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STATE FARM GENERAL INSURANCE
COMPANY

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA**

In the Matter of the Rate Applications of

STATE FARM GENERAL INSURANCE
COMPANY,

Applicant.

File Nos. PA-2024-00011, PA-2024-00012,
PA-2024-00013

**STATE FARM GENERAL'S RESPONSE
TO MOTIONS IN LIMINE**

1 **I. THE DEPARTMENT’S MOTION TO EXCLUDE WATKINS’S TESTIMONY**
2 **IS PREMATURE AND UNFOUNDED.**

3 The California Department of Insurance (“CDI” or the “Department”) requests to limit or
4 exclude testimony by State Farm General’s expert, Nancy Watkins. The Department claims that
5 its request is necessary to protect confidential information and avoid a conflict of interest. Mot. at
6 1. State Farm General does not object to the Department’s request that the ALJ “limit the in-
7 person testimony of Ms. Watkins to non-confidential matters.” Mot. at 2. But the Department’s
8 alternative request, “to exclude [Watkins’] testimony in its entirety,” is premature, unnecessary to
9 protect confidentiality, and misunderstands the meaning of a “conflict of interest.” Even worse,
10 the Department’s motion threatens extreme prejudice to State Farm General because of possible
11 conduct *by Consumer Watchdog*. The ALJ should deny the Department’s request to exclude.

12 *First*, the Department’s motion to exclude is premature. A motion is not ripe if it seeks to
13 resolve a dispute that has not yet arisen. (*See, e.g., O’Grady v. Superior Court* (2006) 139 Cal.
14 App. 4th 1423, 1453-54 [explaining that motion regarding discovery was premature “because no
15 other discovery had actually been undertaken”].) Courts decline to resolve unripe motions for the
16 same reason they dismiss unripe claims: Premature adjudication “could well waste court
17 resources, either because it ultimately proves unnecessary, or because it addresses the pertinent
18 issues at too abstract and hypothetical a level for sound resolution.” (*Id.* at 1454.) That is the
19 precise risk that the Department’s anticipatory motion presents here.

20 Here, the risk that Ms. Watkins will present improper testimony is not merely speculative,
21 it is near non-existent. As even the Department acknowledges, there is no indication that the
22 interim rate proceedings will implicate the information that is allegedly protected by Watkins’
23 contract with the Department. (Mot. at 2.) In fact, the Department concedes that it has reviewed
24 Watkins’ declaration and determined that “she has not disclosed any confidential data or work
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1 product.” (*Id.*)¹ The Department offers no legal basis for preemptively excluding an expert based
2 on testimony that she as expressly (and repeatedly) said that she will not provide.

3 Consumer Watchdog’s reservation of rights to cross-examine Ms. Watkins regarding
4 confidential information does not make the Department’s motion ripe. According to the
5 Department, Consumer Watchdog would not agree to refrain from cross-examining Watkins about
6 Department-confidential information. (Mot. at 7.) But that does not mean that Consumer
7 Watchdog *will* cross-examine Ms. Watkins on confidential information. Nor should it. As the
8 Department agrees, nothing in Ms. Watkins’ declaration implicates Department-confidential
9 information and examining Ms. Watkins on potential confidential information unrelated to her
10 testimony here would be inappropriate. The Department’s conjecture that Consumer Watchdog
11 may engage in an improper line of questioning is too speculative to warrant the extreme prejudice
12 caused by excluding expert testimony mid-trial.

13 *Second*, excluding Watkins’s testimony is unnecessary to protect the Department’s
14 confidential information. The Department’s motion and supporting declaration are clear: Nothing
15 in Ms. Watkins’s declaration implicates the Department’s confidential information. *See infra* at
16 n.1. Indeed, the only real threat to the Department’s confidential information appears to be
17 Consumer Watchdog, who—for reasons unknown—insists on reserving the possibility that it may
18 cross-examine Ms. Watkins on Department confidential information. (*See* Mot. at 7.)

19 The better remedy is to limit *Consumer Watchdog*’s conduct, not State Farm General’s
20 ability to present its case. Barring Consumer Watchdog from examining Ms. Watkins on
21 confidential information poses no prejudice. Consumer Watchdog can ask Ms. Watkins about the
22 entirety of her declaration without encroaching on confidential information. By contrast, barring
23 Ms. Watkins from testifying on the eve of trial would be highly prejudicial, leaving State Farm
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25 ¹ (*See also* Mot. at 7 [Department acknowledging that Ms. Watkins “indicated that she understood
26 her contractual obligations [of confidentiality] and did not intend to violate them.”]; *id.* at 9 [“In
27 the Department’s view, Ms. Watkins’ April 2, 2025 Declaration does not divulge confidential
28 information”]; *id.* [“Ms. Watkins has asserted she does not intend to violate her contractual
obligations”]; McKennedy Decl. ¶ 13 [“Ms. Watkins indicated she understood her contractual
obligations and did not intend to violate them.”].)

1 General without any witness to rebut testimony provided by Consumer Watchdog’s in-house
2 actuary.

3 *Third*, excluding Ms. Watkins testimony is unnecessary to cure any cognizable conflict of
4 interest. The Department offers a two-part test for assessing Ms. Watkins’s involvement in this
5 case, relying on caselaw involving (1) conflicted attorneys, or (2) expert witnesses who worked, or
6 considered working for, adverse parties in the *same litigation*. (Mot. at 7-8 [citing *Western Digital*
7 *corp. v. Superior Court* (1998) 60 Cal. App. 4th 1471; *In re Complex Asbestos Litigation* (1991)
8 232 Cal. App. 3d 72, 586].) That test has no application here, where an independent, third-party
9 expert consulted for separate parties about separate issues on separate matters.

10 The Department’s new view on conflicts law would have sweeping effects, limiting
11 independent expert’s ability to work on different issues for different parties in different matters.
12 The problems with that approach are on full display here. The Department provides no
13 explanation for how Ms. Watkins’s prior consulting work for the Department on reinsurance and a
14 new rate regulation creates an actual conflict. Ms. Watkins offers no testimony about reinsurance
15 or that rate regulation. And the Department does not suggest that information Ms. Watkins had
16 access to could have informed her opinions in this case.

17 Simply put, the Department’s motion is premature and unfounded. State Farm General
18 respectfully requests that the ALJ deny the Department’s request to exclude Watkins’ testimony in
19 its entirety. State Farm General takes no position on the Department’s request that the ALJ
20 “admonish Ms. Watkins of her contractual responsibilities and obligations of confidentiality . . .
21 [and] limit the in—person testimony of Ms. Watkins to non-confidential matters.” Mot. at 2.

22 **II. RESPONSE TO CONSUMER WATCHDOG’S MIL #1: EVIDENCE**
23 **REGARDING STATE FARM GENERAL’S FINANCIAL CONDITION IS**
24 **RELEVANT AND ADMISSIBLE.**

25 Consumer Watchdog’s Motion in Limine #1 is effectively a request to scuttle the hearing
26 by seeking to exclude “any evidence, argument, or reference to State Farm General Insurance
27 Company’s general financial condition, including but not limited to evidence, argument, or
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1 reference to issues concerning solvency, capital deterioration, credit ratings, or financial strength
2 ratings.” Consumer Watchdog’s Motion in Limine No. 1 at 2. State Farm General respectfully
3 requests that the ALJ deny the motion.

4 Consumer Watchdog knows well that the stipulation to the interim rate is not based on
5 Variance 6 (as would be appropriate for a full rate hearing *if* Variance 6 were invoked), but rather
6 it is subject to the test of the stipulation being “fundamentally fair, adequate, reasonable and in the
7 interests of justice” amid emergency conditions.

8 The two-way stipulation includes State Farm General’s statement that “its financial
9 strength rating was downgraded in 2024” and “that some of Applicant’s customers might have to
10 find other insurance if further downgrades were to happen.” The stipulation also includes State
11 Farm General’s representation that its “financial projections show a continued decline in the
12 surplus it needs to support the writing of its homeowners lines of insurance in California.”
13 (Stipulation to Interim Rate Subject to Refunds With Interest Pending A Final Determination of
14 the Legality of the Rate [“Stipulation”] at 5.) The stipulation further states, moreover, that “the
15 Department agrees that Applicant has made a preliminary showing that it may be able to
16 demonstrate, after a full rate hearing, that it may be entitled to a rate increase,” in part due to
17 “Applicant’s concerning financial condition” and “the preliminary information provided by
18 Applicant regarding the devastating impacts of the Palisades/Eaton Fires on Applicant’s financial
19 condition.” (*Id.*)

20 The Commissioner thus instructed the ALJ to consider the issues presented by that
21 showing, which includes argument and evidence presented by State Farm General during this
22 interim rate process. The David Appel and Bryon Ehrhart testimony—provided by declaration
23 and soon, at the hearing—will directly address these issues. Indeed, the parties (including
24 Consumer Watchdog) have already presented extensive analysis addressing these issues that
25 should be heard and considered by the ALJ, in addition to the testimony at the hearing. For
26 example, CDI’s actuary stated that she performed a “holistic assessment of the Applicant’s current
27 financial condition and the overall health of the California homeowners insurance marketplace,” in
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1 part, relying on publicly available evidence regarding Applicant’s financial condition. (*See* Shaw
2 Decl. ¶ 10.) Consumer Watchdog may have a view different regarding how to interpret that
3 evidence of financial condition (e.g., Consumer Watchdog has proffered some arguments
4 regarding State Farm’s use of reinsurance), and that view can be fully aired at this hearing. That
5 different view is not, however, grounds to exclude essentially all of the evidence submitted by the
6 parties and all argument anticipated at the hearing.

7 Consumer Watchdog agrees, moreover, that a rate “in violation” of Proposition 103 cannot
8 “*remain in effect.*” (Consumer Watchdog’s Objections to CDI and State Farm’s Two-Way
9 Stipulation to Interim Rate [“CW Objections”].) The “objective” of Proposition 103 “is not just to
10 keep insurance rates fair to consumers, but to keep insurance *available*—which requires that rates
11 be fair to the insurers as well.” (*State Farm General Ins. Co. v. Lara* (2021) 71 Cal. App. 5th 148,
12 176). A key reason that State Farm General is seeking an interim rate is the risk of an imminent
13 downgrade of its financial strength rating. If State Farm General’s financial strength rating is
14 downgraded, *hundreds of thousands of California homeowners* may need to find new insurance—
15 which may not be possible in today’s market. (*See* State Farm General’s Brief in Support of
16 Interim Rate Request and Response to Consumer Watchdog’s Pre-Hearing Objections [“State
17 Farm General Br.”] at 2.) That will dramatically decrease the availability of insurance in
18 California, directly contrary to Proposition 103.

19 As CDI’s actuary has explained, an interim rate increase will help stabilize State Farm
20 General’s financial position. (*See* Declaration of Tina Shaw Submitted by California Department
21 of Insurance in Support of Hearing on Objections to Stipulation Pursuant to 10 CCR 2656.1 at 8
22 [“Shaw Declaration”]). This in turn will help prevent a ratings downgrade, which will *help*
23 *maintain insurance availability in California.* This material is directly relevant to a key objective
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1 of Proposition 103 and should be taken into account in the ALJ’s decision whether to recommend
2 that the Commissioner grant an interim rate.

3 **III. RESPONSE TO CONSUMER WATCHDOG MIL #2: EVIDENCE**
4 **REGARDING THE SUPPLEMENTAL STIPULATION IS RELEVANT AND**
5 **ADMISSIBLE.**

6 Consumer Watchdog asks the ALJ to exclude “from the April 8, 2025 interim rate hearing
7 any evidence, argument, or reference to the Supplement to February 7, 2025 Stipulation to Interim
8 Rate Subject to Refunds With Interest Pending a Final Determination of Legality of the Rate
9 submitted on April 4, 2025.” (Consumer Watchdog’s Notice Of and Motion In Limine No 2. to
10 Exclude Evidence Regarding the Supplement to the February 7, 2025 Stipulation at 1.) Consumer
11 Watchdog claims that the supplemental stipulation was “untimely filed,” that there are no
12 “declarations in support of the April 4 Supplement,” and that “[i]ntroduction of evidence
13 concerning the untimely filed and unsupported April 4 Supplement would be unfair and unduly
14 prejudicial.” (*Id.*) State Farm General Respectfully requests that the ALJ deny Consumer
15 Watchdog’s motion in limine.

16 State Farm General submits that the supplemental stipulation is not untimely, and instead
17 was the direct result of State Farm General and CDI diligently following the Commissioner’s
18 instructions. The Commissioner’s order setting this interim rate hearing expressly instructs the
19 ALJ to consider “such additional correspondence, evidence and argument provided at the
20 hearing,” including with respect to the “the Commissioner’s subsequent proposal to the parties.”
21 (Interim Rate Order at 2]. The supplemental stipulation is the result of CDI and State Farm
22 General’s additional discussions with respect to the Commissioner’s proposal that State Farm
23 General obtain a loan from State Farm Mutual and pause non-renewals. (*See* State of California
24 Department of Insurance, Closed Meeting Transcript, March 11, 2025, IRH-SFG-159-05 at 6-6:34
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1 ["I would like State Farm to obtain a loan or capital infusion from State Farm Mutual...."]; *id.* at
2 9:49-10:20 [discussing request to "suspend non-renewals"].)

3 In the supplemental stipulation, State Farm General agreed "that if and when the
4 Commissioner enters an order approving the interim rates" set forth in the supplemental
5 stipulation, State Farm General "shall obtain a surplus note of \$400 million from State Farm
6 Mutual." (Supplemental to February 7, 2025 Stipulation to Interim Rate Subject to Refunds with
7 Interest Pending a Final Determination of the Legality of the Rate at 3 ["Supplemental
8 Stipulation"].) In addition, in recognition of State Farm General's position that "it would be
9 contrary to prudent management of the company and fiscally irresponsible to agree and stipulate to
10 cease its currently implemented and ongoing nonrenewal program," State Farm General and CDI
11 agreed to decrease "the requested interim rate in the Homeowners Non-Tenant HO-3 line from
12 21.8% to 17.0%." (*Id.* at 3.) The supplemental stipulation is thus highly relevant to this interim
13 rate proceeding, because it represents State Farm General and CDI's negotiations to address the
14 Commissioner's subsequent proposal to the parties.

15 State Farm General acknowledges that the ALJ requested the supplemental stipulation by
16 April 2, 2025. State Farm General submits that exigent circumstances prevented the submission
17 of a stipulation prior to April 4, 2025. Vanessa Wells, the lead attorney for State Farm General,
18 negotiated the supplemental stipulation on behalf of State Farm General. Vanessa's mother
19 tragically suffered a stroke last week, and Vanessa was unable to further the negotiating process
20 because she was in the hospital assisting her mother, who subsequently passed away on Sunday.
21 State Farm General and CDI worked diligently on the supplemental stipulation, but were not able
22 to reach agreement until April 4, 2025 in significant part due to Vanessa's absence. Although
23 State Farm General and CDI worked as swiftly as possible, they were unable to reach agreement
24 on the supplemental stipulation prior to April 4, 2025.

25 Consumer Watchdog complains that there are no declarations to support the supplemental
26 stipulation, but that is wrong. CDI filed a declaration on April 2, 2024, directly supporting its
27 proposal for a \$400 million surplus note from State Farm Mutual and a 17% interim rate increase
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1 for State Farm General’s homeowner’s line. (*See* Shaw Declaration at 8]. The declarations filed
2 by State Farm General also directly support the supplemental stipulation, because they explain
3 why a higher interim rate is warranted.

4 Consumer Watchdog claims prejudice, but CDI filed its declaration on April 2, 2025
5 explaining why a 17% interim rate increase for the homeowner’s line, coupled with a \$400 million
6 surplus note, “will effect a substantial improvement to Applicant’s financial condition.” (*Id.*) State
7 Farm General filed its declarations on April 2, 2025, which likewise support the supplemental
8 stipulation. Consumer Watchdog has thus had a sufficient opportunity to review and respond to the
9 declarations supporting the supplemental stipulation, and it will have a further opportunity to do so
10 at the interim rate hearing. (*See Barclay Hollander Corp. v. California Reg’l Water Quality Control*
11 *Bd.* (2019) 38 Cal. App. 5th 479, 511 [finding no due process violation where agency gave party
12 “several opportunities . . . to address the entire range of issues presented in the proceeding before
13 it”]); (*Pinnacle Armor, Inc. v. United States* (9th Cir. 2011) 648 F.3d 708, 717 [similar].)

14 It is unclear, moreover, how Consumer Watchdog is prejudiced by an agreement by State
15 Farm General and CDI that is closer to Consumer Watchdog’s position. Consumer Watchdog has
16 repeatedly advocated for State Farm Mutual to contribute capital to State Farm General, and
17 Consumer Watchdog claims that a 22% interim rate increase for the homeowner’s line is too high.
18 (CW Objections at 10, 17-18.) There is no prejudice to Consumer Watchdog in these circumstances.
19 Indeed, under 10 CCR § 2656.1, the ALJ has the authority to “hold a hearing” within 10 business
20 days of a party’s objection to a “stipulation.” That is exactly what is occurring here—the ALJ is
21 holding a hearing that encompasses the supplemental stipulation within 10 business days of
22 Consumer Watchdog’s objections to that supplemental stipulation.

23 In short, the ALJ should deny the motion in limine. The purpose of this interim rate hearing
24 is to decide how best to address State Farm General’s declining financial condition and the risk of
25 an imminent ratings downgrade, taking into account the Los Angeles wildfires. The Commissioner
26 instructed State Farm General and CDI to continue to discuss and address that issue, and State Farm
27 General and CDI were able to reach a supplemental stipulation. The ALJ should provide a

1 recommendation to the Commissioner on whether the supplemental stipulation should be adopted,
2 consistent with the Commissioner's order setting this interim rate proceeding.

3 **III. CONCLUSION**

4 For the foregoing reasons, State Farm General respectfully requests that the ALJ deny the
5 Department's Motion To Limit Testimony Of, Or In The Alternative Exclude, State Farm
6 General's Retained Expert Witness Nancy Watkins; deny Consumer Watchdog's Motion To
7 Exclude Evidence Regarding State Farm's General Financial Condition; and deny Consumer
8 Watchdog's Motion To Exclude Evidence Regarding The Supplement To The February 7, 2025
9 Stipulation. State Farm General reserves the right to verbally address Consumer Watchdog's
10 Motion To Exclude Evidence Regarding RBC Calculations at the April 8 hearing.

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12 Dated: April 8, 2025

13 Respectfully submitted,

14 **HOGAN LOVELLS US LLP**

15 /s/ Jordan D. Teti

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