Harvey Rosenfield, SBN 123082
Pamela Pressley, SBN 180362
William Pletcher, SBN 212664
Benjamin Powell, SBN 311624
Ryan Mellino, SBN 342497
CONSUMER WATCHDOG
6330 San Vicente Blvd., Suite 250
Los Angeles, CA 90048
Tel. (310) 392-0522
Fax (310) 861-0862
harvey@consumerwatchdog.org
pam@consumerwatchdog.org
will@consumerwatchdog.org
ben@consumerwatchdog.org
ryan@consumerwatchdog.org

Attorneys for CONSUMER WATCHDOG

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 **CONSUMER WATCHDOG'S POST-HEARING BRIEF IN OPPOSITION TO CDI AND STATE FARM GENERAL'S TWO-WAY STIPULATION TO INTERIM RATE** **Interim Rate Hearing: April 8–10, 2025**

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I. Introduction and Summary of Argument

State Farm General Insurance Company[1] ("State Farm") and the California Department of Insurance ("CDI" or "Department") have asked the Administrative Law Judge to recommend approval of "interim rate" hikes—not based on the legally required actuarial analysis, but based on generalized concerns about the insurance market as a whole and speculation about future downgrades to State Farm's credit ratings.

No witness for either State Farm or the Department has testified that State Farm's current rates are inadequate under the regulatory ratemaking formula. Nor has any witness claimed that the proposed 17% increase is actuarily justified. The sole Department witness—and sole actuary testifying in support of the stipulation—admitted that she had performed no calculations to determine if State Farm's current rates or any number below 17% would be inadequate or to determine if the proposed 17% homeowners interim rate hike is actuarially sound or complies with the prior approval rate regulations.[2] She freely admitted that that number was "given to [her] by [her] counsel"[3] and admitted that more support from the parent would obviously be helpful with less impact to consumers.[4] Likewise, State Farm's two witnesses offered no actuarial analysis, opinion about whether current rates were invalid, or actuarial support for the "numbers"—the same 17% that was just given to the CDI's witness.

Indeed, State Farm concedes its ability to fully pay existing claims in the wake of the January 2025 Los Angeles fires is "not in question" because, according to its Treasurer and Chief Financial Officer, under its "very robust re-insurance program," its parent company State Farm Mutual and other affiliated and nonaffiliated reinsurers will assume $7.7 billion of its estimated $7.9 billion in losses from those fires.[5]

The legal question before the Administrative Law Judge at this juncture is narrow: has State Farm met its evidentiary burden of showing that it is entitled to approval of interim rates under the sole legal standard articulated by the California Supreme Court? The answer is clearly no.

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[1] All subsequent references to "State Farm" are to "State Farm General Insurance Company" unless otherwise indicated.
[2] Apr. 10, 2025 Transcript at 48:2–7, 45:10–13.
[3] *Id*. at 45:24–25.
[4] *Id*. at 101:14–18.
[5] IRH-SFG-180 [Feb. 26, 2025 Transcript] at 15:20–16:9.

The proposed stipulation does not pass the *Calfarm* test. Under *Calfarm Insurance Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824, the Court held that the Commissioner has the power "to grant interim relief *from plainly invalid rates*." (Emphasis added.) That power, the Court explained, is implied from the statutory command of Insurance Code section 1861.05, subdivision (a): "No rate shall be approved or remain in effect which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter." Thus absent a showing that an insurer's rates currently in effect are excessive, inadequate, or otherwise illegal, there are no "plainly invalid rates" from which interim relief would be warranted.

Two months ago, the Commissioner cited this very legal standard from *Calfarm* when he denied State Farm's initial request for interim rate relief,[6] at which time he stated: "State Farm has not met its burden."[7] Two attempts at stipulations, and after a three-day evidentiary hearing, nothing has changed. The rate templates State Farm provided in support of its interim rate requests confirm that its current rates for its homeowners, renters, and condo owners lines of insurance fall within State Farm's own calculations of the maximum and minimum permitted earned premium and thus are not excessive or inadequate under the standard regulatory ratemaking formula,[8] and no State Farm or Department witness has claimed that interim rate relief is needed due to its current rates being inadequate or otherwise confiscatory.

State Farm's alleged "deteriorating" or "precarious" financial condition, largely a result of State Farm's own strategic decisions to not seek the full rate increases it claimed it needed from 2017–2023, does not provide legal justification for extraordinary interim rate relief under the standard set forth in *Calfarm*. Nor does a generalized concern about "the overall health of the California homeowners insurance marketplace."[9] And neither the Department nor State Farm have cited any other legal standard set forth in any statute, caselaw, or regulation that permits interim rate relief—or even advocated for a

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[6] IRG-SFG-149-03 (stating "the Commissioner has the authority to grant interim relief from plainly invalid rates," citing *20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, 245 and *Calfarm*, *supra*, 48 Cal.3d at pp. 824–25).
[7] IRG-SFG-149-02.
[8] IRH-SFG-136-04 [non-tenant homeowners], IRH-SFG 138-05 [renters], and 138-06 [condo owners].
[9] IRH-CDI-001 [Shaw Decl.], ¶ 3, lines 11–13.

new workable legal standard to evaluate interim rate relief requests, if they believe *Calfarm* should be limited or overturned. Thus, there is no legal basis to grant emergency interim rate relief, and the stipulation must be rejected on this ground alone.

The proposed stipulation does not pass regulatory standards. The proposed stipulation fails both to meet the requisite legal standard for interim rate relief and the regulatory standards for approval of settlements by stipulation. Under California Code of Regulations, title 10 ("10 CCR"), section 2656.2, "the administrative law judge shall reject a proposed stipulation or settlement whenever, in the administrative law judge's judgment, the stipulation or settlement is not in the public interest and is not, taken as a whole, fundamentally fair, adequate, and reasonable." Though the stipulation states that "the Department believes and thereon alleges [the] Stipulation is in the public interest, in order to maintain maximum availability of homeowners insurance options in California,"[10] its sole witness did not articulate in her sworn declaration, in her testimony, or on cross examination how raising State Farm's homeowners rates 17% on average (with some policyholders with higher risk properties paying even more) *before* that amount has been justified with updated data would achieve this goal or be fair to those policyholders who may be forced to drop coverage because they will no longer be able to afford coverage due to the interim hikes.

Nor did any witness testify as to how the stipulation is fundamentally fair or in the interests of justice when it allows State Farm to implement unjustified interim rate hikes starting June 1, 2025, while at the same time it would allow State Farm to initiate new block nonrenewal programs starting six months later on January 1, 2026, and to continue its currently ongoing block nonrenewal program initiated in March 2024, under which it has already nonrenewed approximately 12,677 policyholders and plans to nonrenew an additional 11,016 policyholders through year-end 2025.[11] Allowing unjustified rate hikes on the very policyholders whose coverage may soon be canceled—without any commitment to maintain their policies—cannot be called fundamentally fair or in the public interest.

And no testimony was provided by any State Farm or Department witness as to why the stipulation's term making its parent company State Farm Mutual's commitment to provide a

[10] IRH-SFG-101-07, lines 19–21.
[11] IRH-CDI-001 [Shaw Decl.], ¶ 17, lines 18–20.

$400 million surplus note to its wholly owned subsidiary contingent on the imposition of $749 million[12] in unjustified rate hikes is fundamentally fair to policyholders or in the public interest. Even the $400 million will eventually have to be paid back with interest by State Farm out of underwriting and investment income.

State Farm's financial condition is not a *legal* justification for a bailout. State Farm's financial condition does not legally justify a policyholder-funded bailout in the form of unjustified interim rate hikes and repayment of a loan from its parent company. Nor is the two-way stipulation fundamentally fair, especially in the absence of any concrete commitments by State Farm that its policyholders will not face immediate nonrenewal notices within days or months after their rate-hike checks are cashed. "Thanks for the bailout, now get lost" is not fundamentally fair by any measure.

The stipulation's provision related to potential for refunds does not cure these legal defects. State Farm reserves its rights to challenge the Commissioner's final rate order in court and tie up any refund obligation, potentially for years. It is not fair, adequate, nor reasonable to take money from someone in violation of the law—Proposition 103—with a future conditional promise to maybe pay some of it back years in the future.

Based on the evidentiary record, Consumer Watchdog respectfully urges the Administrative Law Judge to reject the proposed stipulation. The legal standards authorizing interim rate relief have not been met. The regulatory standards establish that State Farm is not entitled to approval of any rate changes until the noticed hearing on its rate applications is completed. And the regulatory standards for the approval of settlements on stipulations have not been satisfied.

Contrary to State Farm's mischaracterizations of Consumer Watchdog's position, rejection of State Farm and the Department's proposed "stop-gap" measures is not an endorsement to "do nothing." (Apr. 10, 2025 Transcript at 160:12–13). It is an affirmation of the rule of law as enacted by the People

[12] IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025] at 3:20–4:9 (calculating impact of proposed interim rates based on latest year adjusted earned annual premium values [Prem_Adjusted 2023Q4] from State Farm's interim rate templates contained in the record as IRH-SFG-136-04 [non-tenant homeowners], IRH-SFG-137-04 [rental dwelling], and IRH-SFG-138-05 [renters] and 138-06 [condo owners]).

in Proposition 103—not the rule of what favors the most powerful corporations at the expense of unwitting consumers. State Farm will have a full opportunity to prove it is entitled to the rates it seeks—using updated data through the first quarter of 2025—in the properly noticed evidentiary hearing.

II. Procedural Background

In June and July 2024, State Farm filed three rate applications requesting overall rate increases of 30% for its homeowners, 41.8% for its renters/condo, and 38% for its rental dwelling insurance policies, relying on the insolvency variance under 10 CCR section 2644.27, subdivision (f)(6), also known as Variance 6.[13] Consumer Watchdog "initiated" these "proceeding[s]" by submitting a Petition for Hearing, Petition to Intervene, and Notice of Intent to Seek Compensation in each of the three applications pursuant to Insurance Code sections 1861.05, subdivision (a) and 1861.10, subdivision (a).[14] Consumer Watchdog also promptly sought discovery on July 26, 2024 and August 23, 2024,[15] as authorized by 10 CCR section 2655.1, subdivision (a), to assess State Farm's claims under Variance 6. Despite Consumer Watchdog's repeated attempts to meet and confer with State Farm on its set I and set II discovery requests on the homeowners rate application, State Farm did not respond to those requests.

Following the January 2025 Los Angeles wildfires, State Farm submitted a letter directly to the Commissioner on February 3, 2025, requesting the Commissioner's immediate approval of "emergency" interim rate increases of 21.8% for homeowners, 15% for renters/condo, and 38% for rental dwelling, prior to the public hearing required by Insurance Code section 1861.05.[16] On February 5, 2025,

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[13] IRH-SFG-101-02. The parties have stipulated that all filings in the three rate applications (CDI File No. 23-1271/SERFF # 134139896 (homeowners), No. 24-1273/SERFF # 134139931 (renters/condo owners), and No. 24-1330/SERFF # 134139850 (rental dwelling)) as posted in the Systems for Electronic Rates and Forms Filings (SERFF) as of April 8, 2025 are admitted into the record for the hearing on the proposed interim rate stipulation. (Parties' Revised Joint Exhibit List for Hearing on Proposed Interim Rate Stipulation, Apr. 10, 2025, at 1:8–11.)

[14] Consumer Watchdog's Petitions were timely submitted on July 26, 2024 for homeowners, August 19, 2024 for renters/condo, and August 26, 2024 for rental dwelling. (SFG-101-3 at lines 6–11.) Consumer Watchdog's Petitions to Intervene were granted on August 24, 2024 for homeowners, September 3, 2024 for renters/condo, and September 10, 2024 for rental dwelling. (*Id*. at lines 15–17.)

[15] IRH-CWD-201 and 202.

[16] IRH-SFG-152. On February 5, 2025, State Farm submitted rate templates in support of its interim rate requests, which confirmed its non-reliance on Variance 6. (IRH-SFG-136, 137, and 138.)

Consumer Watchdog submitted a letter to the Commissioner outlining its procedural and substantive objections to the request.[17] On February 7, 2025, State Farm and the Department submitted a two-way stipulation directly to the Commissioner requesting his approval of State Farm's interim rate requests without following the procedure for approval of stipulations under 10 CCR section 2656.1.[18] Consumer Watchdog objected to the two-way stipulation in its February 7 letter to the Department, which it also transmitted to the Commissioner that same day, outlining numerous issues with the stipulation, including: (1) State Farm's current rates were not inadequate under the rate regulations; (2) the proposed interim rates were not actuarially justified; (3) State Farm had yet to turn over any documents in response to Consumer Watchdog's requests to support its claims that it is at risk of becoming insolvent; (4) State Farm had not explained why its parent company State Farm Mutual, with $194 *billion* in reserves and surplus, was not willing to assist State Farm General as it had in other states; (5) no authority was provided for approving rate hikes to maintain State Farm's financial strength rating; and (6) State Farm had not agreed that it would not immediately file a new rate application seeking even higher rates or refrain from challenging the Commissioner's final rate order and any refund obligation in court. Consumer Watchdog also noted that any stipulation must be reviewed and approved by an administrative law judge or else the matter must proceed to an evidentiary hearing under the Insurance Code, Administrative Procedure Act, and the Department's regulations.[19]

In response, Commissioner Lara scheduled two "informal" meetings with the parties to discuss the interim rate requests. He first held an in-person meeting with all three parties on February 26, 2025, and then a subsequent virtual meeting on March 11, 2025.[20] At the March 11 meeting, Commissioner Lara asked State Farm to agree to two conditions. First, he asked State Farm to obtain a $500 million "loan or capital infusion" from its parent company.[21] Second, he asked State Farm to "pause any pending non-renewals and cancellations for *all of its policyholders throughout California* through the

[17] IRH-CWD-208.
[18] IRH-SFG-101.
[19] IRH-CWD-210.
[20] IRH-SFG-180 and 181.
[21] IRH-SFG-181 [Mar. 11, 2025 Transcript] at 6:00–6:34.

end of 2025."[22] State Farm and the Commissioner's office exchanged communications regarding those conditions over the following days, but State Farm refused to agree to the proposed additional terms.[23] On March 14, 2025, the Commissioner issued an Order calling for: (1) an April 8, 2025 hearing concerning whether the two-way stipulation for interim rates should be approved; and (2) a formal Notice of Hearing to be issued on State Farm's rate applications requiring an evidentiary hearing on its final rates to be commenced no later than June 1, 2025. The Notice of Hearing was subsequently issued by the Department on March 17, 2025, and the February 7 two-way stipulation was transmitted to the Administrative Hearing Bureau ("AHB") that same day as an exhibit to the Notice of Hearing. Consumer Watchdog timely filed its objections to the two-way stipulation to interim rates with AHB pursuant to 10 CCR section 2656.1 on March 26. The Administrative Law Judge subsequently ordered the Department and State Farm to file any supporting declarations and any amended stipulation no later than April 2, with any supplemental objections by Consumer Watchdog due no later than the first day of the April 8 hearing on the two-way stipulation and Consumer Watchdog's objections.[24]

The Department filed and served a supporting declaration on April 2,[25] while State Farm's three declarations were late-filed and served near midnight on April 3.[26] Without any notice or request for an extension, the Department late-filed a "supplement" to the stipulation on April 4—two days after the court-ordered deadline.[27] This "supplement" revised the proposed homeowners interim rate to 17%, provided for a $400 million surplus note from State Farm Mutual conditioned on approval of the requested interim rate hikes, and provided that State Farm will not initiate new block nonrenewals until January 1, 2026, but will continue its ongoing nonrenewal program that was initiated in March 2024 (which includes approximately 11,000 remaining nonrenewals that will be completed by year-end 2025).

[22] *Ibid.*, emphasis added.
[23] IRH-CWD-220, 221, and 223.
[24] Amended Notice of Hearing on Stipulation and Order, Mar. 27, 2025, pp. 1–2.
[25] IRH-CDI-001.
[26] IRH-SFG-103, 109, and 110.
[27] IRH-SFG-102.

No supporting declarations were filed with the April 4 supplement addressing the final agreed-upon terms.[28]

Consumer Watchdog timely lodged and served its supplemental objections and declaration the evening before the April 8 deadline. Consumer Watchdog also filed three motions in limine on April 7, seeking to exclude (1) evidence of State Farm's financial condition, (2) the late-filed supplement to the stipulation, and (3) any Risk-Based-Capital ("RBC") calculations. The first two were denied orally on the record by the Administrative Law Judge on April 8.[29] Consumer Watchdog subsequently filed further briefing in support of the third motion in limine to exclude RBC evidence on April 9, with State Farm filing an opposition on April 9, CDI filing an opposition on April 10, and Consumer Watchdog filing a reply on April 10.[30] Additionally, on April 8, the ALJ granted a motion by the Department to exclude the testimony of State Farm's expert witness Nancy Watkins based on her direct conflict of interest under her pre-existing ongoing contractual relationship with the Department to consult on the adoption of regulations related to reinsurance costs.[31] The three-day evidentiary hearing on the interim rate stipulation, which included presentation of additional oral direct testimony and cross-examination of each of the parties' witnesses, was completed on April 10, and the ALJ ordered the parties to submit any post-hearing briefs no later than April 23.[32]

III. The Legal Standard for Interim Rate Relief

Proposition 103 established a prior approval system of rate regulation under which insurers have the burden of proving their requested rates are legally and actuarially justified before they take effect. (Ins. Code §§ 1861.01, 1861.05.) It affords consumer representatives the right to mandatory hearings on

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[28] The declaration of Tina Shaw submitted on April 2 by the Department said she was supporting the original February 7 stipulation with proposed additional terms, which differed from the terms of the April 4 supplement. State Farm's declarants in their April 2 submissions only discussed State Farm's original interim rate relief request set forth in the February 7 stipulation and did not opine on the additional terms of the April 4 supplement or its overall fairness, as it was not in existence at the time they prepared and signed their declarations.

[29] Apr. 8, 2025 Transcript at 76:10–14.

[30] The Administrative Law Judge indicated that he would defer a ruling and address the RBC-related issues raised by this briefing in his proposed decision. (Apr. 8, 2025 Transcript at 76:15–16; Apr. 10, 2025 Transcript at 120:4–8.)

[31] Apr. 8, 2025 Transcript at 71:10–12.

[32] Apr. 10, 2025 Transcript at 139:6–9.

challenges to proposed rate increases exceeding 7% for personal lines (Ins. Code § 1861.05, subd. (c)) and provides that hearings must be held before administrative law judges under the procedural protections of the Administrative Procedure Act (Ins. Code § 1861.08). The California Supreme Court held that in very limited circumstances pending the determination of a final rate, "the commissioner has the power to grant interim relief *from plainly invalid rates*." (*Calfarm*, *supra*, 48 Cal.3d at p. 824, emphasis added.) The Court determined that this "power to grant interim relief…may fairly be implied from [Proposition 103's] command that '[n]o rate shall ... *remain in effect* which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter.'" (*Id.* at p. 825, quoting Ins. Code § 1861.05, subd. (a), italics in original; see also *20th Century*, *supra*, 8 Cal.4th at p. 245 [same].) Thus, under *Calfarm*, the Commissioner's authority to grant interim rate relief is implied from, and limited to, enforcing the "remain in effect" language of Insurance Code section 1861.05, subdivision (a). That means that to justify the approval of an interim rate, the "in effect" rate must be "excessive, inadequate, unfairly discriminatory, or otherwise in violation of [Proposition 103]," i.e., plainly invalid.

"The ratemaking formula is used to fix for the individual insurer the range of rates within the bounds of the 'excessive' and the 'inadequate.'" (*20th Century*, *supra*, 8 Cal.4th at p. 285.) Under Proposition 103's prior approval regulations, "a rate is 'excessive' if it is higher than the maximum permitted earned premium [10 CCR § 2644.2]. It is 'inadequate' if it is lower than the minimum permitted earned premium [10 CCR § 2644.3]." (*Id.* at p. 254.) State Farm does not deny that, as its own calculations confirm, its in-effect homeowners, renters, and condo rates fall within the bounds of permissible rates under the prior approval regulations and are thus not invalid, negating any grounds for interim rate relief.

The Commissioner correctly quoted the "plainly invalid" legal standard articulated in *Calfarm* and *20th Century* when he initially responded to State Farm's request, stated "the burden is on State Farm to demonstrate that interim relief is warranted under the circumstances," and found that at that time, State Farm had not met its burden.[33] Neither the Department nor State Farm have identified any other legal authority for approving interim rates. While they both rely primarily on their witnesses'

[33] IRH-SFG-149-02.

testimony regarding State Farm's "deteriorating financial condition" and potential consequences of its financial strength rating being downgraded if it doesn't get approval of its requested rate hikes quickly enough, these are not valid grounds for interim rate relief under any legal authority.

While State Farm claims that its proposed interim rates can be approved solely on the grounds that the stipulation is fundamentally fair, adequate, and reasonable,[34] or alternatively that "the Commissioner can approve an interim rate that helps keep insurance available in California,"[35] it cites no legal authority which has so held, and the legal standard for approving interim rates does not change simply because the Department and State Farm have agreed to proposed interim rates by stipulation. State Farm's claim that it meets the "plainly invalid" standard because "an interim rate increase will help preserve insurance availability in California"[36] entirely ignores *Calfarm*, which inferred the authority for interim rate relief from the statutory prohibition on invalid rates "remain[ing] in effect." While it is true that one of Proposition 103's purposes is "ensur[ing] that insurance is fair, available, and affordable for all Californians,"[37] that purpose is effectuated through the statutory scheme. There is no statutory basis for implying a broad exception to prior approval in service of general claims about insurance availability. If that were enough, every insurer could use a threat of non-renewals as a basis for immediate interim rate relief, spelling the end of the prior approval system.

The recent LA fires likewise do not provide a legal basis for granting interim rate relief. The two-way stipulation states that an interim rate increase "would be lawfully issued" … "in furtherance of the Governor's Executive Order N-13-23," and also cites the Governor's Proclamation of a State of Emergency and the Commissioner's Declaration of Emergency Situation in the wake of the recent Los Angeles area fires,[38] but there is no statute, regulation, or caselaw that provides an "emergency" grounds for interim rate relief, and none of the cited documents purport to authorize interim rate increases in these circumstances or otherwise alter the prior approval system under Proposition 103, nor could they.

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[34] Apr. 8, 2025 Transcript at 87:9–24.
[35] *Id.* at 88:25–89:6.
[36] Apr. 10, 2025 Transcript at 165:4–6.
[37] Proposition 103, uncodified section 2.
[38] IRH-SFG-101-03, line 27, to 101-04, line 4; 101-04, lines 10–12; and 101-07, lines 14–19.

The regulatory standard to be applied by the administrative law judge in determining to approve or reject a stipulation—whether it is "in the public interest" and is "taken as a whole, fundamentally fair, adequate, and reasonable" and "in the interests of justice" (10 CCR §§ 2656.1, subd. (c); 2656.2)—does not replace or override the standard for granting interim rate relief pursuant to the Commissioner's implied authority under Insurance Code section 1861.05. To be perfectly clear, there are two distinct legal standards that must be met here for the stipulation to be adopted. First, the court must determine whether interim rate relief is prospectively justified because State Farm's current rates are plainly invalid. Only if the answer to that question is yes does the court evaluate whether the stipulation for interim rates is "fundamentally fair, adequate, reasonable, and in the interests of justice." State Farm's apparent belief that there is no legal standard whatsoever for evaluating whether interim rates are justified flies in the face of logic and case law and raises the specter that the Commissioner would have standardless discretion to approve interim rates not reached through a stipulation. The regulations do not authorize the imposition of interim rates, by stipulation or otherwise, untethered from a clear showing of necessity for relief from plainly invalid rates.

IV. The Amended Stipulation's Proposed Interim Rates Cannot Be Approved Under *Calfarm*

Even setting aside the procedural and legal deficiencies of the late-filed April 4 "supplement" to the two-way stipulation, the interim rates proposed by State Farm cannot be approved under the governing legal standard absent any testimony or evidence showing that its in effect rates are "plainly invalid." (*Calfarm*, *supra*, 48 Cal.3d at p. 824.) The burden of proof lies squarely with the insurer. (Ins. Code § 1861.05, subd. (b).)

Here, State Farm has not made that showing. According to its own calculations under the rate templates it submitted in support of its proposed interim rates—using its amount of insurance year trend, loss development factors, and revised catastrophe load weightings—State Farm's current homeowners, tenants, and condo unit owners rates fall within the boundaries of the minimum and maximum rates.[39] Its homeowners rate indications range from -11.5% to +21.8%.[40] Likewise, its renters rate indications

[39] IRH-SFG-136-04 [non-tenant homeowners], 138-05 [renters], and 138-06 [condo owners].

[40] IRH-SFG-136-04; IRH-CWD-253 [Armstrong Decl., Mar. 24, 2025], ¶ 6 ("In order to demonstrate plainly inadequate rates, an insurer's minimum rate change within the Prior Approval Rate Template must be greater than 0.0%. And yet the minimum rate change shown in State Farm's interim

range from -15.3% to +16.6%,[41] and its condo owners rate indications range from -12.8% to +20.0%.[42] Thus, State Farm's own calculations confirm that its in effect homeowners, renters, and condo rates are not plainly invalid—they do not fall outside the range of rates that are neither inadequate nor excessive—and that no interim increase can be justified under *Calfarm*.[43]

Consumer Watchdog's actuary was the only witness who conducted an independent analysis considering four alternative scenarios using State Farm's data and, where applicable, State Farm's own assumptions. This analysis is not based on fully updated data necessary to determine a final rate indication but reflects where the analysis is at this point in time given the currently available data. The results are consistent: under each of those four scenarios, State Farm's current homeowners rate falls within a lawful range.[44]

To be clear, contrary to State Farm's claims, the "plainly invalid" standard for interim rate relief under *Calfarm* is not "the standard that applies at a full rate hearing."[45] Rather, it is the threshold showing that must be met for legal entitlement to interim relief. For example, if the Department's initial analysis of an insurer's rate application showed that the minimum permitted premium rate change was positive, the Department would have a basis for recommending approval of interim rate increases sufficient to make the insurer's rates "adequate," i.e. "valid," so as to comply with Insurance Code section 1861.05, subdivision (a). Here, neither the Department's nor State Farm's own analyses provide

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Homeowners Rate Template is a decrease of 11.5%, for Renters it is a decrease of 15.3%, and for Condo it is a decrease of 12.8%"); see also IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 5.

[41] IRH-SFG-138-05.

[42] IRH-SFG-138-06.

[43] As to its rental dwelling coverage, while State Farm's interim rate calculation resulted in a minimum indicated rate change of +3.2 (IRH-SFG-137-04), no admitted State Farm or CDI witness testimony supported this indication with any independent actuarial analysis. The analysis performed by Consumer Watchdog's actuary resulted in a minimum permitted rate indication of -5.1% (IRH-CWD-253 at p. CWD-767 [Armstrong Decl., Mar. 24, 2025, Exh. B]), which would support a finding that the current rate (0% change) for this coverage is not plainly inadequate as it falls above this minimum under the prior approval regulations.

[44] See also IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 5; Apr. 9, 2025 Transcript at 104:10–19. See also *id.* at 41:7 (no rate analysis conducted by Appel; *id.* at 79:13–20 (no rate analysis by Erhart); April 10, 2025 Transcript at 41:14–18 (no rate analysis by Shaw).

[45] State Farm's Brief in Support of Interim Rate, Apr. 2, 2025, at 6; Apr. 8, 2025 Transcript at 12–15.

that threshold showing for approving its homeowners, renters, and condo owners interim rate requests. Therefore, its requests must be denied.

V. The Declarations and Testimony of State Farm's and the Department's Witnesses Do Not Establish a Legal Basis for Interim Rate Relief

Not one of State Farm's or the Department's witnesses affirmed in their sworn declarations or testimony that State Farm's current rates are plainly invalid (or "inadequate" under the prior approval rate regulations), and no declarant provided sworn statements or testimony with sufficient reasons to support a finding that the two-way stipulation as amended by the April 4 supplement is "fundamentally fair, adequate, reasonable, and in the interests of justice."

A. David Appel – State Farm

David Appel submitted a declaration in support of the February 7 two-way stipulation. Appel confirmed on cross examination that he did not evaluate whether State Farm's current rates or proposed interim rates fall within the permissible minimum and maximum permitted earned premium range under 10 CCR sections 2644.2 and 2644.3.[46] His declaration and testimony centered on his viewpoints as a longtime insurance industry consultant and former Milliman principal,[47] as evidenced by his testimony attacking Proposition 103 and the intervenor process.[48] Large swaths of his testimony were devoted to discussion of the National Association of Insurance Commissioners' ("NAIC") RBC measures of solvency,[49] which are statutorily prohibited under Insurance Code section 789.3, subdivision (c) from being used in ratemaking or considered or introduced as evidence in ratemaking proceedings.[50]

1. Appel Blamed Proposition 103 and the CDI for State Farm's Deteriorating Financial Condition.

Appel's attempt to attribute a deterioration in SFG's financial condition to California's regulatory framework lacked factual foundation and ignored SFG's own business decisions. Indeed, Appel framed State Farm as a victim—claiming Proposition 103 and intervenor challenges are

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[46] Apr. 9, 2025 Transcript at 35:21–36:4.
[47] IRH-SFG-103 [Appel Decl.], ¶¶ 3–5.
[48] *Id*. at ¶¶ 47–49.
[49] *Id*. at ¶¶ 30–36; Apr. 8, 2025 Transcript at 135:13–143:5.
[50] See Consumer Watchdog's Motion in Limine No. 3 to Exclude Evidence Regarding RBC, Apr. 7, 2025, and further briefing and reply filed on April 9 and 10.

responsible for "why SFG have filed rate increases of 7.0% or less when the indications are substantially higher"[51]—but the evidence shows the company strategically avoided filing for full rate relief and is now seeking to leverage a perceived crisis to extract regulatory concessions.

		Overall Effect (%)			
CDI File #	Effective Date	Non-Tenant Homeowners	Renters	Condominium Unitowners	Total Homeowners
22-1514	06/01/2023	6.9	N/A	6.9	N/A
21-1404	02/01/2022	6.9	N/A	N/A	N/A
19-0263	04/01/2021	6.9	0.0	0.0	6.0
18-4896	10/15/2020	6.9	6.9	3.1	6.7
18-1196	07/15/2018	6.9	4.0	6.9	6.7
14-8381	12/08/2016	-5.4	-20.4	-13.8	-7.0

(IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 18; Exh. IRH-CWD-234.)

Appel's underlying premise—that large rate increases were impossible to obtain—is refuted by SFG's own experience. In 2023, the company filed for a 28.1% increase. The Department and Consumer Watchdog stipulated to a 20% increase *without* a hearing. (IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 21.) This directly undermines the claim that Proposition 103 or the intervenor process barred State Farm from obtaining meaningful relief. It is notable that State Farm is the only California insurer demanding emergency interim rate increases, despite every other insurer being subject to the same regulatory requirements, indicating that the problem lies not with Proposition 103, but with State Farm itself.

2. Appel Failed to Address the Standards for Approving Interim Rates.

Most fundamentally, Appel never quantified State Farm's existing rates as "inadequate," "confiscatory," or otherwise invalid under the applicable standards, nor opined what the justifiable rate should be under California law. Appel did not apply or even cite the regulatory ratemaking formula under 10 CCR section 2644.1 et seq., and he confirmed on cross-examination that he did not analyze

[51] IRH-SFG-103 [Appel Decl.], ¶¶ 47–49.

whether the proposed 21.8% or 17% increase falls between the minimum and maximum permitted earned premium levels defined in 10 CCR sections 2644.2 and 2644.3.[52]

Nor did Appel, who is not an actuary, assess whether the proposed rates satisfy actuarial standards. The Statement of Principles Regarding Property and Casualty Insurance Ratemaking by the Casualty Actuarial Society requires that a rate be "an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer."[53] Appel provided no such estimate, and his declaration did not cite or apply this principle.

Instead, Appel revealed his primary allegiance to the insurance industry, not the interests of consumers, by claiming that the Commissioner's primary role is to protect insurer solvency,[54] and that policyholders face no real risk if the interim rate is excessive because refunds will be provided later.[55] This reasoning ignores basic economic reality. Policyholders operate under financial constraints, and many of these same consumers in the Los Angeles area are struggling right now to recover from the January 2025 fires. Excessive premiums—even if eventually refundable months or years later after State Farm exhausts its legal challenges to any final rate order it disagrees with—can force consumers to drop coverage, accept higher deductibles, or forgo other essential expenses. If an interim rate increase causes coverage disruptions or financial hardship, those consequences cannot be undone by a later refund.

In fact, Appel betrays even his basic understanding of economics in favor of his biased advocacy for State Farm. Appel testified during cross-examination that he sees "virtually no downside risk to granting" State Farm's interim rate request.[56] He also expressed his opinion that "whatever the parties have agreed to," as pertains to the amount of the interim rate request, is "absolutely necessary," despite not having conducted a rate analysis of any kind.[57] He went on to opine specifically that "[t]here's no obvious economic risk to policyholders" in granting an interim rate increase,[58] and that the risk of any

[52] Apr. 9, 2025 Transcript at 35:25–36:4.
[53] IRH-CWD-240 at p. 2.
[54] IRH-SFG-103 [Appel Decl.], ¶ 27.
[55] *Id.*, ¶¶ 10e, 60; Apr. 9, 2025 Transcript at 41–42.
[56] *Id.* at 36:8–9.
[57] *Id.* at 40:6–41:7.
[58] *Id.* at 42:19–20.

refunds owed by State Farm never materializing are "virtually none."[59] Appel expressly discounts risks to all policyholders to 0.0%—an incredible leap unsupported by anyone who has ever taken an Econ 101 class.

In sum, Appel's declaration and testimony provided a case in favor of deregulation, not a technical or actuarial justification for interim rate relief based on the applicable legal standard. He made speculative assertions about what might happen if State Farm does not "immediately receive higher premiums" to improve its surplus (which he admitted will take time regardless of when those rate increases are approved),[60] and unsubstantiated claims about California's regulatory environment. His declaration and testimony failed to demonstrate that the current rates are plainly invalid or that the proposed stipulation is fundamentally fair, adequate, and reasonable. As such, they should be afforded no weight.

B. Bryon Ehrhart – State Farm

Ehrhart's declaration and testimony function as a red herring, diverting attention from the essential actuarial and legal questions that must guide this rate proceeding. Ehrhart, a senior executive at Aon, provided general observations about reinsurance and reinsurance markets[61] and State Farm's reinsurance program,[62] and offered a misplaced critique of Consumer Watchdog's reinsurance analysis,[63] but provided no testimony at all containing analysis or opinion supporting State Farm's proposed interim rate increases, its financial strength, or any other terms within the two-way stipulation—he admitted his testimony was just focused on reinsurance—"I'm here to talk about the reinsurance."[64]

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[59] *Id.* at 43:7–9.
[60] IRH-SFG-103 [Appel Decl.], ¶ 44.
[61] IRH-SFG-109 [Ehrhart Decl.], ¶¶ 6–14.
[62] *Id*. at ¶¶ 15–22.
[63] *Id*. at ¶¶ 23–39.
[64] Apr. 9, 2025 Transcript at 79:13–80:4 (emphasis added):

> Q. Okay. So you have – You're here today, you're expressing no opinion on the amount of the interim rate request that is being sought by State Farm General?
> A. **I'm here to talk about the reinsurance** ….
> Q. And you also are not here to testify to about State Farm General's financial strength?

His role is clearly limited to attempting to rebut a limited set of Consumer Watchdog's initial written objections to the first stipulation related to reinsurance levels and returns, rather than independently supporting either of the actual stipulations, which he admits he has not analyzed.

During his testimony, Ehrhart acknowledged critical points undermining State Farm's claims. Specifically, he confirmed that over 80% of State Farm's catastrophe reinsurance coverage is placed with its parent company State Farm Mutual or with other affiliated reinsurers under State Farm Mutual's common control.[65] He stated that these arrangements are priced below market rates and without State Farm's "strong parentage," such arrangements would not be available from unaffiliated reinsurers.[66] This acknowledgment significantly weakens State Farm's claim of operating independently and suggests that any reported financial difficulties may be self-inflicted through favorable internal pricing arrangements.

Ehrhart also provided speculative testimony regarding the consequences of a potential downgrade in State Farm's financial strength rating, stating it could result in homeowners being forced to obtain alternative insurance at "potentially a substantially increased price."[67] Under cross-examination, Ehrhart conceded that this speculation was based mainly on his personal experience rather than any quantifiable analysis or specific data supporting the likelihood or extent of such a price increase.[68]

> A. No. **It's on the reinsurance**, which of course is a component of its financial strength, but **I'm talking about the reinsurance**.
> Q. Right. And you would not also be here to opine on financial strength ratings in general?
> A. **I'm not opining on them. I'm just characterizing how the reinsurance program impacts them** . . . .

[65] IRH-SFG-109 [Ehrhart Decl.], ¶¶ 19–20; Apr. 9, 2025 Transcript at 70:25–71:9 (". . . more than 80 percent is with its parent and its affiliates . . . ").
[66] *Ibid.*
[67] IRH-SFG-109 [Ehrhart Decl.], ¶ 14.
[68] Apr. 9, 2025 Transcript at 91:3–92:17.

Moreover, Ehrhart inaccurately characterized Consumer Watchdog's position, stating Consumer Watchdog claimed that State Farm had purchased "too much reinsurance."[69] Under questioning, Ehrhart was unable to substantiate this claim—"[m]aybe I misconstrued that."[70]

Consumer Watchdog, in fact, has consistently argued the opposite—that State Farm under-protected itself in certain critical periods. Specifically, Consumer Watchdog noted that from 2017–2018, State Farm's catastrophe occurrence reinsurance attachment point was excessively high at $1 billion, meaning State Farm was effectively uninsured for significant initial losses.[71] Only in subsequent years, 2019–2024, did State Farm reduce its attachment point to a more reasonable $250 million, demonstrating previous inadequacies in risk management decisions.[72] Ehrhart's suggestion that Consumer Watchdog somehow uniformly opposes reinsurance purchases is inaccurate.

In conclusion, Ehrhart's declaration and testimony fail to provide independent or substantial support for the proposed interim rate increase. His generalized observations about the purpose of reinsurance provide background information—which Consumer Watchdog does not dispute—but nothing more. But his speculative assertions and mischaracterizations of Consumer Watchdog's positions limit the relevance and reliability of his contributions. Therefore, his testimony should be given minimal evidentiary weight in these proceedings.

C. Tina Shaw – CDI

Tina Shaw, Chief Actuary for the California Department of Insurance, submitted a declaration, not in support of the February 7 Stipulation or the April 4 Supplement, but rather requesting a proposed decision from the ALJ approving a 17.0% interim homeowners rate increase with State Farm additionally required to obtain a $400 million surplus note from its parent company. While Shaw characterized the interim measure as a "stop-gap,"[73] her analysis raises a number of concerns regarding both the justification for interim rate relief and the assumptions underlying her evaluation.

[69] IRH-SFG-109 [Ehrhart Decl.], ¶ 25.
[70] Apr. 9, 2025 Transcript at 93:14–15.
[71] IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 9; IRH-CWD-233, p. CWD-472.
[72] IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 9.
[73] IRH-CDI-001 [Shaw Decl.], ¶ 3.

Most notably, Shaw stated that "we cannot solely focus on technical rating issues while ignoring the fact that, should Applicant become insolvent, the health of the entire marketplace will continue to deteriorate."[74] This line of reasoning echoes the "too big to fail" logic advanced by State Farm in Appel's declaration (and throughout these proceedings). But this unsupported general statement about potential marketplace impact cannot alone justify imposing unwarranted costs on State Farm policyholders through unjustified interim rate increases without a demonstration that State Farm's current rates are "plainly invalid." As a matter of fundamental fairness, marketplace health must not be propped up through unjustified charges to individual homeowners, who otherwise have no equity in State Farm.

Shaw's core argument for the interim increase is based on State Farm's RBC ratios.[75] Shaw calculated RBC values herself using publicly available data using NAIC RBC Instructions.[76] As argued in Consumer Watchdog's April 7 Motion in Limine No. 3, Insurance Code section 739.8, subdivision (c), which she cites, provides that the RBC Instructions "shall not be used by the commissioner for ratemaking nor considered or introduced as evidence in any rate proceeding, nor used by the commissioner to calculate or derive any elements of an appropriate premium level or rate of return." Thus, Ms. Shaw's discussion of RBC values she calculated pursuant to the RBC Instructions should be stricken.[77]

Shaw's declaration, though submitted by the Department, does not support approval of the original stipulation as signed nor the April 4 supplement. Shaw conceded that the 17% interim rate she proposed was not based on any independent calculation of the appropriate max/min permitted rate indication under the ratemaking formula, and that she did not calculate the actual rate impact of either the parent's capital infusion or State Farm's ongoing non-renewal program, which she states "will be

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[74] *Ibid*.
[75] *Id*., ¶¶ 9–13.
[76] *Id*., ¶ 10.
[77] See Consumer Watchdog's Motion in Limine No. 3 to Exclude Evidence Regarding RBC, Apr. 7, 2025, and further briefing and reply filed on April 9 and 10; see also Consumer Watchdog's Notice Identifying RBC-Related Testimony, filed on April 23, 2025.

investigated fully during the rate hearing process once additional data and support are available."[78] That concession confirms that the proposed interim rate lacks a developed evidentiary foundation. Her declaration recommended the reduction from 21.8% to 17% only to address "concerns" and "possibilities." And at the hearing, Shaw admitted that the reduction to 17% was not even reflective of a qualitative assessment of an appropriate reduction; rather, "[i]t was given to me by my counsel."[79]

Ratemaking under Proposition 103 should not proceed purely on speculation, even for an interim rate. Most critically, nowhere in her declaration does Shaw attest that State Farm's current rates are plainly invalid under the legal standard warranting interim relief now rather than waiting for approval after the required evidentiary showing is made. She admitted on cross examination that she had not performed such an analysis.[80] Her declaration and testimony highlight that the two-way stipulation and supplement are not fundamentally fair to policyholders who may be forced to leave the company because they cannot afford unjustified interim rate hikes and who will receive no commitment from State Farm that if they do pay the higher premiums, their policies will remain in force and not be subject to a new block nonrenewal program starting immediately on January 1, 2026. Shaw also did not explain how requiring State Farm policyholders pay hundreds of millions in unjustified rate hikes now, plus eventually repaying the $400 million surplus note to State Farm Mutual, is fundamentally fair or in the interests of justice. In sum, Ms. Shaw's declaration and testimony ultimately support rejecting the proposed interim rate hikes and proceeding to an expedited full rate hearing, based on a developed evidentiary record.

* * * *

Taken together, these declarations may offer some broader context about State Farm's financial condition. But none provides a fully developed analysis grounded in the law, actuarial principles, and analysis. And none demonstrates that either the February 7 or the April 4 stipulations meet the legal

[78] IRH-CDI-001 [Shaw Decl.], ¶¶ 2, 18; see also Apr. 10, 2025 Transcript at 41:14–18 [admitting she did not independently run rate calculations under rate regulations or otherwise determine whether State Farm's loss and cat load projections are actuarially sound].
[79] Apr. 10, 2025 Transcript at 45:24–25.
[80] *Id.* at 48:4–7.

standards for interim rate approval or fundamental fairness. For those reasons, the declarations do not justify interim relief.

VI. State Farm's Agreement to Not Initiate Any New Block Renewal Programs Until January 1, 2026 Does Not Make the Stipulation Fair, Reasonable, or in the Interests of Justice

Under the April 4 supplement to the two-way stipulation, State Farm would implement unjustified interim rate hikes starting June 1, 2025, while at the same time it would continue with its plans to nonrenew the remaining 11,000 policyholders under its currently ongoing block nonrenewal program initiated in March 2024, under which it has already nonrenewed approximately 12,677 policyholders since July 2024.[81] Further, its promise to not initiate any new block nonrenewal programs through year-end 2025 is functionally worthless when it could immediately seek to initiate new block nonrenewal programs starting in six months on January 1, 2026. Ms. Shaw could not explain on cross-examination how imposing interim rate hikes on policyholders before they are justified with updated data and without any commitments by State Farm that their policies will remain in force beyond six months is fundamentally fair or in the public interest,[82] nor how it will promote the Department's stated goal of maximizing the availability of homeowners insurance.[83]

VII. State Farm's Criticisms of Mr. Armstrong's Actuarial Analyses Do Not Alter or Negate His Fundamental Conclusion

On cross-examination, State Farm attempted to impugn Mr. Armstrong's credibility by making a number of baseless and largely irrelevant criticisms, pursuant to which it argued "Mr. Armstrong's pattern of errors call into question the reliability of his analysis as a whole, and his testimony should not be entitled to any weight in these proceedings."[84] The court should reject this invitation because none of the issues identified by State Farm alter Mr. Armstrong's fundamental conclusion—that State Farm's current rates are not plainly invalid, so no interim rate increase is warranted.

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[81] IRH-CDI-001 [Shaw Decl.], ¶ 17, lines 18–20.
[82] Apr. 10, 2025 Transcript at 62:19–63:10; 76:2–10.
[83] *Id.* at 81:3–7.
[84] *Id.* at 167:8–12.

For example, it was pointed out by State Farm's counsel that Mr. Armstrong referred to a State Farm filing's "filing date" instead of its "effective date"[85]; however, this does not alter the facts that State Farm requested and received approval of multiple 6.9% rate increases for its homeowners line from 2018–2023 when it could have requested higher rates.[86]

State Farm's counsel also questioned why Mr. Armstrong did not provide more details to "explain" the CAT/AIY weighting scheme he used for his original (scenario 1) rate analysis, even though Mr. Armstrong explained in his March 24 Declaration that he used the weighting scheme used by State Farm in their original filings[87] and further explained this methodology on cross-examination.[88] And Mr. Armstrong further explained on cross-examination how his net trend value resulted from using 20-point reported/paid trend selections, [89] which he considered to be "more actuarially sound and result in a more reasonable rate indication."[90] None of the criticisms by State Farm calling for further details, however, have any bearing on Mr. Armstrong's ultimate conclusions.

Mr. Armstrong has consistently testified throughout this proceeding, via declarations, direct examination, and cross examination, that State Farm's in effect rates are not plainly invalid. State Farm has been unable to show otherwise, and its attacks on Mr. Armstrong's credibility belie its inability to do so.

As discussed in his April 7 Supplemental Declaration, Mr. Armstrong's actuarial analysis shows that State Farm's in effect homeowners rates cannot be deemed plainly invalid, even using variables and assumptions that are most favorable to State Farm under five alternative scenarios.[91] This was confirmed by Mr. Armstrong during direct examination when he described each of the scenarios in detail[92] and explained that the final of the five scenarios he analyzed reflected indicated rate changes identical to the interim rate template submitted by State Farm.[93]

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[85] Apr. 9, 2025 Transcript at 147.
[86] Exh. IRH-CWD-234; IRH-SFG-180 [Feb. 26, 2025 Transcript], p. 23:5–13.
[87] IRH-CWD-253 [Armstrong Decl., Mar. 24, 2025], ¶ 6.
[88] Apr. 9, 2025 Transcript at 140:10–142:2.
[89] *Id.* at 142:17–25.
[90] IRH-CWD-253 [Armstrong Decl., Mar. 24, 2025], ¶ 6.
[91] See IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 5.
[92] Apr. 9, 2025 Transcript at 105–109.
[93] *Id.* at 104:10–19.

State Farm's cross-examination of Mr. Armstrong attempted to cast doubt on his original analysis by criticizing a number of actuarial selections that Mr. Armstrong made based on information available to him, even though he explained the adjustments he made in scenarios two through five in his April 7 Supplemental Declaration.[94]

For example, Mr. Armstrong's initially-selected loss development factor of 1.725 did not match the figure required in the rate template to be used when a variance is not at issue.[95] However, Mr. Armstrong explained during his cross examination that he "felt that the 1.793 was excessive based on outsized values in the latest diagonal, and so I made an attempt to adjust those in my initial analysis, however, I changed that in my subsequent analysis to be 1.793 consistent with what State Farm is using, and that can be seen in Scenarios [2] and up from my supplemental declaration."[96] Mr. Armstrong's April 7 Supplemental Declaration recognized that making such a change to his analysis would raise his initial indication by a few percentage points,[97] but it had no effect on the rest of his analysis, which used the same loss development factor used by State Farm.

Mr. Armstrong also explained in response to questioning on cross-examination that in his initial rate indication, he had calculated the AIY trend factor using "the total amount of insurance years as shown on Exhibit 9, Page 2, Column 2, and I should have used the average amount of insurance years per exposure from Exhibit D."[98] Mr. Armstrong again acknowledged that this change would raise his initial maximum permitted indication to 7% as shown in scenario 3 of his April 7 Supplemental Declaration,[99] but again, this change had no bearing on his ultimate conclusion that State Farm's current homeowners rates, based on its own preferred assumptions, cannot be shown to be plainly invalid because they fall within the maximum and minimum permitted earned premium indications.

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[94] See IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 5.
[95] *Id.* at 135:6–18.
[96] *Id.* at 135:20–25.
[97] See IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 10.
[98] Apr. 9, 2025 Transcript at 139:21–24.
[99] *Id.* at 139:25–140:7. Mr. Armstrong also noted in his supplemental declaration that while State Farm's selected 9.3% value for AIY trend is supportable, using such a factor developed using data only through 2023Q4 results in a mismatch between that factor and the 2025 catastrophe loss data used to develop the CAT/AIY ration that drives the catastrophe adjustment factor. (Supp. Armstrong Decl., Apr. 7, 2025, ¶ 11.)

In sum, Mr. Armstrong fully explained the methodologies and assumptions underlying each of the five rate indication scenarios he presented in his April 7 Supplemental Declaration, and acknowledged that the adjustments may have an effect on his initial rate indication, but, critically, his ultimate conclusion remains unchanged: "The results are consistent: under each scenario, the current rate falls within a lawful range."[100] Despite State Farm's attempted attacks on Mr. Armstrong's credibility, no State Farm or Department witness refuted this conclusion.

VIII. Variance 6 Is Not Relevant to Whether the Interim Rates Should Be Approved

At the hearing, the Department indicated on several occasions that it believed that Variance 6 is at issue in these interim rate proceedings.[101] This is flatly incorrect. Consumer Watchdog recognizes that, in the underlying rate applications, State Farm has not yet abandoned its Variance 6 claims (though it has expressed a desire not to rely on Variance 6 to justify its final rates). But these proceedings are not about State Farm's final rates—they are about its interim rate requests, which are explicitly not based on Variance 6. Indeed, State Farm itself acknowledged as much, stating "[Variance 6 is] still part of State Farm General's rate application which will be analyzed during the full rate hearing. **But that's not what this hearing is about. This hearing is about the stipulated interim rates**."[102] Consumer Watchdog concurs.

IX. Uncertain Refunds Do Not Cure the Two-Way Stipulation's Procedural or Substantive Defects

State Farm's fundamental fairness argument relies heavily on its claim that even if the stipulated interim rates "turn out to be too high," refunds after the fact will cure any harm to consumers from being charged excessive rates.[103] But refunds at some unknown future date after State Farm exhausts all its legal remedies if it thinks the final rates ordered are too low will not fix the immediate harm to families who must rearrange their budgets now, who might have to cut back on essentials to pay increased bills, or may be forced to drop coverage altogether.[104] Refunds also will not help those families still struggling

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[100] See IRH-CWD-254 [Supp. Armstrong Decl., Apr. 7, 2025], ¶ 5.
[101] Apr. 10, 2025 Transcript at 32:10–21, 51:7–13.
[102] *Id.* at 168:10–13, emphasis added.
[103] State Farm Brief in Support of Interim Rate, Apr. 2, 2025, p. 10.
[104] See Apr. 10, 2025 Transcript at 63:2–10 (CDI Chief Actuary Shaw admitted to this possibility of State Farm policyholders being forced to drop coverage if they could not afford the interim rate hikes).

to recover from the recent fires who need money in their pockets now, not a promise to be repaid later. Although State Farm agrees to not challenge the Commissioner's *authority* to order refunds, the two-party stipulation includes language that would allow State Farm to seek and obtain a stay of any such refund order in order to challenge the amount of any final rate and refund order in court,[105] including by arguing that a higher rate should be approved resulting in no refunds. Even if State Farm lost that challenge to the final rate order, refunds would likely be delayed for years during the pendency of the litigation.[106] To be clear, State Farm is entitled to make its case in the noticed evidentiary hearing and any subsequent legal challenge that it is entitled to rates higher than the proposed interim rates, but to force policyholders to foot the bill in the interim is not fundamentally fair.

Consumer Watchdog has consistently maintained that the Commissioner has authority to grant interim relief when existing rates are plainly invalid and may order an insurer to issue refunds to prevent excessive charges from remaining in effect. (See *Calfarm*, *supra*, 48 Cal.3d at p. 824; *20th Century*, *supra*, 8 Cal.4th at p. 245.) But refunds cannot be a substitute for meeting the substantive standard for interim rate relief, and in this case where interim relief is sought based on a stipulation, refunds do not make the stipulation fair or in the interests of justice.

CONCLUSION

State Farm hasn't met its burden for approval of an interim rate, nor has it shown how the proposed stipulation is fundamentally fair, adequate, reasonable, and in the interests of justice. But this hearing is a waypoint, not the final step. Consumer Watchdog agrees with the CDI's chief actuary that more information and data are needed through a full rate hearing so that a determination can be made on the appropriate rate based on a full record. State Farm can—and should—make its case fully in that setting. But granting an unjustified interim increase now undermines Proposition 103 and hurts California families. The Administrative Law Judge should deny the interim rate request and reject the proposed stipulation in full. The parties should proceed to the evidentiary hearing noticed to commence

[105] IRH-SFG-101-06, lines 22–23.

[106] State Farm's prior successful challenge to the Commissioner's authority to order refunds was adjudicated over the course of five years from 2016–2021. (*State Farm Gen. Ins. Co. v. Lara* (2021) 71 Cal.App.5th 148.)

June 1, 2025, where their competing claims can be evaluated through the process Proposition 103 requires: open, transparent, and grounded in law.

Dated: April 23, 2025

Respectfully submitted,

CONSUMER WATCHDOG

By: Pamela Pressley

Pamela Pressley
Will Pletcher
Attorneys for Consumer Watchdog

PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

State of California, City of Los Angeles, County of Los Angeles

I am employed in the City and County of Los Angeles, State of California. I am over the age of 18 years and not a party to the within action. My business address is 6330 South San Vicente Boulevard, Suite 250, Los Angeles, California 90048, and I am employed in the city and county where this service is occurring.

On April 23, 2025, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S POST-HEARING BRIEF IN OPPOSITION TO CDI AND STATE FARM GENERAL'S TWO-WAY STIPULATION TO INTERIM RATE

upon the persons named in the attached service list, in the following manner:

1. If marked FAX SERVICE, by facsimile transmission this date to the FAX number stated to the person(s) named.

2. If marked EMAIL, by electronic mail transmission this date to the email address stated.

3. If marked U.S. MAIL or OVERNIGHT or HAND DELIVERED, by placing this date for collection for regular or overnight mailing true copies of the within document in sealed envelopes, addressed to each of the persons so listed. I am readily familiar with the regular practice of collection and processing of correspondence for mailing of U.S. Mail and for sending of Overnight mail. If mailed by U.S. Mail, these envelopes would be deposited this day in the ordinary course of business with the U.S. Postal Service. If mailed Overnight, these envelopes would be deposited this day in a box or other facility regularly maintained by the express service carrier, or delivered this day to an authorized courier or driver authorized by the express service carrier to receive documents, in the ordinary course of business, fully prepaid.

I declare under penalty of perjury that the foregoing is true and correct. Executed on April 23, 2025 at Los Angeles, California.

Kaitlyn Gentile

Service List

Hon. Karl Fredric J. Seligman Administrative Law Judge Administrative Hearing Bureau **California Department of Insurance** 1901 Harrison Street, 3rd Floor Oakland, CA 94612 Tel.: (415) 538-4243 Fax: (510) 238-7828 Florinda.Cristobal@insurance.ca.gov Camille.Johnson@insurance.ca.gov	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Vanessa Wells Victoria Brown **Hogan Lovells US LLP** 855 Main Street, Suite 200 Redwood City, CA 94063 Tel.: (650) 463-4000 Fax: (650) 463-4199 Vanessa.Wells@hoganlovells.com Victoria.Brown@hoganloverlls.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Katherine Wellington **Hogan Lovells US LLP** 125 High Street, Suite 2010 Boston, MA 02110 Tel.: (617) 371-1000 Fax: (617) 371-1037 Katherine.Wellington@hoganlovells.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL
Jordan D. Teti **Hogan Lovells US LLP** 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Tel.: (310) 785-4600 Fax: (310) 785-4601 Jordan.Teti@hoganlovells.com *Attorneys for Applicant*	☐ FAX ☐ U.S. MAIL ☐ OVERNIGHT MAIL ☐ HAND DELIVERED ☒ EMAIL

Nikki McKennedy
Jennifer McCune
Daniel Wade
Duncan Montgomery
Elsa Carre
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Tel.: (415) 538-4500
Fax: (510) 238-7830
Nikki.McKennedy @insurance.ca.gov
Jennifer.McCune@insurance.ca.gov
Daniel.Wade@insurance.ca.gov
Duncan.Montgomery@insurance.ca.gov
Elsa.Carre@insurance.ca.gov

Attorneys for CDI

☐ FAX
☐ U.S. MAIL
☐ OVERNIGHT MAIL
☐ HAND DELIVERED
☒ EMAIL