	58,211,665	93,027,924	159.81%
USAA Gen Ind Co - 18600	52,341,088	0.6332%	47,145,327	74,058,955	157.09%
First Natl Ins Co Of Amer - 24724	51,414,198	0.6220%	51,500,461	45,075,780	87.53%
Universal N Amer Ins Co - 10759	50,310,557	0.6086%	50,775,351	60,771,350	119.69%
Crestbrook Ins Co - 18961	49,815,204	0.6026%	48,250,656	131,045,622	271.59%
Residence Mut Ins Co - 15776	47,571,454	0.5755%	48,041,367	26,803,684	55.79%
Garrison Prop & Cas Ins Co - 21253	44,216,755	0.5349%	39,365,530	50,436,723	128.12%
California Cas Ind Exch - 20117	43,874,726	0.5308%	43,093,813	65,940,487	153.02%
American Bankers Ins Co Of FL - 10111	42,158,724	0.5100%	41,091,848	26,683,732	64.94%
American Modern Home Ins Co - 23469	41,450,249	0.5014%	42,327,015	111,380,329	263.14%
Century Natl Ins Co - 26905	38,671,047	0.4678%	43,605,828	40,704,267	93.35%
First Amer Specilaty Ins Co - 34525	37,971,370	0.4593%	39,069,253	63,979,727	163.76%
Nationwide Ins Co Of Amer - 25453	37,955,455	0.4592%	36,549,512	33,720,619	92.26%
Amica Mut Ins Co - 19976	36,836,233	0.4456%	35,000,467	33,655,302	96.16%
Wawanesa Gen Ins Co - 10683	36,181,053	0.4377%	34,187,650	29,949,585	87.60%
Encompass Ins Co - 10358	35,797,791	0.4331%	34,732,100	35,347,537	101.77%
Stillwater Ins Co - 25180	34,986,829	0.4232%	33,727,750	21,356,378	63.32%
Aegis Security Ins Co - 33898	34,406,447	0.4162%	26,558,687	99,900,369	376.15%
CSE Safeguard Ins Co - 18953	33,167,808	0.4012%	31,851,773	56,201,389	176.45%
Privilege Underwriters Recp Exch - 12873	33,134,876	0.4008%	27,284,002	42,690,961	156.47%
Trumbull Ins Co - 27120	26,315,402	0.3183%	26,992,893	140,405,887	520.16%
Metropolitan Drt Prop & Cas Ins Co - 25321	23,473,632	0.2840%	22,973,018	21,024,082	91.52%
Sentinel Ins Co Ltd - 11000	22,951,596	0.2777%	26,840,744	68,751,602	256.15%
ASI Select Ins Corp - 14042	20,045,648	0.2425%	12,648,910	40,810,237	322.64%

2018 CA Property & Casualty Insurers' Premium and Loss Information

By Line of Business by Company Written Premium (WP)

Source: NAIC Database, Licensed Companies Only

Line of Business:	04 - HOMEOWNERS MULTIPLE PERIL

Company	Written Premium	Market Share	Earned Premium	Incurred Loss	Loss Ratio
Civil Serv Employees Ins Co - 10693	17,795,779	0.2153%	17,998,055	32,988,357	183.29%
American Natl Prop & Cas Co - 28401	17,535,013	0.2121%	16,418,505	4,115,320	25.07%
Pacific Prop & Cas Co - 11048	15,245,801	0.1844%	14,790,405	10,075,950	68.12%
American Reliable Ins Co - 19615	15,183,208	0.1837%	15,750,561	93,623,819	594.42%
The Cincinnati Ins Co - 10677	13,757,380	0.1664%	9,976,961	49,534,741	496.49%
Horace Mann Ins Co - 22578	13,741,423	0.1662%	13,537,575	104,333,579	770.70%
Foremost Prop & Cas Ins Co - 11800	10,755,992	0.1301%	10,424,543	39,442,789	378.36%
Tokio Marine Amer Ins Co - 10945	10,752,684	0.1301%	10,683,570	3,179,006	29.76%
Topa Ins Co - 18031	10,210,457	0.1235%	6,880,936	4,230,131	61.48%
Grange Ins Assn - 22101	9,045,938	0.1094%	8,958,255	16,986,322	189.62%
American Security Ins Co - 42978	8,561,541	0.1036%	8,646,858	6,588,326	76.19%
Stillwater Prop & Cas Ins Co - 16578	7,977,817	0.0965%	7,836,506	6,461,835	82.46%
Homesite Ins Co Of The Midwest - 13927	6,773,247	0.0819%	1,219,631	13,700,695	1123.35%
Mapfre Ins Co - 23876	6,143,518	0.0743%	6,880,304	3,668,256	53.32%
First Amer Prop & Cas Ins Co - 37710	5,223,010	0.0632%	5,602,200	4,326,936	77.24%
Horace Mann Prop & Cas Ins Co - 22756	4,792,518	0.0580%	4,767,976	52,654,403	1104.33%
Spinnaker Ins Co - 24376	4,787,304	0.0579%	2,489,484	11,414,852	458.52%
Oregon Mut Ins Co - 14907	4,122,430	0.0499%	4,228,368	4,903,178	115.96%
Nationwide Mut Fire Ins Co - 23779	3,986,510	0.0482%	4,110,086	5,662,184	137.76%
Armed Forces Ins Exch - 41459	3,743,143	0.0453%	3,809,811	10,500,089	275.61%
Eagle W Ins Co - 12890	3,740,757	0.0453%	3,863,448	12,530,308	324.33%
Praetorian Ins Co - 37257	3,567,733	0.0432%	4,976,013	732,843	14.73%
Neighborhood Spirit Prop & Cas Co - 10317	3,567,695	0.0432%	3,548,979	(1,323,777)	-37.30%
Markel Amer Ins Co - 28932	3,421,219	0.0414%	3,316,405	1,123,422	33.87%
Golden Bear Ins Co - 39861	3,036,893	0.0367%	3,046,155	2,130,937	69.95%
Occidental Fire & Cas Co Of NC - 23248	2,850,427	0.0345%	2,694,794	1,400,829	51.98%
Allstate Ind Co - 19240	2,515,028	0.0304%	2,529,894	2,731,883	107.98%
Aspen Amer Ins Co - 43460	2,274,375	0.0275%	2,351,856	704,094	29.94%
Western Mut Ins Co - 13625	2,189,361	0.0265%	2,234,570	2,214,423	99.10%
Electric Ins Co - 21261	2,030,908	0.0246%	2,031,142	2,283,922	112.45%
Civic Prop & Cas Co - 10315	1,987,567	0.0240%	1,981,790	313,567	15.82%
Unigard Ins Co - 25747	1,978,652	0.0239%	6,702,919	(2,747,464)	-40.99%
Standard Guar Ins Co - 42986	1,706,103	0.0206%	1,678,045	1,413,635	84.24%
Catlin Ins Co - 19518	1,683,113	0.0204%	402,842	243,317	60.40%
Vigilant Ins Co - 20397	1,335,645	0.0162%	1,374,784	(1,225,150)	-89.12%
Clear Blue Ins Co - 28860	1,284,497	0.0155%	1,117,415	350,340	31.35%
Pacific Ind Co - 20346	892,702	0.0108%	879,642	2,980,771	338.86%
Twin City Fire Ins Co Co - 29459	761,119	0.0092%	759,261	1,247,515	164.31%
Exact Prop & Cas Co Inc - 10318	663,691	0.0080%	663,471	(633,576)	-95.49%
Sutter Ins Co - 32107	662,596	0.0080%	672,523	1,145,841	170.38%
California Mut Ins Co - 27480	657,998	0.0080%	689,600	153,244	22.22%
Zurich Amer Ins Co - 16535	509,583	0.0062%	71,647	16,349	22.82%
State Natl Ins Co Inc - 12831	491,165	0.0059%	240,165	280,302	116.71%
Merastar Ins Co - 31968	211,859	0.0026%	220,404	113,666	51.57%
Fidelity & Deposit Co Of MD - 39306	197,290	0.0024%	215,399	22,190	10.30%
Affiliated Fm Ins Co - 10014	191,449	0.0023%	216,402	77,857	35.98%
Unitrin Direct Prop & Cas Co - 10915	134,079	0.0016%	143,034	119,071	83.25%
Constitution Ins Co - 32190	132,634	0.0016%	19,977	-	0.00%
Hyundai Marine & Fire Ins Co Ltd - 10048	122,350	0.0015%	101,173	165,980	164.06%
Liberty Mut Fire Ins Co - 23035	49,156	0.0006%	52,287	(1,203,677)	-2302.06%
Pharmacists Mut Ins Co - 13714	17,512	0.0002%	11,789	1,289	10.93%
Hartford Cas Ins Co - 29424	12,260	0.0001%	14,006	(192,479)	-1374.26%
Geovera Specialty Ins Co - 10182	9,533	0.0001%	9,443	(108,169)	-1145.49%

2018 CA Property & Casualty Insurers' Premium and Loss Information

By Line of Business by Company Written Premium (WP)

Source: NAIC Database, Licensed Companies Only

Line of Business:	04 - HOMEOWNERS MULTIPLE PERIL

Company	Written Premium	Market Share	Earned Premium	Incurred Loss	Loss Ratio
Hartford Underwriters Ins Co - 30104	4,587	0.0001%	2,899	(2,223,548)	-76700.52%
Unitrin Auto & Home Ins Co - 16063	3,254	0.0000%	3,604	(186)	-5.16%
Massachusetts Bay Ins Co - 22306	545	0.0000%	541	-	0.00%
Nationwide Mut Ins Co - 23787	518	0.0000%	518	-	0.00%
Hartford Ins Co Of The Midwest - 37478	344	0.0000%	286	26	9.09%
Great Northern Ins Co - 20303	156	0.0000%	185	5	2.70%
Hartford Accident & Ind Co - 22357	20	0.0000%	270	8,960	3318.52%

EXHIBIT IRH-CWD-248

2023 CA Property & Casualty Market Share

By Line of Business by Company Written Premium (WP)

Source: NAIC Database, Licensed Companies Only

Company	Written Premium	Market Share	Earned Premium	Incurred Loss	Loss Ratio
04 - HOMEOWNERS MULTIPLE PERIL	**13,218,555,040**	**100.0000%**	**12,615,427,773**	**7,990,111,685**	**63.34%**
State Farm Gen Ins Co - 25151	2,734,469,775	20.6866%	2,667,528,067	1,545,648,342	57.94%
CSAA Ins Exch - 15539	895,046,332	6.7711%	859,876,754	448,770,060	52.19%
California Automobile Ins Co - 38342	839,006,816	6.3472%	776,842,219	464,326,842	59.77%
Fire Ins Exch - 21660	746,514,567	5.6475%	728,943,681	377,848,978	51.84%
Interins Exch Of The Automobile Club - 15598	720,382,114	5.4498%	663,152,155	454,746,156	68.57%
Farmers Ins Exch - 21652	678,349,757	5.1318%	557,575,725	445,451,746	79.89%
Allstate Ins Co - 19232	593,686,201	4.4913%	594,094,111	392,688,963	66.10%
Standard Fire Ins Co - 19070	554,435,647	4.1944%	532,995,295	334,866,497	62.83%
Mid Century Ins Co - 21687	411,098,230	3.1100%	410,206,618	180,645,354	44.04%
General Ins Co Of Amer - 24732	326,438,273	2.4695%	308,036,911	237,270,427	77.03%
Liberty Ins Corp - 42404	289,668,114	2.1914%	277,234,366	201,914,633	72.83%
United Serv Automobile Assn - 25941	270,775,335	2.0484%	260,747,134	202,645,006	77.72%
Nationwide Mut Ins Co - 23787	262,810,692	1.9882%	266,931,089	170,186,446	63.76%
USAA Cas Ins Co - 25968	254,234,363	1.9233%	250,485,354	223,209,858	89.11%
Pacific Specialty Ins Co - 37850	240,381,575	1.8185%	240,342,336	116,939,849	48.66%
Federal Ins Co - 20281	193,742,114	1.4657%	181,886,742	200,220,461	110.08%
Foremost Ins Co Grand Rapids MI - 11185	160,745,798	1.2161%	149,172,773	77,185,948	51.74%
Homesite Ins Co Of The Midwest - 13927	155,010,093	1.1727%	123,612,774	77,951,366	63.06%
Sutton National Ins Co - 25798	133,090,272	1.0068%	79,180,987	41,007,243	51.79%
American Family Connect Prop & Cas I - 29068	130,886,303	0.9902%	130,145,129	92,044,914	70.72%
Homesite Ins Co Of CA - 11005	116,518,331	0.8815%	112,278,676	75,943,553	67.64%
Safeco Ins Co Of Amer - 24740	113,264,560	0.8569%	106,066,346	57,754,281	54.45%
USAA Gen Ind Co - 18600	113,214,000	0.8565%	104,141,146	111,883,421	107.43%
Bankers Standard Ins Co - 18279	103,722,905	0.7847%	102,144,083	37,520,807	36.73%
Garrison Prop & Cas Ins Co - 21253	103,508,575	0.7831%	97,472,249	105,452,437	108.19%
American Modern Prop & Cas Ins Co - 42722	100,097,754	0.7573%	94,677,344	54,222,323	57.27%
Lemonade Ins Co - 16023	95,761,883	0.7245%	92,143,447	72,960,544	79.18%
Privilege Underwriters Recp Exch - 12873	95,622,610	0.7234%	87,693,349	43,383,957	49.47%
Safeco Ins Co Of IL - 39012	90,574,727	0.6852%	85,900,434	52,199,715	60.77%
Spinnaker Ins Co - 24376	89,069,935	0.6738%	89,143,852	74,527,349	83.60%
Integon Natl Ins Co - 29742	79,114,709	0.5985%	83,531,507	59,495,176	71.22%
Stillwater Ins Co - 25180	78,680,501	0.5952%	82,949,034	56,977,283	68.69%
California Cas Ind Exch - 20117	76,510,679	0.5788%	68,887,458	54,579,618	79.23%
American Bankers Ins Co Of FL - 10111	75,321,841	0.5698%	67,792,761	37,649,707	55.54%
Zurich Amer Ins Co - 16535	73,496,792	0.5560%	66,327,570	45,161,529	68.09%
First Natl Ins Co Of Amer - 24724	71,908,016	0.5440%	71,845,565	62,758,658	87.35%
ASI Select Ins Corp - 14042	67,647,760	0.5118%	72,329,974	48,689,441	67.32%
Property & Cas Ins Co Of Hartford - 34690	66,426,800	0.5025%	66,441,416	25,931,888	39.03%
Amica Mut Ins Co - 19976	61,848,899	0.4679%	58,273,600	56,274,967	96.57%
Residence Mut Ins Co - 15776	56,746,860	0.4293%	53,867,170	33,857,087	62.85%
Amguard Ins Co - 42390	55,108,893	0.4169%	67,233,918	89,141,381	132.58%
California Capital Ins Co - 13544	53,895,157	0.4077%	50,548,936	22,030,601	43.58%
American Natl Prop & Cas Co - 28401	50,619,802	0.3829%	49,762,098	32,740,737	65.79%
Wawanesa Gen Ins Co - 10683	46,899,416	0.3548%	48,053,947	35,605,717	74.10%
Seaview Ins Co - 10004	46,176,935	0.3493%	35,690,410	27,364,813	76.67%
Encompass Ins Co - 10358	41,083,928	0.3108%	41,794,016	16,582,490	39.68%
QBE Ins Corp - 39217	40,930,214	0.3096%	50,081,523	36,017,874	71.92%
The Cincinnati Ins Co - 10677	39,000,596	0.2950%	39,179,521	21,258,999	54.26%
DB Ins Co Ltd (US Branch) - 12502	37,282,429	0.2820%	23,245,198	6,159,578	26.50%
Crestbrook Ins Co - 18961	36,759,612	0.2781%	38,202,208	27,489,963	71.96%
Farmers Direct Prop & Cas Ins Co - 25321	36,219,307	0.2740%	40,238,628	39,107,721	97.19%
CSE Safeguard Ins Co - 18953	33,199,673	0.2512%	31,707,404	24,930,555	78.63%
Universal N Amer Ins Co - 10759	32,855,103	0.2486%	37,856,775	11,314,761	29.89%
Kemper Independence Ins Co - 10914	30,848,948	0.2334%	39,210,114	17,729,553	45.22%
Trumbull Ins Co - 27120	29,301,186	0.2217%	28,501,213	15,812,583	55.48%
Stillwater Prop & Cas Ins Co - 16578	26,847,061	0.2031%	27,073,723	21,635,809	79.91%
Aegis Security Ins Co - 33898	24,241,142	0.1834%	16,493,702	8,140,564	49.36%
Horace Mann Ins Co - 22578	21,869,001	0.1654%	19,940,818	9,415,848	47.22%

2023 CA Property & Casualty Market Share

By Line of Business by Company Written Premium (WP)

Source: NAIC Database, Licensed Companies Only

Company	Written Premium	Market Share	Earned Premium	Incurred Loss	Loss Ratio
American Modern Home Ins Co - 23469	17,699,109	0.1339%	21,838,540	8,775,626	40.18%
Civil Serv Employees Ins Co - 10693	16,527,479	0.1250%	16,898,101	12,899,036	76.33%
American Security Ins Co - 42978	15,794,016	0.1195%	13,108,422	6,264,927	47.79%
Foremost Prop & Cas Ins Co - 11800	15,396,321	0.1165%	12,624,471	9,104,680	72.12%
Sentinel Ins Co Ltd - 11000	15,047,319	0.1138%	14,099,880	1,377,922	9.77%
Response Ind Co Of CA - 10970	14,696,959	0.1112%	11,707,302	9,545,791	81.54%
Mapfre Ins Co - 23876	12,873,505	0.0974%	12,145,551	7,358,827	60.59%
Grange Ins Assn - 22101	12,645,955	0.0957%	13,195,097	5,055,633	38.31%
Tokio Marine Amer Ins Co - 10945	12,482,886	0.0944%	11,955,376	5,901,042	49.36%
Century Natl Ins Co - 26905	8,897,335	0.0673%	11,295,717	(174,740)	-1.55%
Markel Amer Ins Co - 28932	8,530,037	0.0645%	8,487,314	1,158,432	13.65%
Unitrin Auto & Home Ins Co - 16063	8,478,158	0.0641%	10,930,488	6,763,685	61.88%
Praetorian Ins Co - 37257	8,400,666	0.0636%	6,290,031	4,267,511	67.85%
Horace Mann Prop & Cas Ins Co - 22756	6,411,388	0.0485%	6,105,315	2,504,532	41.02%
Standard Guar Ins Co - 42986	6,381,876	0.0483%	5,093,737	2,864,142	56.23%
SafePort Ins Co - 36560	5,868,787	0.0444%	961,880	415,247	43.17%
Motors Ins Corp - 22012	4,323,690	0.0327%	2,023,282	1,449,658	71.65%
Armed Forces Ins Exch - 41459	3,758,896	0.0284%	3,678,586	1,840,345	50.03%
Fidelity & Deposit Co Of MD - 39306	2,856,530	0.0216%	1,293,618	678,551	52.45%
Eagle W Ins Co - 12890	2,601,331	0.0197%	2,594,554	2,944,998	113.51%
Electric Ins Co - 21261	2,587,285	0.0196%	2,499,669	1,651,120	66.05%
Incline Natl Ins Co - 19269	2,122,013	0.0161%	1,200,056	138,634	11.55%
Vigilant Ins Co - 20397	1,709,560	0.0129%	1,698,977	561,340	33.04%
21st Century Premier Ins Co - 20796	1,550,611	0.0117%	1,311,516	870,446	66.37%
California Mut Ins Co - 27480	1,374,764	0.0104%	1,120,994	1,166,898	104.09%
Allstate Ind Co - 19240	1,181,052	0.0089%	1,247,427	249,059	19.97%
Pacific Ind Co - 20346	1,124,012	0.0085%	1,116,068	(51,923)	-4.65%
Hyundai Marine & Fire Ins Co Ltd - 10048	959,481	0.0073%	792,106	152,504	19.25%
Knightbrook Ins Co - 13722	901,092	0.0068%	919,197	1,717,407	186.84%
Western Mut Ins Co - 13625	585,419	0.0044%	575,947	280,573	48.72%
Twin City Fire Ins Co Co - 29459	513,792	0.0039%	522,274	1,321,269	252.98%
State Natl Ins Co Inc - 12831	302,445	0.0023%	107,445	(426,615)	-397.05%
Occidental Fire & Cas Co Of NC - 23248	216,507	0.0016%	5,694,791	6,181,560	108.55%
Affiliated Fm Ins Co - 10014	192,996	0.0015%	194,882	141,527	72.62%
Merastar Ins Co - 31968	155,926	0.0012%	167,882	76,419	45.52%
Great Northern Ins Co - 20303	104,722	0.0008%	115,588	25,865	22.38%
Pharmacists Mut Ins Co - 13714	94,087	0.0007%	148,714	(253,419)	-170.41%
Chubb Natl Ins Co - 10052	70,494	0.0005%	80,113	15,017	18.74%
Unitrin Direct Prop & Cas Co - 10915	55,196	0.0004%	60,719	19,344	31.86%
Liberty Mut Fire Ins Co - 23035	52,083	0.0004%	51,235	649,141	1266.99%
Chubb Ind Ins Co - 12777	25,265	0.0002%	27,897	832	2.98%
Executive Risk Ind Inc - 35181	10,518	0.0001%	10,274	1,949	18.97%
Exact Prop & Cas Co Inc - 10318	9,186	0.0001%	356,115	278,026	78.07%
CSAA Fire & Cas Ins Co - 10921	5,994	0.0000%	4,442	14,168	318.96%
Travelers Commercial Ins Co - 36137	5,699	0.0000%	18,194	(18,200,372)	-100035.02%
Civic Prop & Cas Co - 10315	3,572	0.0000%	1,347,820	1,964,860	145.78%
Amco Ins Co - 19100	115	0.0000%	(1,184)	(14,702,166)	1241736.99%

EXHIBIT IRH-CWD-249

SCHEDULE Y
PART 1A – DETAIL OF INSURANCE HOLDING COMPANY SYSTEM

1 Group Code	2 Group Name	3 NAIC Company Code	4 ID Number	5 Federal RSSD	6 CIK	7 Name of Securities Exchange if Publicly Traded (U.S. or International)	8 Names of Parent, Subsidiaries Or Affiliates	9 Domiciliary Location	10 Relationship to Reporting Entity	11 Directly Controlled by (Name of Entity/Person)	12 Type of Control (Ownership, Board, Management, Attorney-in-Fact, Influence, Other)	13 If Control is Ownership Provide Percentage	14 Ultimate Controlling Entity(ies)/Person(s)	15 Is an SCA Filing Required? (Yes/No)	16 *
00176	State Farm Insurance Group	25178	37-0533100	3840207	0000315032		State Farm Mutual Automobile Insurance Company	IL	UDP			0.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	43796	37-1277771	4340432			State Farm Indemnity Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	12251	20-2035381	4340405			State Farm Guaranty Insurance Company	IL	IA	State Farm Indemnity Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	26816	75-1070025	4340320			State Farm County Mutual Insurance Company of Texas	TX	IA	State Farm Mutual Automobile Insurance Company	Management	0.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	14103	98-0538135	4341813			Oglesby Reinsurance Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	25143	37-0533080	4340535			State Farm Fire and Casualty Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	25151	37-0815476	4340423			State Farm General Insurance Company	IL	RE	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
			75-1853416	4340366			State Farm Lloyds, Inc	TX	NIA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	43419	75-1922109	4340357			State Farm Lloyds	TX	IA	State Farm Mutual Automobile Insurance Company	Management	0.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	10739	36-4261774	4340414			State Farm Florida Insurance Company	FL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
			98-0199076	4341792			Top Layer Reinsurance, Ltd.	BMU	IA	State Farm Mutual Automobile Insurance Company	Ownership	50.0	State Farm Mutual Automobile Insurance Company	YES	1
00176	State Farm Insurance Group	15894	47-5431477	4987453			Dover Bay Specialty Insurance Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	16138	81-5431491	5188761			HiRoad Assurance Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	17133	87-1066498				State Farm Classic Insurance Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0
00176	State Farm Insurance Group	17501	88-1591954				State Farm Specialty Insurance Company	IL	IA	State Farm Mutual Automobile Insurance Company	Ownership	100.0	State Farm Mutual Automobile Insurance Company	NO	0

EXHIBIT IRH-CWD-250

SCHEDULE D - PART 2 - SECTION 2

Showing all **COMMON STOCKS** Owned December 31 of Current Year

1	2	Codes		5	6	Fair Value		9	Dividends			Change in Book/Adjusted Carrying Value				17	18
		3	4			7	8		10	11	12	13	14	15	16		NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol
CUSIP Identification	Description	Code	Foreign	Number of Shares	Book / Adjusted Carrying Value	Rate per Share Used To Obtain Fair Value	Fair Value	Actual Cost	Declared but Unpaid	Amount Received During Year	Nonadmitted Declared But Unpaid	Unrealized Valuation Increase/ (Decrease)	Current Year's Other-Than-Temporary Impairment Recognized	Total Change in B./A.C.V. (13-14)	Total Foreign Exchange Change in B./A.C.V.	Date Acquired	
922908-37-1	VANGUARD INDEX FDS EXTD MKT INDEX FD INS			12,105.419	3,724,474	307.670	3,724,474	3,385,530	0	41,109	0	540,978	0	540,978	0	12/28/2023	
5329999999 - Mutual Funds - Designation Not Assigned by SVO					323,026,377	XXX	323,026,377	281,518,051	0	6,800,981	0	21,924,766	0	21,924,766	0	XXX	XXX
5409999999 - Subtotals – Mutual Funds					323,026,377	XXX	323,026,377	281,518,051	0	6,800,981	0	21,924,766	0	21,924,766	0	XXX	XXX
Exchange Traded Funds																	
464287-20-0	ISHARES CORE S&P 500 INDEX FUND			32,437.000	15,492,884	477.630	15,492,884	15,389,334	0	3,649	0	129,377	0	129,377	0	12/27/2023	
886364-39-9	TIDAL ETF TR ACADEMY VETERAN IMPACT ETF			520.000	10,608,000	20.400	10,608,000	10,046,400	0	101,348	0	561,600	0	561,600	0	11/02/2023	
5819999999 - Exchange Traded Funds					26,100,884	XXX	26,100,884	25,435,734	0	104,997	0	690,977	0	690,977	0	XXX	XXX
Parent, Subsidiaries and Affiliates - Other																	
02209@-10-3	STATE FARM REALTY INVESTMNT CO			21.980	0	105,704.703	2,323,389	405,277	0	1,462,572	0	0	0	0	0	01/30/1985	XXX
25988#-10-9	DOVER BAY SPECIALTY INS CO			1,000,000.000	75,720,316	75.720	75,720,316	100,000,000	0	0	0	(8,103,883)	0	(8,103,883)	0	11/16/2023	XXX
36312Z-2*-1	GAINSCO INC			100.000	281,526,017	2,815,260.170	281,526,017	405,761,381	0	0	0	(30,199,217)	0	(30,199,217)	0	12/31/2020	XXX
43354#-10-8	HIRAD ASSURN CO			1,000,000.000	28,561,407	28.561	28,561,407	70,000,000	0	0	0	940,629	0	940,629	0	03/01/2017	XXX
45804@-10-1	INSURANCE PLACEMENT SERV INC			500.000	0	21,645.283	10,822,641	8,500,000	0	4,000,000	0	0	0	0	0	10/31/1996	XXX
67702@-10-8	OGLESBY REINSURANCE CO			2,000,000.000	4,817,377,645	2,408.689	4,817,377,645	2,000,000,000	0	0	0	239,914,315	0	239,914,315	0	06/07/2007	XXX
85683#-10-1	STATE FARM GENERAL INS CO			100,000.000	1,342,228,645	13,422.286	1,342,228,645	689,250,000	0	0	0	(895,957,400)	0	(895,957,400)	0	06/29/1970	XXX
85683@-10-3	STATE FARM FIRE & CASUALTY CO			100,000.000	22,971,821,273	229,718.213	22,971,821,273	3,070,386,638	0	0	0	(785,063,750)	0	(785,063,750)	0	12/16/1955	XXX
85684#-10-0	STATE FARM LIFE & ACC ASSUR CO			10,000.000	665,172,664	66,517.266	665,172,664	3,000,000	0	0	0	49,127,340	0	49,127,340	0	11/03/1960	XXX
85684*-10-4	STATE FARM INTL SERVICES			5,050.000	0	275.086	1,389,186	5,000	0	0	0	0	0	0	0	01/31/1967	XXX
85685#-10-9	STATE FARM INDEMNITY CO			281,000.000	1,154,225,742	4,107.565	1,154,225,742	255,000,000	0	0	0	(193,346,269)	0	(193,346,269)	0	05/20/1992	XXX
85685*-10-3	STATE FARM LIFE INSURANCE CO			30,000.000	16,791,590,294	559,719.676	16,791,590,294	65,053,159	0	0	0	1,236,613,853	0	1,236,613,853	0	09/30/2023	XXX
85686@-10-1	STATE FARM LLOYDS INC			1,200,000.000	0	1.750	2,099,585	1,200,000	0	0	0	0	0	0	0	08/18/1992	XXX
85687#-10-7	STATE FARM FLORIDA INS CO			6,075,000.000	141,178,210	23.239	141,178,210	607,500,000	0	0	0	49,559,796	0	49,559,796	0	12/16/1998	XXX
85687*-10-1	SF INTERNATIONAL HOLDING CO			1,000.000	0	2,179.255	2,179,255	9,246,330	0	0	0	0	0	0	0	09/14/2000	XXX
85689#-10-5	STATE FARM SPECIALTY INS CO			5,000,000.000	0	10.223	51,114,719	50,000,000	0	0	0	(50,000,000)	0	(50,000,000)	0	04/03/2023	XXX
85689*-10-9	STATE FARM CLASSIC INS CO			4,000,000.000	12,801,917	3.200	12,801,917	33,000,000	0	0	0	12,801,917	0	12,801,917	0	07/22/2022	XXX
92809#-10-8	TOP LAYER REINSURANCE LTD CL A		D	60.000	31,121,801	518.697	31,121,801	10,659,930	0	5,890,000	0	9,993,520	0	9,993,520	0	01/08/1999	XXX
5929999999 - Parent, Subsidiaries and Affiliates - Other					48,313,325,931	XXX	48,383,254,706	7,378,967,715	0	11,352,572	0	(363,719,149)	0	(363,719,149)	0	XXX	XXX
5979999999 - Subtotals – Parent, Subsidiaries and Affiliates					48,313,325,931	XXX	48,383,254,706	7,378,967,715	0	11,352,572	0	(363,719,149)	0	(363,719,149)	0	XXX	XXX
5989999999 Total Common Stocks					133,803,886,294	XXX	133,873,815,069	21,710,297,034	97,586,168	1,580,420,662	0	10,920,841,410	61,510,536	10,859,330,875	0	XXX	XXX
5999999999 Total Preferred and Common Stocks					134,102,405,219	XXX	134,172,333,994	22,034,522,776	97,586,168	1,594,761,024	0	10,903,364,796	61,510,536	10,841,854,261	7,120,925	XXX	XXX

1.

Line Number	Book/Adjusted Carrying Value by NAIC Designation Category Footnote:												
1A	1A	$ 0	1B	$ 0	1C	$ 0	1D	$ 0	1E	$ 0	1F	$ 0	1G	$ 0
1B	2A	$ 0	2B	$ 0	2C	$ 0								
1C	3A	$ 0	3B	$ 0	3C	$ 0								
1D	4A	$ 0	4B	$ 0	4C	$ 0								
1E	5A	$ 0	5B	$ 0	5C	$ 0								
1F	6	$ 0												

EXHIBIT IRH-CWD-251

Our leadership team

Jon Farney

President & Chief Executive Officer

Jon Farney is President and Chief Executive Officer of State Farm Mutual Automobile Insurance Company. He has more than 30 years of experience with State Farm and within the insurance and financial services industry.

Farney joined State Farm in 1993 and has served in a variety of executive leadership positions including assistant vice president – securities products, assistant vice president – planning & analysis, vice president – financial operations and operations vice president – underwriting. He was promoted to senior vice president, treasurer and chief financial officer in 2016. He was elected President of State Farm Mutual in January 2024 and assumed the role of Chief Executive Officer in June 2024.

He received a bachelor's degree in accounting from Illinois State University, Normal and earned his MBA from the University of Michigan. He is a Certified Public Accountant (CPA) and has earned the Chartered Property Casualty Underwriter® (CPCU), Chartered Life Underwriter® (CLU), Chartered Financial Consultant® (ChFC) and Fellow, Life Management Institute® (FLMI) designations.

Farney is a member of the Business Roundtable.

Kristyn Cook

Executive Vice President and Chief Agency, Sales & Marketing Officer

Chris Schell

Executive Vice President & Chief Operating Officer

Andrea Doss

Senior Vice President & Chief Risk Officer

Wensley J. Herbert

Senior Vice President – P&C Claims

Deon Johnson

Senior Vice President – P&C Underwriting

Dan Krause

Senior Vice President - Market Area

Sarah Mineau

Senior Vice President – Life, Health & Investment Planning Services

Keesha-Lu Mitra

Senior Vice President & General Counsel

Brad Montgomery

Senior Vice President – Agency

Bill Roundtree

Senior Vice President - Market Area

Michele Russo

Senior Vice President

Mark Schwamberger

Senior Vice President, Treasurer and Chief Financial Officer

Lisa Stewart

Senior Vice President - Market Area

Rob Stewart

Senior Vice President - Market Area

Allyson Watts

Senior Vice President - Market Area

Joe Young

Senior Vice President and Chief Investment Officer

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StateFarm

EXHIBIT IRH-CWD-252

Bloomington, March 14, 2025

State Farm General Insurance Company: Update on California

[< https://content.presspage.com/uploads/1441/4466aee1-72d4-4393-a2bb-969c39ea20dc/1920_250214-california-update-bw.png?10000>]

[Español < https://newsroom.statefarm.com/state-farm-general-update-spanish/>]

March 14, 2025 update:

Response to Commissioner Lara's provisional rate approval

It's time for certainty in the California insurance market for our customers. The provisional nature of [today's decision <]

https://www.insurance.ca.gov/0400-news/0100-press-releases/2025/release026-2025.cfm> does not improve that certainty but it's a step in the right direction. We are moving forward with implementing this provisionally approved rate and will continue to work with the California Department of Insurance for a sustainable future for the California insurance market.

State Farm General has worked openly and honestly with all parties in this process. In addition, State Farm General will continue to monitor capacity to support its risks and build sufficient capital for the future.

February 26, 2025, 4 p.m. CST update:

Today we took the opportunity to reiterate with Commissioner Lara the urgency needed to approve State Farm General's interim rate request so that State Farm General can continue helping California customers.

The actions State Farm General has taken in the state, including the request for interim rate increases, are designed to support State Farm General's need to collect sufficient premiums to protect policyholders against the risk of loss to their homes and other property.

February 25, 2025, 3 p.m. CST update:

State Farm General S&P Global Rating action (Financial Strength Rating placed on CreditWatch - Negative < https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3328722>)

We remain deeply concerned about the financial position of State Farm General, as it is difficult to match price to risk in California. As we said in our emergency interim rate filing on Feb 3, we need immediate rate increases to help stabilize State Farm General's financial condition and

avoid a potential rating agency downgrade. S&P's "CreditWatch - Negative" today reinforces the need for urgency.

February 25, 2025, 2 p.m. CST update:

State Farm General Insurance Company responds to Commissioner Lara Ahead of Feb. 26 meeting; Shares cost estimates of wildfires

Representatives from State Farm General Insurance Company (SFG) will attend a meeting tomorrow with Commissioner Lara about SFG's emergency interim rate request. SFG submitted a **letter < https://newsroom.statefarm.com/download/3867bd51-fce0-4abd-9a96-cf2da05152d5/sfgtolara2.25.25.pdf>** to the Commissioner today.

SFG has paid out $1.75 billion on approximately 9,500 claims filed as a result of the January wildfires.

SFG's current estimate of direct losses from the Los Angeles fires stands at approximately $7.6 billion, taking into account both reported and not reported claims. Estimates for SFG's retained losses after reinsurance, and for SFG's share of total FAIR Plan losses, are approximately $212 million and $400 million, respectively. Based on these estimates, and after accounting for reinsurance recoveries, tax impacts and partial recoupment of SFG's allocation of the FAIR Plan's recent $1 billion assessment, the January fires will reduce SFG's surplus, which stood at $1.04 billion at the end of 2024 after a decline of over $300 million from year-end 2023, by approximately $400 million. These initial estimates will continue to be reviewed and updated, if needed, as we continue through the claim adjudication process and more information becomes available.

State Farm Mutual Automobile Insurance Company (SFM)

serves as the primary reinsurer for SFG and will assume the majority of losses related to these fires ceded by SFG under its reinsurance contracts.

The interim rate request is not to pay for the costs of the wildfires. SFG will rely on existing surplus and a robust reinsurance program to pay claims from the wildfires.

Immediate interim approval is an indispensable and critical first step to eventually restoring the company's financial strength. Financial strength is necessary so an insurance company can pay for any future claims for the risks it insures.

In the letter submitted today, SFG said it agrees with the California Department of Insurance that the Commissioner should approve the interim rate request as it is "in the public interest, in order to maintain maximum availability of homeowners insurance options in California."

As SFG said in its **February 3 letter <https://newsroom.statefarm.com/download/90ab44d3-54d6-42b7-8d69-0d883fa5de78/february32025lettersenttocadepartmentofinsurance.pdf>** to the Commissioner, approval is needed to help avert a dire situation for the more than 2.8 million policies issued by SFG, including 1 million State Farm General homeowners customers, and the insurance market in the state of California.

Last year, one rating agency downgraded SFG's financial strength rating due to its capital position. With further capital deterioration as a result of the wildfires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use SFG insurance on the collateral backing for their mortgage.

SFG insures high concentrations of risk in California that

could generate financial losses multiple times larger than the company's current surplus. A smaller capital base will further constrain SFG's ability to provide ongoing coverage.

Insurance will cost more for customers in California going forward because the risk is greater in California. Over the last nine years, the lack of alignment between price and risk means that for every $1.00 collected in premium, SFG paid $1.26, resulting in over $5 billion in cumulative underwriting losses.

We look forward to working alongside regulators, policymakers and industry leaders on creating a sustainable insurance environment in California – one that balances risk and increased rates, ensures long-term market stability and allows insurers like SFG to remain a vital part of California's future.

February 14, 2025 update:

Response to California Commissioner Ricardo Lara's denial of emergency interim rate request

We are very disappointed the Commissioner ignored his department's recommendation to take the critical and necessary step to approve State Farm General's request for interim rate increases associated with our June 2024 filings.

This lack of approval sends a strong message to State Farm General about the support it will receive to collect sufficient premiums in the future to protect Californians against the risk of loss to their homes, property, and other claims.

We have gone to great lengths to clearly answer the questions outlined by the Commissioner. While we're positioned to handle all of the claims associated with the most recent wildfires, State Farm General must seriously

consider its options within the California insurance market going forward.

February 3, 2025 Letter to CDI < https://newsroom.statefarm.com/download/90ab44d3-54d6-42b7-8d69-0d883fa5de78/february32025lettersenttocadepartmentofinsurance.pdf>

February 14 Commissioner's Response < https://www.insurance.ca.gov/0400-news/0100-press-releases/2025/upload/nr018CommissionerLetterEmergencyInterimRateApproval.pdf>

February 3, 2025 – Background

State Farm General asks the California Department of Insurance to immediately approve interim rate increases, including 22% average for homeowners.

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. State Farm helps people recover from the unexpected. That is what we are doing in the wake of the wildfires. As of February 1st, State Farm General (Fire only) has received more than 8,700 claims and has already paid more than $1 billion to customers. State Farm General will ultimately pay out significantly more, as collectively these fires will be the costliest disasters in the history of State Farm General.

The costs of the January 2025 wildfires will further deplete capital from State Farm General. Capital is necessary so an insurance company can pay for any future claims for the risks it insures. Last year, one rating agency downgraded State Farm General's financial strength rating due to its capital position. With further capital deterioration as a result of the wildfires, additional downgrades could

follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance on the collateral backing for their mortgage.

State Farm General asked the California Department of Insurance today to immediately approve interim rate increases to help avert a dire situation for the more than 2.8 million policies issued by State Farm General, including 1 million State Farm General homeowners customers, and the insurance market in the state of California. State Farm General has had an outstanding filed rate increase pending since June 2024. Pending CDI approval, rate changes will be effective upon renewal on or after May 1, 2025.

Insurance will cost more for customers in California going forward because the risk is greater in California. Immediate emergency interim approval of additional rate is essential to more closely align cost and risk and enable State Farm General to rebuild capital. We must appropriately match price to risk. That is foundational to how insurance works. Higher risks should pay more for insurance than lower risks. Over the last 9 years, the lack of alignment between price and risk means that for every $1.00 collected in premium, State Farm General paid $1.26, resulting in over $5 billion in cumulative underwriting losses.

State Farm General has made difficult decisions to attempt to responsibly limit overexposure in high-risk areas, while allowing for targeted growth in lower risk areas of the state. In **May 2023, State Farm General made the difficult decision < https://newsroom.statefarm.com/state-farm-general-insurance-company-california-new-business-update/>** to stop writing any new policies. In a detailed letter to the CDI in March 2024, State Farm General said, “The swift capital depletion of State Farm General is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and

approval of currently pending and future rate filings."

State Farm General still insures high concentrations of risk in California that could generate financial losses multiple times larger than the company's surplus. Reinsurance will assist us in paying what we owe to customers, but a smaller capital base will further constrain State Farm General's ability to provide ongoing coverage. We look forward to working alongside regulators, policymakers and industry leaders on creating a sustainable insurance environment in California – one that balances risk and increased rates, ensures long-term market stability and allows insurers like State Farm General to remain a vital part of California's future.

Additional Details:

State Farm General asks the California Department of Insurance to immediately approve interim rate increases

- **State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more.** State Farm has more customers in California than any other insurer. State Farm General Insurance Company is the state's largest provider of Fire insurance, with more than 2.8 million policies in California. State Farm General protects more than 1 million homeowners customers.

- **State Farm helps people recover from the unexpected. That is what we are doing in the wake of the wildfires.** Thousands of State Farm agents, agent team members and employees are on the ground in California and are assisting customers

PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

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

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

On April 7, 2025, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S EXHIBIT LIST

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 April 7, 2025 at Los Angeles, California.

Kaitlyn Gentile

Service List

Hon. Karl Fredric J. Seligman Administrative Law Judge Administrative Hearing Bureau **California Department of Insurance** 1901 Harrison Street, 3rd Floor Oakland, CA 94612 Tel.: (415) 538-4243 Fax: (510) 238-7828 Florinda.Cristobal@insurance.ca.gov Camille.Johnson@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Vanessa Wells Victoria Brown **Hogan Lovells US LLP** 855 Main Street, Suite 200 Redwood City, CA 94063 Tel.: (650) 463-4000 Fax: (650) 463-4199 Vanessa.Wells@hoganlovells.com Victoria.Brown@hoganloverlls.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Katherine Wellington **Hogan Lovells US LLP** 125 High Street, Suite 2010 Boston, MA 02110 Tel.: (617) 371-1000 Fax: (617) 371-1037 Katherine.Wellington@hoganlovells.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Jordan D. Teti **Hogan Lovells US LLP** 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Tel.: (310) 785-4600 Fax: (310) 785-4601 Jordan.Teti@hoganlovells.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL

Nikki McKennedy
Jennifer McCune
Daniel Wade
Duncan Montgomery
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Tel.: (415) 538-4500
Fax: (510) 238-7830
Nikki.McKennedy @insurance.ca.gov
Jennifer.McCune@insurance.ca.gov
Daniel.Wade@insurance.ca.gov
Duncan.Montgomery@insurance.ca.gov

Attorneys for CDI

☐ FAX
☐ U.S. MAIL
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