

# SFG-VW-15

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

<p style="text-align: right;">Page 2</p> <p>1                   BEFORE THE INSURANCE COMMISSIONER</p> <p>2                   OF THE STATE OF CALIFORNIA</p> <p>3                   RICARDO LARA</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15               TRANSCRIPTION OF PROCEEDINGS, taken at</p> <p>16               1901 Harrison Street, 3rd Floor, Oakland,</p> <p>17               California, commencing at 10:30 a.m.</p> <p>18               and concluding at 11:52 p.m. on Wednesday,</p> <p>19               February 26, 2025, reported by</p> <p>20               Christina L. Rodriguez, Hearing Reporter.</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 4</p> <p>1               Live Proceedings, Wednesday, February 26, 2025</p> <p>2                                   10:30 a.m.</p> <p>3</p> <p>4</p> <p>5               THE COMMISSIONER: Thank you, and good</p> <p>6 morning. I want to be respectful of everyone's time.</p> <p>7 Thank you for coming. We are going to begin</p> <p>8 with our meeting. Again, thank you for joining me to</p> <p>9 discuss State Farm's General Insurance Company's</p> <p>10 request for approval of an emergency interim rate.</p> <p>11               Today's meeting differs from the informal</p> <p>12 conferences that you all randomly and routinely</p> <p>13 participate in that typically occurred during the rate</p> <p>14 filings which are closed to the public. Unlike those</p> <p>15 discussions, everything shared here will remain public.</p> <p>16               We have a court reporter to my left present to</p> <p>17 transcribe our meeting, and this transcript will be</p> <p>18 accessible to everyone. We have requested an expedited</p> <p>19 transcript, but it may take up to two days to receive</p> <p>20 it.</p> <p>21               I ask that everyone please state their names</p> <p>22 and company affiliation for the court reporter. I am</p> <p>23 Insurance Commissioner Ricardo Lara, and to my right is</p> <p>24 Commissioner -- Deputy Commissioner Lucy Wang. Several</p> <p>25 employees from the Department will also be present in</p>
<p style="text-align: right;">Page 3</p> <p>1 APPEARANCES:</p> <p>2</p> <p>3 CALIFORNIA DEPARTMENT               RICARDO LARA</p> <p>4 OF INSURANCE:                       Insurance Commissioner</p> <p>5                                       LUCY F. WANG</p> <p>6                                       Deputy Commissioner and</p> <p>7                                       Special Counsel</p> <p>8                                       NIKKI MCKENNEDY</p> <p>9                                       Senior Staff Attorney</p> <p>10                                      MICHAEL R. O. MARTINEZ</p> <p>11                                      Chief Deputy Commissioner</p> <p>12                                      KEN ALLEN</p> <p>13                                      Deputy Commissioner</p> <p>14               STATE FARM INSURANCE:   KEESHA-LU M. MITRA</p> <p>15                                      SVP and General Counsel</p> <p>16                                      DAN KRAUSE</p> <p>17                                      CEO and President</p> <p>18                                      MARK SCHWAMBERGER</p> <p>19                                      Treasurer and Chief</p> <p>20                                      Financial Officer</p> <p>21                                      VANESSA WELLS</p> <p>22                                      Attorney</p> <p>23                                      DAVID GROW</p> <p>24                                      Associate General Counsel</p> <p>25               CONSUMER WATCHDOG:   PAMELA PRESSLEY</p> <p>  Senior Staff Attorney</p> <p>  WILLIAM PLETCHER</p> <p>  Litigation Director</p> <p>  BEN ARMSTRONG</p> <p>  Staff Actuary</p>	<p style="text-align: right;">Page 5</p> <p>1 the back of the room to observe.</p> <p>2               Can State Farm please state their appearances</p> <p>3 for the court reporter this morning. Thank you.</p> <p>4               MS. MITRA: Certainly. Good morning,</p> <p>5 Commissioner. Keesha-Lu Mitra, State Farm.</p> <p>6               MR. KRAUSE: I'm Dan Krause, CEO and President</p> <p>7 of State Farm General.</p> <p>8               MR. SCHWAMBERGER: Mark Schwamberger, State</p> <p>9 Farm General.</p> <p>10              MR. GROW: David Grow. State Farm.</p> <p>11              MS. WELLS: I am Vanessa Wells. I am outside</p> <p>12 counsel representing State Farm, as I've done rate</p> <p>13 hearings for the last three years.</p> <p>14              THE COMMISSIONER: Thank you.</p> <p>15              From the Department of Insurance.</p> <p>16              MS. MCKENNEDY: Good morning, Commissioner.</p> <p>17 Nikki McKennedy of the Rate Enforcement Bureau.</p> <p>18              MR. MARTINEZ: Michael Martinez, Chief Deputy</p> <p>19 Commissioner.</p> <p>20              MR. ALLEN: Ken Allen, Deputy Commissioner of</p> <p>21 the Rate Regulation Branch.</p> <p>22              THE COMMISSIONER: Thank you.</p> <p>23              And Consumer Watchdog.</p> <p>24              MS. PRESSLEY: Good morning. My name is</p> <p>25 Pamela Pressley. I'm Senior Staff Attorney for Consumer</p>

<p style="text-align: right;">Page 6</p> <p>1 Watchdog.</p> <p>2 MR. PLETCHER: Good morning. William</p> <p>3 Pletcher, Litigation Director for Consumer Watchdog.</p> <p>4 MR. ARMSTRONG: Hi. Ben Armstrong, Staff</p> <p>5 Actuary with Consumer Watchdog.</p> <p>6 THE COMMISSIONER: Great. Thank you</p> <p>7 everybody, again, for being here.</p> <p>8 This type of meeting is truly unprecedented,</p> <p>9 and it's rare for an insurer to reach out directly to</p> <p>10 the commissioner to request this rate approval. This</p> <p>11 process typically occurs between the insurer, my</p> <p>12 department, and, often, with the interveners.</p> <p>13 However, as the elected head of this</p> <p>14 department, I am responsible for overseeing the nation's</p> <p>15 largest insurance market during these challenging times,</p> <p>16 and I recognize the importance of this direct</p> <p>17 communication.</p> <p>18 California's insurance market is currently</p> <p>19 facing the effects of climate change, rising global</p> <p>20 insurance cost, and a tightening national property</p> <p>21 insurance market. My department has managed over 100</p> <p>22 disaster responses in the past six years, with the most</p> <p>23 recent events being 14 wildfires in Los Angeles and San</p> <p>24 Diego County in this month alone -- or January, I should</p> <p>25 say.</p>	<p style="text-align: right;">Page 8</p> <p>1 of doing business in California. As a result, many</p> <p>2 insurers have paused writing new business and increase</p> <p>3 annual renewals in recent years.</p> <p>4 Over the past year, my department has</p> <p>5 implemented my sustainable insurance strategy, which</p> <p>6 updates regulations to allow insurers to use risk</p> <p>7 management tools such as catastrophe models and</p> <p>8 re-insurance in rate making; something that all other</p> <p>9 states permit except California.</p> <p>10 We implemented these reforms by requiring</p> <p>11 insurers to operate in California's high-risk areas</p> <p>12 where consumers have faced significant challenges due to</p> <p>13 limited insurance availability. Additionally, we have</p> <p>14 mandated that insurers depopulate the fair plan. Both</p> <p>15 of the requirements are unique to our state.</p> <p>16 This difficult decisions -- decisions are</p> <p>17 essentially essential for addressing the ongoing</p> <p>18 availability issues. Achieving affordable rates is</p> <p>19 impossible without tackling these challenges, which include</p> <p>20 preventing insurers from withdrawing from riskier areas</p> <p>21 and encouraging them to expand their coverage.</p> <p>22 So today's meeting focuses on State Farm's</p> <p>23 request for an emergency interim rate increase due to</p> <p>24 the alarming capital deterioration. State Farm is</p> <p>25 seeking a 22% increase for a homeowner policies, a 15%</p>
<p style="text-align: right;">Page 7</p> <p>1 We've held two weekend workshops where we</p> <p>2 helped over thousands of wildfire survivors understand</p> <p>3 their insurance benefits, with two more planned this</p> <p>4 March. I attended both workshops and saw firsthand the</p> <p>5 critical need to assist consumers understanding their</p> <p>6 insurance options during these difficult times of loss.</p> <p>7 Since the fire started, my department has</p> <p>8 supported more than 5,000 wildfire survivors through</p> <p>9 workshops, disaster recovery centers, and our hotline.</p> <p>10 My priorities remain to protect consumers; my priorities</p> <p>11 also are to hold insurance companies accountable and</p> <p>12 ensure stability in our California insurance market.</p> <p>13 Throughout this process, I adhere to</p> <p>14 Proposition 103's mandate that approved</p> <p>15 rate -- insurance rates and must not be excessive,</p> <p>16 inadequate, or unfairly discriminatory.</p> <p>17 Also, Prop 103 grants me, the Insurance</p> <p>18 Commissioner, the authority to approve insurance rates,</p> <p>19 including interim rates. In addition to the challenges</p> <p>20 mentioned, I face the task of regulating an insurance</p> <p>21 market operating under outdated regulations that have</p> <p>22 not been significantly reformed since the passage of</p> <p>23 Prop 103 in 1988.</p> <p>24 This outdated regulatory structure has</p> <p>25 hindered insurers from actively reflecting the true cost</p>	<p style="text-align: right;">Page 9</p> <p>1 increase for tenant policies, and a 38 increase for</p> <p>2 rental dwelling policies.</p> <p>3 Additionally, State Farm has three pending</p> <p>4 rate applications with the Department filed this past</p> <p>5 June. This request follows a 20% rate increase granted</p> <p>6 to State Farm in December of 2023, resulting from a</p> <p>7 stipulation agreement involving State Farm, Watchdog,</p> <p>8 and the Department which took effect in March 2024.</p> <p>9 Given that State Farm is one of the largest</p> <p>10 insurers in California and holds the most homeowners'</p> <p>11 insurance policies, I take this emergency rate request</p> <p>12 very seriously. State Farm's financial concern</p> <p>13 are (sic) significant not for the company, but for the</p> <p>14 entire California insurance market.</p> <p>15 I have reviewed the recent correspondence from</p> <p>16 State Farm, the Department, and Consumer Watchdog, as</p> <p>17 well as State Farm's rate application from June and the</p> <p>18 latest updates. After reviewing this information, I</p> <p>19 have some questions for State Farm; questions that I've</p> <p>20 previously posted or posed in my letter dated February</p> <p>21 24th.</p> <p>22 Although I call this meeting for my benefit, I</p> <p>23 want to ensure that the Department and Watchdog have the</p> <p>24 chance to speak at the end, and only if they've learned</p> <p>25 anything new from this dialogue. You have all been in</p>

<p style="text-align: right;">Page 10</p> <p>1 communications with State Farm's June filing for several 2 months now. Today is not a debate. It is not 3 opportunity.</p> <p>4 It is an opportunity, however, for State Farm 5 to clarify the need for emergency interim rate on behalf 6 of consumers. I'm really seeking today the facts and 7 answers, so this is not to relitigate anything. I've 8 read all the correspondence. This is only an 9 opportunity to speak if you have any new concerns from 10 what you've learned today from our discussion.</p> <p>11 So, State Farm, is there anything you would 12 like to say before we begin with our questions?</p> <p>13 MR. KRAUSE: Thank you, Commissioner. 14 Appreciate the opportunity to be here today. You asked 15 us to come here today ready to answer the questions that 16 you put forth in your letter, as you mentioned, and why 17 State Farm General needs more rate and why we need it on 18 an emergency basis, and we're prepared to do that.</p> <p>19 At the outset, though, I did want to take a 20 moment just to say thank you and appreciate the work of 21 your staff and reviewing everything we've provided to 22 them that support our interim rate request, and we agree 23 with their assessment that should be granted for all the 24 reasons they noted in their recommendations.</p> <p>25 We plan to reiterate information we've shared</p>	<p style="text-align: right;">Page 12</p> <p>1 that.</p> <p>2 Mark, you'll be answering the questions that 3 we posed in the letter?</p> <p>4 MR. SCHWAMBERGER: Most of them, sir.</p> <p>5 THE COMMISSIONER: Perfect. Okay. Well, why 6 don't we begin. Let's get to these questions. I want to 7 be mindful of peoples' times.</p> <p>8 So what, if anything, has changed for State 9 Farm between your pending rate application filed in June 10 2024 and now that necessitates this emergency relief.</p> <p>11 MR. SCHWAMBERGER: Yup. And thank you, again, 12 for allowing this.</p> <p>13 I would say two things: You mentioned in your 14 opening the fact that you're focused on 15 insurance -- insurers' stability and viability, and 16 that's why we're here today. That's why we filed under 17 the Variant 6 back in June, and that's why we're here to 18 reinforce it again.</p> <p>19 I would also just very much agree with you on 20 the seriousness of this. We are at a crucial point in 21 terms of the financial stability and viability of State 22 Farm General.</p> <p>23 So, now, let me get to your question and give 24 you some information that is new since June of 2024. So 25 first, State Farm General's policyholders' surplus has</p>
<p style="text-align: right;">Page 11</p> <p>1 with the Department that supported their recommendation 2 and also some new information today that we expect 3 you'll find helpful in line with what we shared in our 4 letter yesterday. State Farm General is at a crucial 5 point, and timing is of the essence. Its ability to 6 continue to provide coverage to customers in the future 7 first depends on sufficient capital to stabilize its 8 financial condition, which this interim rate approval 9 will certainly help to do.</p> <p>10 Mark Schwamberger, our Treasurer, is going to 11 address the questions that you've asked.</p> <p>12 And without further ado, Mark, we'll allow you 13 to start.</p> <p>14 THE COMMISSIONER: Go ahead.</p> <p>15 MS. MITRA: Okay. Thank you, Commissioner. 16 And, Mark, just before I turn it over, I just wanted to 17 also ground us, Commissioner, in the fact that since 18 we're discussing the financial solvency of State Farm 19 General, as an Illinois domestic, while Illinois is the 20 financial solvency regulator, I wanted to acknowledge 21 the fact that there have been multiple conversations 22 between the CDI's Financial Analysis Division and 23 Illinois. And just ensure that those -- assure you 24 that those important conversations continue.</p> <p>25 THE COMMISSIONER: Thank you. Appreciate</p>	<p style="text-align: right;">Page 13</p> <p>1 continued to decline. It's declined 300 million during 2 2024, which is a 23% decrease from year-end 2023, and it 3 currently stands just over a billion dollars.</p> <p>4 That billion dollars, when you think about our 5 risk-based capital formula -- so this is the NAIC risk 6 based capital formula -- based on that year-end surplus, 7 we will now be at the regulatory action level 8 within -- within -- right at the company action level 9 and right short of the regulatory action level for 10 risk-based capital.</p> <p>11 As you think about the fires and the impact of 12 the fires, and we foreshadow into 2025. On a net basis, 13 State Farm General will take on 212 million related to 14 the fires, and then when you bring in the fair plan 15 assessment as well as our share of the fair plan losses, 16 our overall aftertax impact due to the fires is roughly 17 \$400,000,000.</p> <p>18 So when we think about our year-end surplus, 19 when you think about that \$400,000,000 impact from the 20 fires, that puts us very near -- or in -- authorized 21 control level risk-based capital according to your 22 departments and the Illinois departments and the NAIC 23 risk-based capital. In addition, the ratio of our 24 premium to surplus is also considered an unusual value 25 based on the Insurance Regulatory Information Service,</p>

<p style="text-align: right;">Page 30</p> <p>1 Like, how -- this is different from other rate  2 proceedings. We're not going to be able to get the  3 financial information that State Farm was claiming was  4 confidential."</p> <p>5 And a lot of the issues that they're talking  6 about today, which they say are not now related to Variant  7 6 but they're using to support, like, the urgency and the  8 emergency, are things that we did ask about: Reports on  9 their risk-based capital issues, all of -- things related  10 to the reinsurance, underlying actuarial reserve reports,  11 and everything, we were told, was confidential.</p> <p>12 But I then asked for, "Okay. Let's just get a  13 list of what you can provide, and I -- you're free to make  14 the objections on confidentiality, but you need to tell  15 us, like, which ones you're not going to and which ones  16 you are."</p> <p>17 And then Mis- -- Mr. Armstrong, who's their  18 actuary, went through everything that they produced to the  19 Department and made a determination that still none of the  20 documents that we had asked for -- and there's 35  21 requests, which I can give you copies of, have still not  22 been --</p> <p>23 MR. LARA: Okay.  24 MS. PRESSLEY: -- responded to.  25 MR. LARA: Thank you.</p>	<p style="text-align: right;">Page 32</p> <p>1 significant and continued depletion of State Farm's  2 capital, putting it in an even more precarious position  3 relative to risk-based capital, relative to the ability to  4 stand another event.</p> <p>5 So I don't want there to be any confusion about  6 why we're sitting here today. It's because the viability  7 of State Farm General is in question, and it needs rate in  8 order to be able to shore up its financial strength and  9 start moving forward in a way that it has the ability to  10 prospectively generate capital in support of its risk.</p> <p>11 Because without this emergency order, without  12 this emergency rate, unfortunately, that subpoena  13 (phonetic) may take actions that were out of both of our  14 control, but yet we may have to take actions that we  15 otherwise don't want to do, either --</p> <p>16 MR. LARA: Understood.  17 MR. SCHWAMBERGER: -- like we said in our March  18 letter. So I just wanted to be clear about that comment;  19 about Variant 6 or not, we're here because of our  20 financial distress, and that's what our letter said, and  21 tat's why we need this emergency order, and that's we need  22 it as fast as possible, sir.</p> <p>23 It's -- it is -- it is a precarious situation.  24 When you said this was serious, I could not agree with you  25 more about how serious the financial condition is.</p>
<p style="text-align: right;">Page 31</p> <p>1 MS. PRESSLEY: That's all I wanted to say.  2 MR. LARA: Okay.  3 MS. PRESSLEY: Yeah.  4 MR. LARA: And quickly, just so that we can get  5 to the -- to the questions. Go ahead.  6 MS. WELLS: So, Commissioner Lara, what I am going  7 to do is refrain from responding to those allegations, even  8 though we disagree with all of that, because Your Honor  9 has asked -- I called you "Your Honor" -- because you have  10 asked us not to rehash the past, so I will not rehash the  11 past, but, please, for the record, take it that there's  12 more than one side to that discussion.</p> <p>13 MR. LARA: Thank you. I appreciate that.  14 MS. WELLS: Thank you.  15 MR. SCHWAMBERGER: Commissioner?  16 MR. LARA: Go ahead.  17 MR. SCHWAMBERGER: Can I -- maybe -- maybe let me  18 reiterate something. There's been a lot of discussion and  19 a comment right there about, you know, Variant 6 or not.  20 I think I want to be clear, and I think the team would  21 support this, we're not divorced from the Variant 6.  22 It's the reason we're sitting here today asking  23 for this interim break under our prior filling, which is  24 under Variant 6, which is why the opening statement, which  25 is: What has changed since June 2024, it's the</p>	<p style="text-align: right;">Page 33</p> <p>1 MR. LARA: It's understood.  2 MR. SCHWAMBERGER: So anyway --  3 MS. LARA: Understood.  4 MR. SCHWAMBERGER: And I -- I appreciate that. I  5 know you do, but I just don't believe that --  6 MR. LARA: No, I understand.  7 MR. SCHWAMBERGER: -- you made that clear about  8 the --  9 MR. LARA: Thank you. And just -- and in the spirit  10 of trying to move fast --  11 MR. SCHWAMBERGER: Yes.  12 MR. LARA: -- I want to be able to get to these  13 questions. So other than -- other than the rate  14 interest -- the -- the rate increases, you know, I -- I  15 think this is what we -- we are really curious about.  16 What are -- what are the other plans for State Farm to  17 address its financial challenges?  18 For example, would State Farm's parent company,  19 State Farm Mutual Automobile Insurance Company, be willing  20 or able to provide financial support to State Farm, as it  21 has in similar situations? I know this -- you know, this  22 happened in other states, for example.  23 MR. SCHWAMBERGER: Yeah. Go ahead, Keesha.  24 MS. MITRA: So -- yeah, let -- let me just jump in  25 here really quickly. So just for fundamental</p>

<p style="text-align: right;">Page 34</p> <p>1 understanding in terms of the governance structure from  2 State Farm General to State Mutual, the State Farm Mutual  3 Board is comprised of all external, independent directors  4 except for the State Farm Mutual CEO.</p> <p>5 So it's a com- -- almost completely external,  6 independent board, and so their fiduciary duties require  7 them to exercise reasonable care, judgment, and diligence  8 of what is in State Farm Mutual's best interest as an  9 entity and its policyholder group as a whole.</p> <p>10 So what we would expect, and this is why I wanted  11 to preface Mark's comments with this, is what we would  12 expect is robust consideration by this State Farm Mutual  13 independent board of any request that may be presented to  14 them for potential assistance on behalf of State Farm  15 General.</p> <p>16 MR. KRAUSE: Yeah, I think, Commissioner,  17 that's -- it would be up to me to request that type of  18 assistance. I think, you know, there has to be some sort  19 of positive sign that State Farm General would be able to  20 sustain itself from a capital position to support its risk  21 profile.</p> <p>22 I think that's the purpose of the interim rate  23 request. That would give us that type of a positive sign,  24 both to the rating agencies and to any potential investors  25 including State Farm Mutual, and so that's -- that's the</p>	<p style="text-align: right;">Page 36</p> <p>1 So when you're in that position where you don't  2 have rate adequacy, you don't believe you can be  3 self-sustaining, that is the emergency need, because any  4 other actions are not going to be sufficient to restore  5 the profit ability and the financial strength that an  6 interim can.</p> <p>7 So when you have a situation where your capital  8 is a certain level and your exposure is another level, if  9 you can't grow this capital -- and rate is the most  10 significant and immediate need.</p> <p>11 Any other actions, Commissioner Lara, simply  12 aren't going to be enough in order to prevent the  13 unfortunate situation that could arise should we not have  14 positive signs about the prospective ability to be  15 self-sustaining that may allow other considerations.</p> <p>16 So, therefore, the only other thing that we could  17 do without rate and without the ability to increase  18 capital, is to substantially reduce exposure. I'm not  19 saying -- I'm not saying that's a decision; I'm just  20 giving you -- you know, putting forward the equation we  21 can't grow capital; we have to reduce exposure  22 significantly in line with that --</p> <p>23 MR. LARA: Meaning, you would continue to non-renew  24 or have to cancel policies?</p> <p>25 MR. SCHWAMBERGER: At the end of the day, yes, sir.</p>
<p style="text-align: right;">Page 35</p> <p>1 emergency basis of this, because it would help, at least  2 me building a case to go to the Mutual board to ask for  3 consideration.</p> <p>4 MR. LARA: So just for the record, it is a possible  5 request?</p> <p>6 MR. KRAUSE: It is a possible request, yes.</p> <p>7 MR. LARA: Okay. Thank you. Mark, any further --</p> <p>8 MR. SCHWAMBERGER: No. That's perfect, sir.</p> <p>9 MR. LARA: Thank you. So what is State Farm doing to  10 manage and restore its financial position, given its  11 statement that -- again, I know we've talked about the  12 rate increases were sufficient, so I want delve deeper a  13 little bit in terms of, you know, an interim rate would  14 then just be -- some would say an interim rate would just  15 be a bailout for their own financial problem without any  16 personal benefit for consumers.</p> <p>17 What are your thoughts, and what else is being  18 done to be able to -- to get your financial house in  19 order?</p> <p>20 MR. SCHWAMBERGER: Well, let me -- let me start by,  21 you know, kind of getting to your first point. I think,  22 again, the reason we're here for this emergency order is  23 because we don't feel State Farm General is rate adequate.  24 So without rate adequacy, we're unable to demonstrate our  25 ability to be self-sustaining.</p>	<p style="text-align: right;">Page 37</p> <p>1 To the degree you cannot be self-sustaining and you don't  2 have viability and the capital to stand behind promises,  3 there's -- we're left with no other alternative.</p> <p>4 MR. LARA: So let me -- let me get to this other  5 question that -- that I think is my final question and one  6 of the most important ones. So how would granting an  7 Emergency Rate Impact impact State Farm's business  8 decision to pause arriving new residential coverage or  9 non-renew policies?</p> <p>10 And -- and, for the record, let me -- let me just  11 be clear on what that means and what I'm asking. If I  12 approve an emergency rate, will you rent more business in  13 California?</p> <p>14 MR. SCHWAMBERGER: I think the short-term answer  15 to that is: No, in a short-term. Again, the ability to get  16 rate and grow capital takes time, and given our current  17 exposure and where we are, we would not be in a position  18 to fiscally and responsibly starting to re- -- regrow  19 within the California market just because of this rate in  20 the very near term.</p> <p>21 It's ju- -- it just wouldn't be fiscally  22 responsible because we could potentially put ourselves in  23 the situation of being back here in front of you, given  24 the continued change in exposure relative to capital.  25 These things take time. And we do look forward -- we're</p>

<p style="text-align: right;">Page 38</p> <p>1 here in large part because we want to be in the California 2 market.</p> <p>3 We look forward to some of the reforms. We 4 literally just want to survive to be able to see that day 5 when the reforms are there and we continue to serve the -- 6 the millions of customers in the State of California. 7 That is absolutely our objective, but we have to be able 8 to get to the other side.</p> <p>9 MR. KRAUSE: Commissioner, we have over one million 10 homeowners' policies, so almost 2.8 million policies in 11 total at State Farm General. It is very important to us 12 to take care of our onboard customers. That's why it's 13 very difficult when we have to make those decisions to 14 non-renew current customers. Very difficult.</p> <p>15 And we want to put ourselves in a financial 16 position where we would have to minimize that moving 17 forward, and that's what this interim rate would help us 18 do, and I think, you know, obviously we -- we want to 19 support the California market. We've been here for almost 20 100 years. We want to be here for 100 more, but we've got 21 to be able to have this -- our State Farm General survive 22 this financial piece in order for that to happen.</p> <p>23 MR. LARA: So, Don, let me -- let me follow up with 24 that and maybe ask my question differently, as I -- I 25 appreciate your honesty because -- so if I were to approve</p>	<p style="text-align: right;">Page 40</p> <p>1 catastrophe risk of other states.</p> <p>2 So that's why this ability for State Farm General 3 to be rate adequate, to have the ability to be 4 self-sustaining is just so critical looking forward to 5 send that positive signal to allow us to have a bridge to 6 the future.</p> <p>7 MR. LARA: As -- as you can imagine, the -- the -- 8 the anxiety that your current customers are facing and those 9 that have been non-renewed or are, you know -- were in the 10 cancellation process is the fact that, you know, here we 11 are, asking for this emergency rate, yet, you know -- and 12 again, they will be faced with higher rates but without 13 any guarantee of keeping their coverage during this 14 difficult climate year that we've already had in 2025.</p> <p>15 And, as we pointed out, we haven't even got into 16 the summer fire season, and so that just elevates the 17 level of anxiety from your customers that are currently 18 potentially facing a higher rate but no guarantee that 19 they're going to, you know, maintain their coverage.</p> <p>20 And -- and I'll tell you that is -- as somebody 21 who has traveled to every county in this state, and I've 22 met with over hundred of thousand -- hundreds of thousands 23 of consumers, that is their ongoing fear.</p> <p>24 Many of them understand the risk of where they 25 live and understand what is happening. They see it and</p>
<p style="text-align: right;">Page 39</p> <p>1 this interim rate increase, would you commit to 2 non-renewing your existing customers?</p> <p>3 MR. SCHWAMBERGER: To not -- not renew?</p> <p>4 MR. LARA: Yeah. English language (indiscernible.)</p> <p>5 MR. SCHWAMBERGER: I think that's -- I think that's 6 an appropriate way to think about it. The ability to have 7 that prospective ability to generate capital and be 8 self-sustaining, that is the positive sign that John -- or 9 Dan talked about earlier, which is what we need to see, 10 you know, from the market.</p> <p>11 And our ability to be self-sustaining, that 12 ability and that signal allows for other decisions and 13 actions which could prevent significant -- I want to say 14 that -- significant non-renewals or -- and, again, this 15 is -- this is not something we desire, but to the degree 16 that we don't have the ability to grow capital in the 17 future and have rate adequacy to be self-sustaining, we 18 simply can't handle this much exposure.</p> <p>19 Because even in a situation -- if you have a 20 situation where you're not rate adequate and you're not 21 self-sustaining, capital support just then becomes a 22 subsidy for the risk, and that just doesn't work over time 23 because other states, right, don't want to subsidize the 24 risk of California, just like, and you've appropriately 25 said, you don't want Californians to subsidize the</p>	<p style="text-align: right;">Page 41</p> <p>1 read the papers, but it's the anxiety of losing their 2 coverage, yet having to pay more without the certainty of 3 being able to keep their coverage puts their entire family 4 budget in turmoil because, you know, people need time to 5 budget this out.</p> <p>6 And so I say that as, you know, we've -- we've 7 ad- -- we'll be trying to address this -- these -- these 8 catastrophic wildfires for several years now, and that is 9 the number one question I get from consumers is, you know, 10 "We will figure this out and try to make sure" -- "we 11 don't want to lose our coverage. We don't want to end up 12 in the FAIR Plan."</p> <p>13 But the constant fear of being dropped is what 14 really is consternating so many consumers across the 15 country, that many of them are in fear to actually submit 16 a claim because they -- that -- that -- they feel that 17 that's going to trigger some sort of non-renewal or put 18 them on or give them a black mark or red mark that keeps 19 them from, you know, potentially being dropped.</p> <p>20 So the last thing I want is somebody who has a 21 legitimate claim, that needs some redress, not obtain it 22 because of the fear of being non-renewed or dropped. Then 23 it becomes -- it goes into a horrific cycle of this fear 24 of not being able to access what you're contractually 25 obligated by their insurer and addressing an issue because</p>



<p style="text-align: right;">Page 42</p> <p>1 of this -- this fear.</p> <p>2 This is why I keep asking the question if, you</p> <p>3 know, we -- if I am to grant this rate and emergency rate</p> <p>4 increase, what certainty can I give the consumers -- more</p> <p>5 importantly, your customers -- of what the future's going</p> <p>6 to hold, or are they going to have certainty as State Farm</p> <p>7 customers?</p> <p>8 MR. SCHWAMBERGER: Let me -- a couple things that</p> <p>9 I heard there that I think are important, especially if we</p> <p>10 have shared agreement that residents understand their risk</p> <p>11 and we collectively confront the reality of the risk, and,</p> <p>12 therefore, the premium that has to be paid for that risk.</p> <p>13 If we can -- if we can collectively agree on</p> <p>14 that, that is a huge starting point, because that's what</p> <p>15 will drive the appropriate rate for the risk that State</p> <p>16 Farm General has. So confronting that economic reality</p> <p>17 and having, you know, the collective might, courage to</p> <p>18 allow that rate, even though I understand the burden's on</p> <p>19 folks.</p> <p>20 But at the end of the day, we have to confront</p> <p>21 those realities. So if we can start there, and we have a</p> <p>22 market that is disciplined, it is reactive, it does</p> <p>23 approve rates and move, and it does allow catastrophe</p> <p>24 modeling reinsurance costs to be included, I think all of</p> <p>25 those things will absolutely generate greater stability in</p>	<p style="text-align: right;">Page 44</p> <p>1 maybe what there's been disagreement in this room</p> <p>2 collectively in the past.</p> <p>3 MR. LARA: So I'm curious to see -- I appreciate</p> <p>4 those comments, but, you know, why can't State Farm, then,</p> <p>5 just wait to file an application under the sustainable</p> <p>6 insurance strategy that, as you said, uses catastrophic</p> <p>7 models and reinsurance, under those regulations that have</p> <p>8 been just been implemented under the strategy?</p> <p>9 MR. SCHWAMBERGER: Yeah, it goes back to time.</p> <p>10 It goes back to our letter where we sent in March of '24</p> <p>11 where we talked about this being our financial condition;</p> <p>12 at that time, being alarmed, signaling the grave need for</p> <p>13 action -- for immediate, fast action.</p> <p>14 And as we stated, that -- that signal and that</p> <p>15 alarm has turned into a crisis. So, sir, bottom line,</p> <p>16 it's time. It's -- we're in a position where post the</p> <p>17 fires, we are right within the cusp and likely in the --</p> <p>18 in the area of being in the authorized control level</p> <p>19 risk-based capital.</p> <p>20 We are faced with a downgrade from S&amp;P, which</p> <p>21 could make State Farm General's paper not accepted, and</p> <p>22 that will create disorderly. We -- we want -- the last we</p> <p>23 want is anything to be disorderly, but there's certain</p> <p>24 things that are just, unfortunately, outside of our</p> <p>25 control.</p>
<p style="text-align: right;">Page 43</p> <p>1 the California market.</p> <p>2 And greater stability in the California market</p> <p>3 creates greater stability for the companies operating in</p> <p>4 it because they can have degrees of certainty as to what</p> <p>5 the future holds, how they'll be dealt with from the --</p> <p>6 from the regulator, how all those processes would work.</p> <p>7 That gives us confidence, which allows us to stay in the</p> <p>8 market, at a 20% market share, as you indicated.</p> <p>9 So at the end of the day, and I know it's not</p> <p>10 lost on anybody in this room, we absolutely insure more</p> <p>11 Californians than anybody else. We desire to remain</p> <p>12 within the state and to continue that coverage, but this</p> <p>13 certainty that we're talking about is confronting the</p> <p>14 economic realities of the risk that's present.</p> <p>15 And allowing the rate that allows us to be</p> <p>16 self-sufficient over time, I think that's what drives</p> <p>17 confidence; and, therefore, will drive confidence in the</p> <p>18 market, and, potentially -- I think this is what you're</p> <p>19 driving for -- drive more writings from others, other than</p> <p>20 State Farm in the market, to drive competition, to drive</p> <p>21 innovation, to drive people competing for customers so</p> <p>22 there is valuable coverage, and the FAIR Plan can be</p> <p>23 depopulated over time.</p> <p>24 So I think we absolutely share those interests;</p> <p>25 it's probably the mechanism by which you get there is</p>	<p style="text-align: right;">Page 45</p> <p>1 So this immediate rate allows us to start</p> <p>2 restoring, and it sends a really important -- you send a</p> <p>3 very important signal to the market about the</p> <p>4 consideration, the thinking about -- you mentioned insurer</p> <p>5 viability, and those signals can, therefore, be sent to</p> <p>6 others in terms of how we're thinking about the California</p> <p>7 market and our ability to operate in it.</p> <p>8 And those signals are not unimportant to capital</p> <p>9 providers, rating agencies, and the like. We have to be</p> <p>10 able to get this rate, start restoring, and be able to</p> <p>11 project it in the future, the ability to be</p> <p>12 self-sustaining.</p> <p>13 MR. KRAUSE: Commissioner, we're excited about</p> <p>14 sustainable insurance, too. I think it includes a lot of</p> <p>15 the provisions that we've been asking for for a long time.</p> <p>16 I think it's about time to get to that place where we can</p> <p>17 start to operate under that -- you know, have that</p> <p>18 operational.</p> <p>19 We don't have that time. I mean, we're -- we're</p> <p>20 at a point where we're in a critical state, and we -- you</p> <p>21 know, I hear from the same -- I hear from customers. I</p> <p>22 hear from our agents. We have almost 1,900 agents, almost</p> <p>23 7,000 of their employees in this state.</p> <p>24 And we don't like to part with our customers. We</p> <p>25 share that concern. We want to take care of our</p>

HEARING REPORTER'S CERTIFICATE

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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.

A handwritten signature in black ink, appearing to be 'C. Rodriguez', written over a horizontal line.

Hearing Reporter

CHRISTINA L. RODRIGUEZ

<p style="text-align: right;">Page 58</p> <p>1 in those years.</p> <p>2 MR. LARA: Again, we don't want to get into these</p> <p>3 repeat arguments, but just be clear for your questions on</p> <p>4 the microphone so we can capture it, please. Go ahead.</p> <p>5 MR. SCHWAMBERGER: You know, my -- my reference to '17</p> <p>6 and '18 was really more about the significant subrogation</p> <p>7 coverage which came later, so the rate insurance</p> <p>8 projection definitely provided support to State Farm</p> <p>9 Mutual in '17 and '18, ultimately subrogation.</p> <p>10 But let me come back and be very clear. When you</p> <p>11 go from 2017 through January fires -- and, again, these</p> <p>12 are based on our initial estimates, our current estimates</p> <p>13 that we will put in our statements -- State Farm General</p> <p>14 has benefited to the tune of \$5 billion from this</p> <p>15 reinsurance program.</p> <p>16 MR. PLETCHER: But how much of that is from the 2025</p> <p>17 fires?</p> <p>18 MR. SCHWAMBERGER: All of it.</p> <p>19 MR. ARMSTRONG: So -- so we're just talking about the</p> <p>20 one event?</p> <p>21 MR. SCHWAMBERGER: Correct, yeah. Low frequency, high</p> <p>22 severity event is what the catastrophe reinsurance is</p> <p>23 meant to cover.</p> <p>24 MR. ARMSTRONG: Okay. Thank you.</p> <p>25 MR. LARA: Great. Do you want any further</p>	<p style="text-align: right;">Page 60</p> <p>1 I found this very, very truthful discussion</p> <p>2 enlightening for me. Just -- I wanted just want to close</p> <p>3 out with some reflections from, you know -- and to make</p> <p>4 sure you leave this room understanding that I recognize</p> <p>5 that my decision will impact millions of Californians,</p> <p>6 including current State Farm customers and -- and those</p> <p>7 seeking insurance around the state.</p> <p>8 In -- in my roll, I'm going to prioritize the</p> <p>9 consumer needs to ensure a stable and sustainable</p> <p>10 insurance market. And therein lies the difficult, often,</p> <p>11 balance that insurance commissioners across the country</p> <p>12 deal with on a daily basis, balancing a robust market with</p> <p>13 effective oversight, holding insurance companies</p> <p>14 accountable while ensuring that Californians have access</p> <p>15 to the insurance options that they need and that they</p> <p>16 deserve.</p> <p>17 This approach really defines my work, and I will</p> <p>18 not -- I'm not going to be rushed into a decision,</p> <p>19 especially -- and be very clear for all the parties here,</p> <p>20 this decision is not going to be rushed and -- by</p> <p>21 insurance interest, misinformation, or any political</p> <p>22 attacks or pressures.</p> <p>23 As you know, my decision I will make will face</p> <p>24 intense scrutiny. I'm going to be criticized for both</p> <p>25 acting, and I'm going to be criticized by not acting, and</p>
<p style="text-align: right;">Page 59</p> <p>1 clarification or --</p> <p>2 MS. WELLS: No. I was just going to point out that</p> <p>3 the discussion had gotten into prior issues known, that we</p> <p>4 know we have to sit down and we're going to have to</p> <p>5 address them. That was all.</p> <p>6 MR. LARA: Correct. Duly noted. Understand. Okay.</p> <p>7 MR. PLETCHER: Just one more final thing that we</p> <p>8 wanted to bring up just in terms of the discussion of</p> <p>9 other state subsidies to California. If there were to be</p> <p>10 some sort of assistance from the parent company, State</p> <p>11 Farm Mutual, since that would be coming out of surplus,</p> <p>12 that's not a current policyholder premium transaction.</p> <p>13 In other words, it isn't like policyholders in</p> <p>14 other states that are currently paying premiums that would</p> <p>15 go directly to State Farm General as part of this</p> <p>16 assistance. It would be the -- the surplus position that</p> <p>17 the parent company has built up to the tune of \$134</p> <p>18 billion over a period of multiple years, so I just think</p> <p>19 it's an unfair characterization to say that it's a</p> <p>20 multistate subsidization when really it's -- it's just the</p> <p>21 parent company as -- as a legal entity.</p> <p>22 MR. LARA: Got it. Thank you. Would you like</p> <p>23 to -- okay. Great. Thank you. Again, I want to appreciate</p> <p>24 your time. I want to keep you all to the hour that we</p> <p>25 posted, and thank you for participating.</p>	<p style="text-align: right;">Page 61</p> <p>1 my decision will always be based on the facts and my</p> <p>2 obligation to protect consumers in our market.</p> <p>3 And I will carefully review the information</p> <p>4 discussed today before reaching a conclusion or a path</p> <p>5 forward. I understood, again, and I'll reiterate that a</p> <p>6 hearing is still an option, and so we're not putting</p> <p>7 anything off the table.</p> <p>8 We just want to make sure that I get all the</p> <p>9 information first from all of you. And thank you for your</p> <p>10 correspondence, and thank you for taking the time to</p> <p>11 enlighten me on the ongoing situation with State Farm and</p> <p>12 the need for emergency rate. I appreciate everybody who</p> <p>13 came today and made an effort to have this conversation.</p> <p>14 So this concludes the meeting, and thank you so much.</p> <p>15 MR. PLETCHER: Thank you very much. Just real</p> <p>16 quickly, among the things that you consider, we sent in a</p> <p>17 memo this morning around 8:00 a.m. I just wanted to make</p> <p>18 sure that that would be something that you would consider</p> <p>19 as well. We sent it all the parties, not -- not just to</p> <p>20 you.</p> <p>21 MR. LARA: I have not seen it myself, but I will</p> <p>22 definitely take into consideration all the correspondence</p> <p>23 from all the parties. Thank you. Appreciate your time.</p> <p>24 Thank you. This concludes the meeting.</p> <p>25 (Concluded at 11:52 a.m.)</p>