EXHIBIT
IRH-SFG-107

SFG-DA-4

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.

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.

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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.