EXHIBIT

IRH-SFG-105

# SFG-DA-2

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.

| | | | | | | |
|---|---|---|---|---|---|---|
| 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.