

SFG-NW-12

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ADMINISTRATIVE HEARING BUREAU

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8 **BEFORE THE INSURANCE COMMISSIONER**
9 **OF THE STATE OF CALIFORNIA**
10

11 In the Matter of the Rate Application of:

12 **STATE FARM GENERAL**
13 **INSURANCE COMPANY,**

14 Applicant.
15

File No. PA-2015-00004

ORDER ADOPTING REVISED
PROPOSED DECISION

(Cal. Ins. Code § 1861.08, Cal. Govt. Code §
11517)

16 This matter came for hearing before John H. Larsen, Administrative Law Judge (hereafter
17 "ALJ") of the Administrative Hearing Bureau. On October 7, 2016, the Commissioner received
18 the attached Revised Proposed Decision.

19 Now, therefore, pursuant to the provisions of California Insurance Code Section
20 1861.08(c) and California Government Code Section 11517(c)(2)(A), IT IS SO ORDERED that
21 the attached Revised Proposed Decision is hereby adopted by the Insurance Commissioner as his
22 Decision in the above entitled matter.

23 It is further ordered that the entirety of this Decision is designated precedential pursuant to
24 Government Code section 11425.60, subdivision (b).

25 It is so ordered.

26 DATED: November 7, 2016.

27 
28 DAVE JONES
Insurance Commissioner

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 give 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,

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

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.