

1 NIKKI S. McKENNEDY (SBN 184269)
2 JENNIFER McCUNE (SBN 160089)
3 DANIEL WADE (SBN 296958)
4 DUNCAN MONTGOMERY (SBN 176138)
5 CALIFORNIA DEPARTMENT OF INSURANCE
6 1901 Harrison Street, Sixth Floor
7 Oakland, CA 94612
8 Tel: (415) 538-4162
9 Fax: (510) 238-7829
10 Email: nikki.mckennedy@insurance.ca.gov
11 jennifer.mccune@insurance.ca.gov
12 daniel.wade@insurance.ca.gov
13 duncan.montgomery@insurance.ca.gov

14 *Attorneys for The California Department of Insurance*

15
16 **BEFORE THE INSURANCE COMMISSIONER**
17 **OF THE STATE OF CALIFORNIA**

18 In the Matter of the Rate Applications of
19
20 STATE FARM GENERAL INSURANCE
21 COMPANY,
22
23 Applicant.

File Nos. File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013

24 **CALIFORNIA DEPARTMENT OF**
25 **INSURANCE'S CLOSING BRIEF IN**
26 **SUPPORT OF ORDER APPROVING**
27 **STIPULATION AND OVERRULING**
28 **OBJECTIONS**

Interim rate hearing dates: April 8-10, 2025

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1 The California Department of Insurance (“CDI” or the “Department”) respectfully
2 submits this brief in support of an Order approving the Stipulation between CDI staff and
3 Applicant State Farm General Insurance Company (“Applicant,” “SFG” or “State Farm”), and
4 overruling the objections of intervenor Consumer Watchdog (“Consumer Watchdog,” “CW” or
5 “Intervenor”).

6 **I. INTRODUCTION**

7 On March 14, 2025, the Commissioner issued an Order provisionally granting Applicant’s
8 Request for an Emergency Interim Rate Pending [Full] Rate Hearing of Applicant State Farm
9 General Insurance Company, subject to State Farm meeting its burden to support the interim rates
10 at a hearing on the parties’ stipulation and objections thereto.

11 The Department believes SFG has met its burden, and that this Court should issue a
12 Proposed Decision approving the Stipulation¹ between SFG and the Department, and overruling
13 Consumer Watchdog’s objections.

14 First and foremost, the Commissioner is authorized to issue an interim rate, and the
15 Stipulation, as drafted, is fundamentally fair, adequate, and reasonable. It serves the interests of
16 justice while promoting the Insurance Commissioner’s primary goal of ensuring maximum
17 consumer protection, as well as encouraging a strong insurance marketplace.

18 Second, the evidence introduced at hearing establishes that the Stipulation should be
19 approved. Applicant told the Department, and the public, in June and July of 2024 that it was
20 experiencing solvency challenges. Then in January 2025, Los Angeles County suffered
21 catastrophic wildfires. Although the final data for the first quarter of 2025 is not yet available,
22 SFG estimates it will pay in excess of \$7 billion in claims from those wildfires alone.² These
23 devastating wildfires compounded SFG’s already precarious financial condition.

24 ¹ The full and complete two-way stipulated agreement between CDI and State Farm General is set forth in the
25 Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the
26 Rate, executed February 7, 2025 (“Initial Stipulation”), IRH-SFG-101, and the Supplement to February 7, 2025
27 Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the
28 Rate, executed April 4, 2025 (“Supplemental Stipulation”), IRH-SFG-102 (collectively, “Stipulation”).

² *In the Matter of the Rate Application[s] of: State Farm General Insurance Company*, PA-2024-00011, PA-2024-
00012, and PA-2024-00013, Transcript, Vol. I, April 8, 2025 (“Vol. I Transcript”), at 83:7-10

1 Department staff have analyzed the Applications, the request, the Stipulation, the
2 available data updated from the January 2025 wildfires, and Applicant's current financial
3 condition, and have concluded that State Farm has sufficiently demonstrated that it is entitled to
4 an emergency interim rate increase, subject to refunds with interest following a full rate hearing
5 process.

6 Finally, and significantly, the Stipulation includes important consumer protections. Under
7 its terms, Applicant will secure a \$400 million surplus note from its parent company State Farm
8 Mutual Automobile Insurance Company. This, combined with the proposed interim rate increases
9 of +17% on Applicant's Homeowners Non-Tenant HO-3 line, +15% on Applicant's Overall
10 Renter/ Condo Tenant line, and +38% on Applicant's Rental Dwelling line, will enable Applicant
11 to avoid a further depleted financial condition which could make its insurance unavailable to
12 California mortgage-holders. Under the terms of the Stipulation, SFG, which writes
13 approximately 20.7% of all written premium in the personal homeowners line in the State, further
14 agrees to not initiate, through the end of this year, any new block nonrenewal programs in lines
15 where an interim rate is approved, further promoting insurance availability. Moreover, the
16 Stipulation requires, if, after a full rate hearing process, the Commissioner does not find the
17 interim rates to be lawful, SFG to refund the interim rate premiums to policyholders with interest.

18 Intervenor Consumer Watchdog's arguments against the Stipulation do not establish a
19 basis to reject it. As set forth below, the Stipulation is in full compliance with the law and
20 supported by evidence establishing it is fair, reasonable, adequate and just. It is in the public
21 interest because, *inter alia*, it carefully protects the interests of California consumers, does not
22 prejudice any party, and promotes the objectives of Proposition 103.

23 **II. PROCEDURAL BACKGROUND AND EVIDENCE AT HEARING**

24 **A. California's Insurance Crisis and the Commissioner's Response**

25 Following severe catastrophic California wildfires in 2017 and 2018, and in response to
26 growing concerns regarding the increasing challenges posed by climate change to the California
27 homeowners insurance market, Insurance Commissioner Ricardo Lara ("Commissioner")
28

1 announced his innovative Sustainable Insurance Strategy (“SIS”) on September 21, 2023.³ SIS is
2 “a package of executive actions aimed at improving insurance choices and protecting Californians
3 from increasing climate threats while addressing the long-term sustainability of the nation’s
4 largest insurance market.”⁴

5 On the same day, California Governor Gavin Newsom issued Executive Order N-13-23,
6 calling on the Commissioner “to take prompt regulatory action to strengthen and stabilize
7 California’s marketplace for homeowners insurance and commercial property insurance, and to
8 consider whether the recent sudden deterioration of the private insurance market presents facts
9 that support emergency regulatory action.”⁵

10 The Commissioner’s SIS initiative is comprised of a series of regulatory reforms designed
11 to modernize the Proposition 103 ratemaking regulations and provide insurers with additional
12 ratemaking tools in light of the increasing impacts of climate change on insurance availability and
13 affordability in California.⁶ By year-end 2024, the Commissioner and Department staff had issued
14 several key new regulatory amendments to the Proposition 103 ratemaking formula, specifically
15 allowing, *inter alia*, insurers to (1) use wildfire catastrophe (“CAT”) modeling for purposes of
16 loss projections in their rate applications and (2) incorporate the net costs of California-only
17 reinsurance into their rates.⁷

18 These ratemaking tools are specifically designed to increase the availability of property
19 insurance in California and will do so in two specific ways. First, they will assist insurers in being
20 able to more accurately price risk, which in turn will encourage insurers to feel more confident
21

22 ³ “Commissioner Lara Announces Sustainable Insurance Strategy to Improve State’s Market Conditions for
23 Consumers,” September 21, 2023, [https://www.insurance.ca.gov/0400-news/0100-press-releases/2023/release051-
24 2023.cfm](https://www.insurance.ca.gov/0400-news/0100-press-releases/2023/release051-2023.cfm), attached as Ex. IRH-CDI-004 to the Department’s Request for Official Notice (“RON”) submitted
concurrently.

25 ⁴ *Id.*

26 ⁵ IRH-SFG-153-03.

27 ⁶ RON Ex. IRH-CDI-004.

28 ⁷ See Regulations 2642.7, 2644.4, 2644.4.5, 2644.4.8, 2644.16, 2644.25, 2644.25.1, 2644.25.2, and 2648.5. Unless
otherwise stated, statutory citations are to the Insurance Code and citations to regulations are to Title 10 of the
California Code of Regulations.

1 about increasing their underwriting of higher wildfire risk properties in California. And second,
2 as a prerequisite using these new tools, insurers must demonstrate a need to more accurately
3 assess risk by agreeing to underwrite more risks in distressed wildfire areas.⁸

4 **B. State Farm's Deteriorating Financial Condition**

5 At the time the Commissioner was first announcing his innovative SIS program in
6 September 2023, Applicant had two prior approval rate applications pending: a request for an
7 overall +28.1% increase in its Homeowners Non-Tenant HO-3 line⁹, and a request for an overall
8 +20.0% increase in its Rental Dwelling Program.¹⁰ Consumer Watchdog intervened in both of
9 these applications. After months of negotiations, in November and December 2023, the parties
10 resolved both applications, unanimously stipulating that State Farm could implement an overall
11 increase of +20.0% in its Homeowners Non-Tenant HO-3 line effective March 15, 2024¹¹, and an
12 overall increase of +11.43% in its Rental Dwelling Program effective February 1, 2024.¹²

13 These rate increases were not enough to reverse the company's deteriorating financial
14 condition. Despite these rate increases, State Farm's surplus continued to decrease throughout
15 2024.¹³ As CDI's expert witness, Chief Actuary Tina Shaw, testified, "it takes at least 12 to 24
16 months for an insurer to experience a noticeable increase in its surplus based upon a rate
17 increase."¹⁴

20 ⁸ Regulation 2644.4.8.

21 ⁹ In the Matter of the Rate Application of State Farm General Insurance Company, File No. PA-2023-00007, CDI
22 Rate File No. 23-613, Settlement Stipulation, [https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-](https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/Settlement-Stipulation-State-Farm-General-Insurance-Co-PA-2023-00007.pdf)
23 [commissioners-orders/upload/Settlement-Stipulation-State-Farm-General-Insurance-Co-PA-2023-00007.pdf](https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/Settlement-Stipulation-State-Farm-General-Insurance-Co-PA-2023-00007.pdf),
24 submitted concurrently as RON Ex. IRH-CDI-005.

25 ¹⁰ In the Matter of the Rate Application of State Farm General Insurance Company, File No. PA-2023-00006, CDI
26 Rate File No. 23-563, Settlement Stipulation, [https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-](https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/Settlement-Stipulation-State-Farm-PA-2023-00006.pdf)
27 [commissioners-orders/upload/Settlement-Stipulation-State-Farm-PA-2023-00006.pdf](https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/Settlement-Stipulation-State-Farm-PA-2023-00006.pdf), submitted concurrently as
28 RON Ex. IRH-CDI-009.

¹¹ RON Ex. IRH-CDI-005.

¹² RON Ex. IRH-CDI-009.

¹³ IRH-CDI-001[-]004, lines 13-21.

¹⁴ IRH-CDI-001[-]008, lines 2-3.

Given its continued financial strain, State Farm filed the instant Applications¹⁵ in June and July 2024. The Applications were filed before the new SIS regulations were implemented, and therefore do not utilize any of the new ratemaking tools. The Applications do, however, invoke Regulation 2644.27, subdivision (f)(6) (“Variance 6”), to request rate increases in each line above the maximum permitted under the current regulatory formula in order to protect Applicant’s solvency. Specifically, the Applications¹⁶ request the following rate increases:

Date submitted	CDI File No.	Line	Maximum rate indication ¹⁷	Rate requested
6/27/2024	24-1271	Homeowners Non-Tenant HO-3	-9.2%	+30.0%
6/27/2024	24-1273	Overall Renter/Condo Tenant	+7.3%	+41.8%
7/5/2024	24-1330	Rental Dwelling	+10.5%	+38.0%

Consumer Watchdog successfully petitioned to intervene in all three Applications.¹⁸

The Variance 6 exception to the Proposition 103 regulatory ratemaking formula has previously been requested only a handful of times, and its use has never been fully adjudicated.¹⁹ Under Variance 6, an insurer may request a regulatory exception to the ratemaking formula where “the insurer’s financial condition is such that its maximum permitted earned premium should be

¹⁵ CDI File No. 24-1271 requesting a +30.0% increase in its Homeowners Non-Tenant HO-3 line, filed on June 27, 2024; CDI File No. 24-1273 requesting a +41.8% increase in its overall Renter/Condo Tenant line, filed on June 27, 2024; and CDI File No. 24-1330 requesting a +38.0% increase in its Rental Dwelling line, filed on July 4, 2024, are collectively referred to as “Applications.”

¹⁶ Specific information regarding each of the Applications may be found in IRH-SFG-145, IRH-SFG-146, and IRH-SFG-147.

¹⁷ These are the maximum rate indications Applicant has provided in the Applications under current regulations without Variance 6. Per Regulation 2644.28, the Applications at issue here are subject to the ratemaking regulations in effect at the time the Applications were submitted, i.e., June and July 2024. However, at the time of the full rate hearing on the Applications, the parties may wish to stipulate, and/or the ALJ may wish to order, that the applicable regulations are those that are in effect at the time Applicant submits revised applications based on updated data available through the first quarter of 2025.

¹⁸ For a full procedural history in the Applications and this rate proceeding up to the Commissioner’s Order Regarding State Farm General Insurance Company’s Request for an Emergency Interim Rate Pending Rate Hearing, issued March 14, 2025 (IRH-SFG-148), see the Notice of Hearing issued March 17, 2025 (IRH-SFG-162).

¹⁹ See IRH-CDI-001[-]004, lines 10-11.

increased in order to protect the insurer's solvency.”²⁰ In other words, regulatory provisions such as Variance 6 operate within the ratemaking formula as “safety valves” against an overly rigid application of the formula if and when an insurer can demonstrate the need for an exception.²¹

C. State Farm's Need for an Immediate Emergency Interim Rate Increase after the January 2025 Wildfires

While the Department, State Farm, and CW were discussing the Applications, including whether and how Variance 6 could or should be applied, in January 2025 catastrophic wildfires occurred in Los Angeles County.²² Applicant's expected losses from those fires are estimated to total approximately \$7 billion.²³

On February 3, 2025, State Farm submitted an emergency request for interim rate increases to the Commissioner, subject to final determination following a full rate hearing process on the Applications.²⁴ As part of its submission, the company reported that it anticipated a significant further negative impact on its already deteriorating financial condition as a result of the catastrophic losses from the Los Angeles wildfires, as evidenced by various indicia including:

- By year-end 2024, SFG's surplus was approximately \$1.04 billion²⁵, and the company was expecting further depletion of its surplus as a result of the Los Angeles wildfires, even with assistance in paying claims from its reinsurance program;
- SFG's cumulative underwriting losses for 2016-2024 show it has been paying \$1.26 in claims for every \$1 in premium collected; and
- Its Risk-Based Capital (“RBC”) ratio was already at a “Company Action Level

²⁰ Regulation 2644.27, subd. (f)(6).

²¹ See *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 313 (“*20th Century*”).

²² The wildfires occurred in the Palisades, Eaton, and other areas in Los Angeles County during January 2025 (“Los Angeles wildfires”). (IRH-SFG-155-02.)

²³ Vol. I Transcript at 83:7-10.

²⁴ IRH-SFG-152.

²⁵ This is insufficient to support the amount of insurance, with over \$3 billion in premiums, that SFG underwrites in California. (*In the Matter of the Rate Application[s] of: State Farm General Insurance Company*, PA-2024-00011, PA-2024-00012, and PA-2024-00013, Transcript, Vol. III, April 10, 2025 (“Vol. III Transcript”), at 33:8-20.)

Event”²⁶ even before the Los Angeles wildfires.²⁷

1. Department staff agree that State Farm’s deteriorating financial condition warrants an interim rate increase and submitted the two-way Initial Stipulation to the Commissioner, over CW’s objections

Following Applicant’s emergency interim rate increase request, Department staff negotiated with State Farm and CW. Department staff and State Farm reached a proposed stipulated agreement for interim rate increases with important consumer protections. Per the Initial Stipulation entered into between the Department and State Farm, the company agreed that any emergency interim rate increases would be subject to refunds with interest should the Commissioner ultimately determine, after a full rate hearing process, that the interim rates were excessive. Additionally, if after a full rate hearing the Commissioner were to determine the interim rates were excessive, SFG expressly agreed that it will: (1) not contest the Commissioner’s lawful authority to order it to provide refunds with interest to policyholders; (2) maintain appropriate records of all policyholders charged any interim rates through the Commissioner’s final rate determination, in order to be able to effect any refunds with interest if necessary; and (3) issue any refunds with interest as soon as practical but not later than 120 days following the Commissioner’s final rate determination (absent any legal stay).²⁸

CW objected, however, and refused to stipulate.²⁹

The Initial Stipulation between the Department and State Farm was submitted to the Commissioner on February 7, 2025, requesting that he approve the emergency interim rate increase request, subject to refunds with interest following a full rate hearing process, pursuant to its terms.³⁰

²⁶ Discussed *infra*, at Section III.B.2.

²⁷ IRH-SFG-152-07.

²⁸ IRH-SFG-101-07-08.

²⁹ IRH-SFG-177; IRH-CWD-208; IRH-CWD-210; IRH-CWD-212; IRH-CWD-215; IRH-CWD- 217; IRH-CWD-218; IRH-CWD-222; and IRH-CWD-227.

³⁰ IRH-CWD-209; IRH-SFG-101.

1 **2. After considering the Initial Stipulation and proposing additional**
2 **consumer protections, the Commissioner ordered a full rate hearing**
3 **and called for an urgent Regulation 2656.1(g) hearing on the**
4 **Stipulation**

5 On February 26, 2025, the Commissioner held an informal conference with all parties
6 regarding the Initial Stipulation and CW's objections to it.³¹ On March 11, 2025, the
7 Commissioner conducted a second conference with the parties, during which he proposed two
8 additional terms to the Initial Stipulation:

9 First, I would like State Farm to agree to pause any pending non-renewals
10 and cancellations for all of its policyholders throughout California
11 through the end of 2025. And second, I would like State Farm to obtain a
12 loan or capital infusion from [its parent company] State Farm Mutual in
13 the amount of \$500 million to help strengthen its surplus and improve its
14 RBC ratio.³²

15 On March 14, 2025, after the parties were unable to reach agreement, the Commissioner
16 issued his Order Regarding State Farm General Insurance Company's request for an Emergency
17 Interim Rate Pending Rate Hearing ("March 14 Order").³³ In the March 14 Order, the
18 Commissioner directed Department staff to notice a full rate hearing on the Applications. The
19 Commissioner also provisionally granted Applicant's emergency interim rate request at the
20 interim rates specified in the Initial Stipulation, i.e., +21.8% for homeowners non-tenant HO-3
21 (File No. 24-1271); +15% for overall renter/condo tenant (File No. 24-1273); and +38% for rental
22 dwelling (File No. 24-1330), with an effective date of June 1, 2025, subject to the company
23 meeting its burden to support the requested interim rates at a Regulation 2656.1(g) hearing on
24 April 8, 2025, before an Administrative Law Judge ("ALJ").³⁴ The Commissioner directed the
25 ALJ to:

26

³¹ IRH-SFG-158.

27 ³² IRH-SFG-159-05.

28 ³³ IRH-SFG-148.

³⁴ IRH-SFG-148-03.

1 hear from State Farm regarding its emergency interim rate requests based
2 on updated rate-setting data through the end of the first quarter of 2025 in
3 the Applications, the two-way stipulation between the Department and
4 State Farm, Watchdog's objections to the interim rate, argument from the
5 Commissioner's February 26, 2025 and March 11, 2025 conferences, the
6 Commissioner's subsequent proposal to the parties along with such
7 additional correspondence, evidence and argument provided at the
8 hearing.³⁵

9
10 In compliance with the Commissioner's order, staff issued a Notice of Hearing on March
11 17, 2025.³⁶

12 **D. Evidence in Support of the Stipulation Was Received at the Regulation
13 2656.1(g) Hearing**

14 As set forth in detail herein, evidence supports the Stipulation. After the Department
15 issued a Notice of Hearing and jurisdiction was conferred on the ALJ, the ALJ held an initial
16 status conference on the Regulation 2656.1(g) hearing on objections to the Stipulation.
17 Thereafter, pursuant to the ALJ's order, the parties submitted expert declarations in support of
18 and opposition to the Initial Stipulation on April 2, 2025.³⁷ Two days later, the Department and
19 State Farm submitted the Supplemental Stipulation,³⁸ which contained Applicant's agreement to
20 additional consumer protections in response to the Commissioner's March 11th proposals,
21 specifically:

22 First, in response to the Commissioner's March 11th proposal that Applicant obtain an
23 immediate capital infusion of \$500 million from its parent company, SFG stipulated and agreed
24 that it "will obtain" a \$400 million surplus note from State Farm Mutual if and when the
25 Commissioner approves the interim rates as set forth in the Supplemental Stipulation.³⁹

26 Second, in response to the Commissioner's March 11th proposal that State Farm cease all
27
28

29 ³⁵ *Id.*

30 ³⁶ IRH-SFG-162.

31 ³⁷ IRH-CDI-001; IRH-SFG-103; IRH-SFG-109; IRH-SFG-110; IRH-CWD-253; and IRH-CWD-254.

32 ³⁸ IRH-SFG-102.

33 ³⁹ IRH-SFG-102-03.

1 nonrenewals through year-end 2025, Applicant explained that it is unable to cease its currently
2 implemented and ongoing nonrenewal program initiated in March 2024, and expected to result in
3 an additional 11,000 nonrenewals by year-end 2025. However, SFG expressly agreed and
4 stipulated that it would not implement any *new* block nonrenewal programs through year-end
5 2025.⁴⁰ Additionally, at the request of Department staff, State Farm agreed and stipulated to
6 reduce the emergency interim rate increase request in its Homeowners Non-Tenant HO-3 line
7 from +21.8% to +17.0%. This not only reduces the potential rate increase for these policyholders,
8 but also may, subject to proof through a full rate hearing process on the Applications, potentially
9 off-set the possible rate impact of the remaining 11,000 additional nonrenewals to be
10 implemented by year-end 2025.⁴¹ Even with this reduction, the interim rate increases combined
11 with the \$400 million surplus note will significantly improve Applicant's financial condition.⁴²

12 CW initially objected to submission of the two-way Supplemental Stipulation in the
13 interim rate hearing, alleging it was untimely,⁴³ but all parties have since stipulated to its
14 admission into evidence.⁴⁴

15 During the interim rate hearing on April 8-10, 2025, the ALJ received live testimony
16 from: (1) State Farm's expert economist David Appel and reinsurance expert Bryon Ehrhart; (2)
17 CW's actuarial expert Ben Armstrong; and (3) the Department's Chief Actuary Tina Shaw.⁴⁵

20 ⁴⁰ IRH-SFG-102-04.

21 ⁴¹ IRH-SFG-102-03.

22 ⁴² IRH-CDI-001[-]008, line 13 through -009, line 14.

23 ⁴³ Per the ALJ's scheduling conference order, State Farm and the Department were ordered to submit any
24 supplemental stipulation by April 2, 2025. However, the parties were unable to agree to all the terms of the
25 Supplemental Stipulation until April 4, 2025, when it was filed and served.

26 ⁴⁴ As Department staff pointed out during the interim rate hearing, CW's tardiness objections lacked merit. Per
27 Regulation 2656.1(g), any additional objections (not already raised by CW in response to the Initial Stipulation)
28 would have been due by April 9, 2025, at which point the parties were already in hearing on CW's myriad objections
to the Initial Stipulation. Regardless, CW did not submit any additional specific objections to the Supplemental
Stipulation by April 9, 2025.

⁴⁵ The ALJ granted the Department's motion to exclude testimony by State Farm's retained actuarial expert Nancy
Watkins.

1 **III. ARGUMENT**

2 **A. Applicable Legal Standards**

3 **1. The Commissioner has authority to approve interim rates, subject to**
4 **refunds with interest**

5 Proposition 103 is a complex series of statutes to administer and enforce. The California
6 Supreme Court previously stated that the Commissioner has plenary authority to do what is
7 required; “there is nothing here which prevents the commissioner from taking whatever steps are
8 necessary to reduce the job to manageable size.”⁴⁶ This includes, *inter alia*, approving emergency
9 interim rate increase requests. As the *Calfarm* Court stated, “[t]he power to grant interim relief is
10 necessary for the due and efficient administration of Proposition 103.”⁴⁷

11 **2. Pursuant to Regulations 2656.1 and 2656.2, the Stipulation should be**
12 **approved if it is fundamentally fair, adequate, reasonable, and serves**
13 **the interest of justice, and/or is in the public interest**

14 The Stipulation should be approved, and CW’s objections overruled, if it is in the public
15 interest and, taken as a whole, fundamentally fair, adequate and reasonable. Here, State Farm
16 seeks emergency interim rate relief under Variance 6 due to its deteriorating financial condition,
17 and the Department and State Farm have agreed on stipulated terms for interim rates. CW objects.
18 Accordingly, and pursuant to the Commissioner’s March 14 Order, this is a hearing conducted
19 pursuant to Regulation 2656.1, subdivision (g).

20 Subdivision (g) provides, when a party objects to a “proposed settlement or stipulation,”
21 that a hearing may be requested, and, when requested, the ALJ shall hold that hearing within 10
22 business days of the request. For purposes of deciding whether to adopt the terms of the
23 Stipulation in a proposed decision for the Commissioner, Regulations 2656.1 and 2656.2 control.

24 Regulation 2656.1, subdivision (c), relating to stipulations “dispositive of the case” or
25 settlements proposed prior to the taking of any testimony, provides such stipulations shall be
26 accompanied by “supporting declarations indicating the reasons that the settlement or stipulation

27 ⁴⁶ *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d. 805, 824 (“*Calfarm*”).

28 ⁴⁷ *Id.* at p. 825.

1 is *fundamentally fair, adequate, reasonable and in the interests of justice.*” (Emphasis added.)

2 However, this is also a hearing on CW’s objections to the Stipulation under Regulation
3 2656.1, subdivision (g). By its terms, Regulation 2656.1, subdivision (c) may not apply here. The
4 standard of review in subdivision (c) applies where the parties propose a stipulation that is
5 “dispositive of the case or a settlement is proposed prior to the taking of any testimony.”

6 Moreover, this Stipulation is neither a settlement nor dispositive of the case. Instead, it
7 relates to an interim rate. Although the Stipulation proposes a settlement of a preliminary issue,
8 i.e., State Farm’s request for an emergency interim rate increase, it does not resolve or settle the
9 Applications in their entirety. Rather, it is expressly interim relief, implementing an interim rate
10 subject to proof and potential refunds with interest after a full rate hearing process on the
11 Applications.

12 Regulation 2656.2, subdivision (a) sets forth the standard for this Court’s review and
13 potential rejection of *any* stipulation. It provides the ALJ shall reject any proposed settlement or
14 stipulation (without regard to whether it is dispositive of the entire case) whenever, in their
15 judgment, “the stipulation or settlement is not *in the public interest* and is not, *taken as a whole*,
16 *fundamentally fair, adequate, and reasonable.*” (Emphasis added.)

17 While these standards are not identical, they are substantially similar enough in the
18 context of the regulations that, in absence of contrary intent, the Court may properly consider “in
19 the interests of justice” and “in the public interest” as the same standard.⁴⁸ Therefore, per both
20 Regulations 2656.1 and 2656.2, this Court should review the proposed Stipulation and determine
21 whether, taken as a whole, it is fundamentally fair, adequate, reasonable, and serves the interests
22 of justice, and/or is in the public interest.

26 ⁴⁸ “[U]nless a contrary intent appears,’ we presume the Legislature intended that we accord the same meaning to
27 similar phrases.” (*Scottsdale Ins. Co. v. State Farm Automobile Ins. Co.* (2005) 130 Cal.App.4th 890, 899, 3d 606
28 [holding that “operated by” and “operation” have the same meaning in Insurance Code section 11580.1, subdivision
(d)(1)].)

1 **3. This Court should apply a balancing test to determine whether the**
2 **Stipulation meets the standards of Regulations 2656.1 and 2656.2**

3 There is a paucity of case law examining the practical application of Regulations 2656.1
4 and 2656.2. However, in this Court’s most recent review under Regulation 2656.2, subdivision
5 (c), of a proposed settlement stipulation in a rate proceeding, the Court noted the similarity of the
6 “taken as a whole, fundamentally fair, adequate and reasonable” standard to the guidelines
7 applied by courts in reviewing class action settlements and the Public Utilities Commission in
8 reviewing settlements.⁴⁹ Applying those standards to evaluating whether to approve a proposed
9 stipulation in a Proposition 103 proceeding, this Court concluded:

10 . . . a fairness, adequacy, and reasonableness determination involves
11 balancing some or all of the following factors: (1) the relative strength of
12 each party’s case; (2) the risk, expense, complexity, and likely duration of
13 further litigation, with the attendant delay in modifying the rate; (3) the
14 terms of the settlement; (4) the amount of discovery undertaken; (5) the
15 current state of the proceedings; (6) the experience and views of counsel
and/or the parties’ managers or experts; (7) the involvement of a
governmental entity; and (8) the reaction of consumers to the proposed
settlement. Review of the settlement should not be turned into a full
hearing on the merits or a rehearsal for one, nor is the court to reach
ultimate conclusions on the contested issues of fact and law.⁵⁰

16 **B. Applying the 2656.2 Factors, the Court Should Find that the Proposed Terms**
17 **of the Stipulation Are Fair, Adequate, Reasonable, Just, and in the Public**
 Interest

18 **1. The Department and State Farm have made a strong showing that the**
19 **emergency interim rate increase request should be granted under**
 Variance 6

20 Although Variance 6 is rarely requested, it is undisputed that the Proposition 103
21 ratemaking formula contains an express regulatory exception to allow insurers experiencing
22 solvency concerns to request rate increases above the maximum permitted rate indication.⁵¹ Under
23 the ratemaking regulations, it is appropriate for an actuary to consider the company’s solvency or

24

⁴⁹ Order Adopting Proposed Decision issued February 27, 2023, *In the Matter of the Rate Application of: Wawanesa*
25 *General Insurance Company*, PA-2022-00001 (“Wawanesa Order”) (citations omitted), Ex. IRH-CDI-008-011 to
RON.

26 ⁵⁰ Ex. IRH-CDI-008-012 to RON. The factors enumerated by this Court as appropriate to consider when evaluating
27 stipulations in the Wawanesa proceeding shall be referred to as the “2656.2 Factors.”

28 ⁵¹ Regulation 2644.27, subd. (f)(6).

1 financial condition when evaluating its rate request if the company has invoked Variance 6 to
2 deviate from strict application of the standard ratemaking formula.⁵²

3 Here, State Farm first raised substantial concerns regarding its solvency when it filed the
4 Applications at issue in June and July 2024 and requested application of Variance 6.⁵³ Following
5 the catastrophic Los Angeles wildfires that occurred in January 2025, the company has
6 experienced additional substantial capital depletion, such that the Department’s Chief Actuary,
7 who has considerable expertise both in insurer financial oversight and risk management as well as
8 Proposition 103 ratemaking, currently estimates the company has “somewhere between” \$600
9 million to \$1 billion in surplus,⁵⁴ which she describes as a “very alarming low position.”⁵⁵ As
10 State Farm’s Chief Financial Officer told the Commissioner on February 26, 2025:

11 So I don’t want there to be any confusion about why we’re sitting here
12 today. It’s because the viability of State Farm General is in question, and
13 it needs rate in order to be able to shore up its financial strength and start
moving forward in a way that it has the ability to prospectively generate
capital in support of its risk.⁵⁶

14 Ms. Shaw has submitted substantial analysis of Applicant’s estimated RBC ratios,
15 confirming that State Farm’s financial condition “has significantly deteriorated since 2022.”⁵⁷
16 However, SFG has stipulated that if the Commissioner approves its emergency interim rate
17 increase request, subject to refunds with hearing, it will obtain a surplus note of \$400 million
18 from its parent company.⁵⁸ Accordingly, Ms. Shaw “analyzed the impact of a \$400 million
19 surplus note on Applicant’s financial condition, with and without an interim rate increase, and
20 agree[s] that both these measures combined will effect a substantial improvement to Applicant’s
21

22 ⁵² Vol. III Transcript at 34:18-14.

23 ⁵³ IRH-CDI-001[-]004, lines 13-21.

24 ⁵⁴ Vol. III Transcript at 33:10-12.

25 ⁵⁵ Vol. III Transcript at 33:4.

26 ⁵⁶ IRH-SFG-158-06, lines 5-10.

27 ⁵⁷ IRH-CDI-001[-]007, lines 7-14.

28 ⁵⁸ IRH-SFG-102-03.

1 financial condition.”⁵⁹

2 **2. CW’s objections to the RBC ratios evidence lack merit**

3 CW objected to the admissibility of RBC ratios, but these objections should be overruled.
4 The Commissioner himself has already raised the issue of RBC ratios in this proceeding, when he
5 told State Farm that he recognized it needed more than an interim rate increase to improve its
6 financial condition:

7 And you know, again as made clear from the State Farm documents and
8 comments from last meeting, [the company] needs to shore up its
9 financial strength. Raising rates alone is not going to do it. The
10 Department granted State Farm a 20% increase last year and its surplus
11 continued to decrease [] throughout 2024. And this is despite the fact that
12 State Farm ceased writing new business in 2023. So *even if I grant State
Farm a preliminary interim rate increase of 22%, that is not going to
bring your RBC ratio to where it needs to be without additional help in
2025.*⁶⁰

12 (Italics added.)

13 By statute, the “RBC Reports” are confidential.⁶¹ In contrast, the “RBC ratios,”
14 independently calculated by Ms. Shaw and offered into evidence by the Department, were based
15 upon publicly available data in Applicant’s annual statements.⁶² By statute, information that may
16 be contained within the RBC Reports is only confidential to the extent it is based upon data that is
17 not “publicly available.”⁶³ Ms. Shaw did not use any confidential information, nor talk with
18 anyone at CDI who is authorized to review confidential RBC Reports or other confidential RBC-
19 related information, in order to independently calculate her estimated RBC ratios.⁶⁴ Although her
20 declaration references the RBC Instructions, this was only to provide context.⁶⁵ Ms. Shaw did not

22 _____
23 ⁵⁹ IRH-CDI-001[-]008, line 13 through -009, line 14.

24 ⁶⁰ IRH-SFG-159-05.

25 ⁶¹ § 739.8, subd. (c).

26 ⁶² IRH-CDI-001[-]005; IRH-CDI-003; Vol. III Transcript at 27:18-28:3.

27 ⁶³ § 739.8, subd. (a).

28 ⁶⁴ IRH-CDI-001[-]005; Vol. III Transcript at 29:9-17.

⁶⁵ IRH-CDI-001[-]005; Vol. III Transcript at 28:7-12.

1 review or rely upon the Instructions in order to calculate Applicant’s estimated RBC ratios.⁶⁶ She
2 testified it has been approximately 10 years since she has even reviewed the RBC Instructions.⁶⁷
3 Moreover, the “RBC Instructions” that are intended to be confidential are statutorily defined to
4 mean “the RBC Report” itself, which “*include[es]* the risk-based capital instructions adopted by
5 the NAIC.”⁶⁸ In other words, the “RBC Instructions” referenced in section 739.8, subdivision (c),
6 mean the RBC Instructions *as included in and part of* an RBC Report. Ms. Shaw expressly
7 confirmed that she did not review or rely upon any RBC Report in preparing her expert
8 testimony.⁶⁹

9 Rather, Ms. Shaw knew how to calculate the RBC ratios based upon her general training
10 and experience as an actuary.⁷⁰ The formula to calculate the RBC ratios is well-known and
11 available in other places besides the RBC Instructions.⁷¹ Ms. Shaw’s RBC calculations are simply
12 not the same as the statutorily defined “RBC Instructions, RBC Reports, Adjusted RBC Reports,
13 RBC Plans, and Revised RBC Plans” that are inadmissible in a rate proceeding.⁷²

14 Further, Ms. Shaw did not rely upon any RBC ratios to determine Applicant’s interim rate
15 increases.⁷³ Instead, she used them “to provide context in relating to State Farm’s current surplus
16 position,” as part of evaluating the company’s Variance 6 request and solvency issues.⁷⁴

17 Finally, even assuming RBC ratios calculated based upon publicly available information
18 are statutorily inadmissible – which they are not, and which the Department does not concede –

19
20 ⁶⁶ IRH-CDI-001[-]005; Vol. III Transcript at 28:12-25.

21 ⁶⁷ Vol. III Transcript at 28:15-20.

22 ⁶⁸ § 739, subd. (i) (ital. added).

23 ⁶⁹ IRH-CDI-001[-]005

24 ⁷⁰ Vol. III Transcript at 28:21-25.

25 ⁷¹ Vol. III Transcript at 29:1-5; see also, “Criteria/Insurance/General: Insurer Risk-Based Capital Adequacy –
Methodology and Assumptions,” S&P Global, published 11/15/2023 and republished 1/22/2025,
<https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12862217> , Ex. IRH-CDI-006 to RON.

26 ⁷² Vol. III Transcript at 29:18-30:8; § 739.8, subd. (c).

27 ⁷³ Vol. III Transcript at 30:9-15.

28 ⁷⁴ Vol. III Transcript at 30:16-18.

1 Applicant itself, not CW, would be the holder of any privilege with respect to the admissibility of
2 its RBC ratios. But during the interim rate hearing, State Farm’s counsel indicated it did not
3 object to Ms. Shaw’s testimony regarding RBC ratios:

4 [S]ection 73[9].8 doesn’t apply to RBC ratios. It applies to the specific
5 reports and documents that were not used in this proceeding; rather, Mr.
6 Appel and Ms. Shaw made a simple calculation of a ratio based on two
lines in State Farm General’s annual statement, which is all publicly
available, so we don’t think that testimony should be excluded.⁷⁵

7 This situation is distinguishable from the last rate hearing with State Farm during 2015-
8 16, when CW sought to introduce RBC ratio evidence to demonstrate the insurer was not entitled
9 to another variance, the “Confiscation Variance.”⁷⁶ Ultimately the ALJ excluded the RBC ratio
10 evidence as cumulative and “[i]n the interest of limiting the rebuttal testimony,” but he also noted
11 that “the statute is unclear” and he had “the discretion to rule either way.”⁷⁷ Thus, in that prior
12 2015-16 rate hearing, even though State Farm objected to the introduction of the RBC ratios as
13 evidence, the ALJ felt that he had discretion to overrule the objections – because RBC ratios
14 independently calculated based upon only publicly available information *are simply not the same*
15 *thing* as the statutorily defined “RBC Instructions, RBC Reports, Adjusted RBC Reports, RBC
16 Plans, and Revised RBC Plans” that are inadmissible in a rate proceeding.⁷⁸

17 Here, unlike in the 2015-16 rate hearing, State Farm put its solvency at issue when it first
18 filed the Applications in June and July 2024 and requested that Variance 6 be applied to allow the
19 company to charge rates in excess of the maximum permitted premiums under the usual
20 ratemaking formula, due to its deteriorating financial concerns. Applicant expressly raised the

21 ⁷⁵ Vol. III Transcript at 161:6-13.

22 ⁷⁶ The Confiscation Variance is set forth in Regulation 2644.27, subdivision (f)(10), and provides that a company
23 may be entitled to relief from the regulatory ratemaking formula where it can demonstrate that approving the
24 maximum permitted premium would result in a constitutional taking from the insurer.

25 ⁷⁷ In the Department’s Opposition to Consumer Watchdog’s Motion to Exclude Testimony and Further Briefing
Regarding RBC Calculations, submitted April 10, 2025, the Department mistakenly stated that the ALJ in the prior
26 rate hearing admitted the RBC ratio testimony. After further research, the Department now understands the RBC ratio
evidence was initially admitted but ultimately excluded as unnecessarily cumulative. (See, *In re: State Farm Rate*
27 *Application*, PA-2015-00004, Transcript, January 5, 2016, 1549:21-1550:1, relevant excerpts attached as RON Ex.
IRH-CDI-007.) The Department apologizes for the confusion and any inadvertent misrepresentation.

28 ⁷⁸ § 739.8, subd. (c).

1 issue of its decreasing RBC ratios and that it is currently at a “Company Action Level” in its
2 February 3, 2025, emergency interim rate request to the Commissioner. SFG has also raised the
3 issue that its credit ratings are in jeopardy due to its poor surplus position, and has submitted
4 published evidence of its 2023 RBC ratio in support of its interim rate request.⁷⁹ At the interim
5 rate hearing, CW’s actuarial expert Ben Armstrong agreed that “RBC ratios [] to the extent those
6 are able to be admitted [into evidence]” are relevant for purposes of conducting an overall
7 financial condition analysis of State Farm.⁸⁰

8 **3. Additional evidence establishes SFG’s deteriorating financial condition**

9 State Farm’s financial condition is concerning based on other indicia besides its RBC
10 ratios. In response to the objections to Ms. Shaw’s reliance upon RBC ratios to assess State
11 Farm’s financial condition, Ms. Shaw testified at the interim rate hearing that there are other ways
12 to measure an insurance company’s solvency.⁸¹ Generally, she applies an actuarial “rule of
13 thumb” of a premium-to-surplus ratio of approximately one-to-one, in order to estimate how
14 much surplus an insurer should maintain in order to underwrite in catastrophe-prone lines with
15 high-risk portfolios. Applying this “rule of thumb,” which the Commissioner has codified in the
16 ratemaking regulations as the leverage ratio,⁸² Ms. Shaw testified that State Farm’s current
17 financial condition “is very troubling”:

18 So, today, State Farm's net would accrue about \$3 billion. So if you
19 apply the one-to-one rule, they should have about \$3 billion in surplus.
20 My best estimate right now, with the surplus levels, is somewhere
21 between \$600 million and a billion dollars.
22
23
24

25 ⁷⁹ IRH-SFG-107-03.

26 ⁸⁰ Vol. II Transcript at 153:3-14.

27 ⁸¹ Vol. III Transcript at 35:24-36:8.

28 ⁸² Regulation 2644.17.

1 You know, if you flip that equation around, that means, today, they're
2 really only -- should be only supporting \$600 million to a billion dollar
3 book of business. And so this is very troubling to me because we want
4 to keep State Farm in the marketplace to continue offering insurance to
policyholders. If they're not able to, then, I think, we would really
disrupt the entire marketplace.⁸³

5 Consumer Watchdog's own expert actuary agrees; he testified at the interim rate hearing
6 that, "[b]ased on what I've seen in publicly-available information, it's clear that State Farm
7 General is in a deteriorating financial position."⁸⁴ Yet he did not conduct any analysis of State
8 Farm's current overall financial condition,⁸⁵ nor did he apply Variance 6 when he analyzed
9 whether Applicant's in-effect rates are "plainly invalid."⁸⁶ Instead, CW's counsel argued it was
10 supposedly appropriate *not* to consider the company's financial condition when evaluating the
11 interim rate request, because SFG has allegedly "abandoned Variance 6."⁸⁷ This argument lacks
12 foundation. State Farm has expressly not "abandoned" Variance 6; the interim rate request will be
13 subject to proof through a rate hearing process on the original Applications and as they may be
14 subsequently updated, and the Applications still assert Variance 6.

15 As Mr. Schwamberger explained to Commissioner Lara on February 26, 2025:

16 . . . let me reiterate something. There's been a lot of discussion and a
17 comment right there about, you know, Variance 6 or not. I think I want
18 to be clear, and I think the team would support this, we're not divorced
from the Variance 6.

19 It's the reason we're sitting here today asking for this interim break under
[the Applications], which is under Variance 6.⁸⁸

20 State Farm and the Department have made a strong showing that the company has
21 solvency concerns such that it will likely be able to prove during a full rate hearing process it is

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23 ⁸³ Vol. III Transcript at 33:8-20.

24 ⁸⁴ *In the Matter of the Rate Application[s] of: State Farm General Insurance Company*, PA-2024-00011, PA-2024-
00012, and PA-2024-00013, Transcript, Vol. II, April 9, 2025 ("Vol. II Transcript"), at 153:18-20.

25 ⁸⁵ Vol. III Transcript at 152:24-153:2.

26 ⁸⁶ Vol. II Transcript at 158:4-7.

27 ⁸⁷ Vol. I Transcript at 100:22.

28 ⁸⁸ IRH-SFG-158-06, 31:17-24.

entitled to Variance 6 relief from a strict application of the regulatory ratemaking formula. As this Court previously noted when reviewing stipulations under Regulation 2656.2, “[r]eview of the settlement should not be turned into a full hearing on the merits or a rehearsal for one, nor is the court to reach ultimate conclusions on the contested issues of fact and law.”⁸⁹ A final determination of whether State Farm is entitled to Variance 6 will be made as part of the full rate hearing process; for purposes of determining whether to adopt the Stipulation, State Farm and the Department have met their burden of demonstrating that the Applicant has made a sufficient preliminary showing, and therefore the Stipulation is fair, adequate, reasonable, and in the public interest.

4. Application of the additional 2656.2 Factors also weighs in favor of approving the stipulated interim rate

Although the Court need not apply all of the 2656.2 Factors to determine whether to approve the Stipulation on the Applicant’s interim rate request, there are additional indications that the Stipulation is fundamentally, fair, adequate, reasonable, and in the public interest.

First, the risk of waiting until a full rate hearing on the Applications is complete to grant State Farm a rate increase is too great; the company is significantly under-capitalized *now*, and it will take at least 12 to 24 months for any rate increases to begin improving its surplus position. Additionally, granting the interim rate request will enable SFG to obtain a \$400 million surplus note from its parent, which taken as a whole with the interim rate increase will substantially improve its financial condition.⁹⁰

Second, the terms of the Stipulation contain substantial consumer protections, including Applicant’s express agreement and stipulation that:

- The interim rate increases will be subject to refunds with interest should the Commissioner determine they were at all excessive following a full rate hearing on the Applications;
- The company will not contest the Commissioner’s lawful authority to order it to

⁸⁹ IRH-CDI-008-012.

⁹⁰ IRH-CDI-001[-]008, line 13 through -009, line 13.

1 provide refunds with interest to policyholders;

- 2 • It will maintain appropriate records of all policyholders charged any interim rates
- 3 through the Commissioner’s final rate determination, in order to be able to effect
- 4 any refunds with interest if necessary;
- 5 • If refunds are ordered, they will be issued as soon as practical but not later than
- 6 120 days following the Commissioner’s final rate determination (absent any legal
- 7 stay);
- 8 • No new block nonrenewal program through year-end 2025;
- 9 • A reduction in the interim rate increase request from +21.8% to +17.0% in the
- 10 Homeowners Non-Tenant HO-3 line, to account for the potential rate impact of the
- 11 March 2024-initiated nonrenewals program; and
- 12 • Applicant will obtain a \$400 million surplus note from its parent company which,
- 13 when combined with the interim rate increases, will immediately improve its
- 14 financial condition.

15 Third, CW’s argument – that the Court and the Commissioner should deny SFG’s
16 emergency interim rate increase because some consumers may be unable to afford higher
17 premiums – is both speculative and contrary to sound economic principles. Even assuming
18 “some” unspecified current SFG policyholders will drop their homeowners insurance in the face
19 of a +17.0% rate increase – an assumption as to which CW has offered no actual proof – a healthy
20 California insurance market must be structured to allow insurers to charge the rates they need, as
21 set forth in Proposition 103. Forcing insurers to charge artificially low rates can actually lead to
22 an insurance “death spiral,” “which occurs when an insurance carrier ceases to offer plans to new
23 applicants.”⁹¹ State Farm has been closed to new business since May 27, 2023⁹²; the Department
24 intends to examine during the full rate hearing process whether and when the company will be
25

26 ⁹¹ *Martin v. California Physicians’ Service* (Cal.Ct.App., Nov. 11, 2016, No. A145374) 2016 WL 6595997 at * 1
27 (unpublished) (cited for definition purposes).

28 ⁹² IRH-SFG-145.

1 able to reopen to new business.⁹³ However, SFG’s continued economic existence is a necessary
2 preliminary step before the parties can engage in a fulsome examination of Applicant’s
3 underwriting and rating practices as part of a full rate hearing process on the Applications, which
4 is why this Court should approve the interim rate increases *now*, subject to proof during the full
5 rate hearing process. The Commissioner’s goal is to achieve both affordability *and* availability of
6 homeowners insurance in California, but he cannot over-prioritize affordability at the expense of
7 availability, especially before his new SIS regulatory reforms have had the opportunity to take
8 effect.

9 Fourth, it is manifestly in the public interest to halt SFG’s economic decline and prevent it
10 from going bankrupt or being subject to authorized control by the Illinois Department of
11 Insurance. Chief Actuary Shaw is in charge of a team of 15 actuaries at the Department who
12 oversee the top 20 California insurers that write property and casualty insurance.⁹⁴ Based on a
13 simple analysis of State Farm’s surplus-to-premium ratio, she testified Applicant does not
14 currently have sufficient surplus to underwrite the amount of insurance it is providing to
15 Californians.⁹⁵ As Ms. Shaw testified, if the Commissioner does not grant SFG’s interim rate
16 request and the company continues on its current course, it is likely that State Farm will not be
17 able to remain “in the marketplace” in California and that its policyholders will face
18 nonrenewal.⁹⁶ These former SFG policyholders will then have a difficult time finding new
19 homeowners insurance in the open market in California, because as Ms. Shaw observed, “the
20 California homeowners market is currently in a crisis.”⁹⁷ Ms. Shaw further testified, based on her
21 oversight of the Proposition 103 rate applications submitted by the top 20 property and casualty

22
23 ⁹³ As part of the Notice of Hearing issued March 17, 2025, the Department has specifically indicated that the parties
24 to a full rate hearing on the Applications shall provide evidence and argument regarding, inter alia “[w]hether the
Commissioner should enter findings and an order that Applicant shall reopen to writing new business in the lines
affected by the rate order.” (IRH-SFG-162-07.)

25 ⁹⁴ Vol. III Transcript at 23:19-25.

26 ⁹⁵ Vol. III Transcript at 33:3-20; IRH-CDI-001[-]004.

27 ⁹⁶ Vol. III Transcript at 32:25-33:20.

28 ⁹⁷ Vol. III Transcript at 34:17.

1 insurers in California, that the Department asks all insurers seeking rate increases whether they
2 will agree to reopen their books to new business but so far, the Department “ha[s]n’t had any
3 takers.” As the Commissioner has already noted, “[i]t’s important to also recognize that other
4 insurers in California cannot absorb State Farm’s customers, which raises concerns that these
5 customers may end up on the FAIR Plan.”⁹⁸

6 But the California FAIR Plan⁹⁹ is not a good backup plan for current SFG policyholders
7 who may be nonrenewed due to State Farm’s continued deterioration of its financial condition if
8 the interim rate increase is not granted. As an initial matter, FAIR Plan’s “basic property
9 insurance” policies do not offer the same coverage as the more robust HO-3 State Farm policies
10 at issue herein, and regardless of the cost of FAIR Plan policies, Californians may need to secure
11 additional coverage, such as “Difference in Conditions” insurance policies. Moreover, it is
12 doubtful whether the California FAIR Plan has sufficient capacity to absorb even a fraction of
13 State Farm’s current policyholders. SFG currently has approximately 3.2 million policyholders in
14 commercial and residential property lines.¹⁰⁰ In contrast, as of March 2025 FAIR Plan had
15 approximately 570,000 total policies in force, i.e., FAIR Plan’s current book of business is
16 roughly only 18% the size of State Farm’s current book.¹⁰¹

17 Finally, the Department notes that the record supports a finding of fairness here, where the
18 Complete Stipulation is the product of “arms-length bargaining” between highly experienced
19 Proposition 103 counsel for both the Department and State Farm. As Department counsel stated
20 during the interim rate hearing, the Department and SFG are “not on the same side,” but they also
21 are not “opposing parties.” Rather, Department staff are “neutral” in this matter, “trying to get to
22

23
24 ⁹⁸ IRH-SFG-159-06.

25 ⁹⁹ The California FAIR Plan is an involuntary association of normal market admitted carriers that is statutorily
26 required to provide “basic property insurance” to consumers who are unable to find insurance in the open market.
(See §§ 10090 et seq.)

27 ¹⁰⁰ IRH-CDI-001[-]003-004.

28 ¹⁰¹ IRH-SFG-172.

1 the right result” on behalf of California consumers and not a “party-oriented” outcome.¹⁰²

2 Accordingly, the Complete Stipulation is necessarily a result of “arms-length bargaining,” and
3 based upon all of the foregoing, this Court should find that the Stipulation is fundamentally, fair,
4 adequate, reasonable, and in the public interest.

5 **C. Consumer Watchdog Misconstrues the “Plainly Invalid” Standard under**
6 ***Calfarm* and Improperly Seeks to Transform this Proceeding into a Full Rate**
7 **Hearing**

8 Here, the Complete Stipulation promotes the objectives of Proposition 103. It sets forth a
9 lawful and justified interim rate, protecting consumers both by promoting the availability of
10 insurance and ensuring fair and adequate rates. Under its terms, SFG will receive a \$400 million
11 surplus loan from its parent and not institute new block nonrenewal programs through the end of
12 the year. If, after a full rate hearing, the Commissioner ultimately approves rates lower than the
13 Stipulation, consumers will receive a full refund with interest.

14 Nevertheless, CW argues, relying on *Calfarm Ins. Co. v. Deukmejian*, that interim relief is
15 only available for “plainly invalid” rates, and Applicant cannot show its rates are “plainly
16 invalid.” CW’s argument fails in two respects. First, it misreads *Calfarm*. Second, even if
17 *Calfarm* said as much, which it does not, there *is* evidence the rates here are “plainly invalid,” as
18 that term is used by CW.¹⁰³

19 In *Calfarm*, the Supreme Court assumed original jurisdiction to determine constitutional
20 challenges to Proposition 103 shortly after it was enacted. In relevant part, insurers argued the
21 initial rate “rollback” in Proposition 103 would result in confiscatory rates. In finding otherwise,
22 the Supreme Court recognized, “...the commissioner has the power to grant interim relief from
23 plainly invalid rates,” and that such power “may fairly be implied from [Proposition 103’s]
24 command that ‘[n]o rate shall ... *remain in effect* which is excessive, inadequate, unfairly
25 discriminatory or otherwise in violation of this chapter.’”¹⁰⁴ The Supreme Court then reaffirmed

26 ¹⁰² Vol. II Transcript at 14:23-15:8.

27 ¹⁰³ See Transcript, Vol. III, at 143:19-24 [CW counsel acknowledging their use of “plainly invalid” refers to rates that
28 are “inadequate”].

¹⁰⁴ *Calfarm*, *supra*, 48 Cal.3d at 824-825, (emphasis in original).

1 this authority in *20th Century Ins. Co. v. Garamendi*, noting, although Commissioner approval
2 was required before rates could be charged, the commissioner can approve “interim rates”
3 pending his “final decision,” and, if the commissioner ultimately determines a rate less than the
4 interim rate is “fair and reasonable, the insurer must refund excess premiums collected with
5 interest.”¹⁰⁵

6 *Calfarm* and *20th Century* therefore confirm the Commissioner’s authority to grant interim
7 rates, but neither sets forth a standard to evaluate the Commissioner’s granting of an interim rate.
8 As set forth above¹⁰⁶, there is no case law addressing this point. Under Regulations 2656.1 and
9 2656.2, in a case such as this, where the parties have stipulated to proposed interim rates, and
10 there is an objection to the Stipulation, the Stipulation should be approved if it is fair, adequate,
11 reasonable, just, and in the public interest. Here, the Stipulation is, and the proposed decision
12 should approve it.

13 CW, however, argues that interim relief is only available for a “plainly invalid” rate
14 (which CW defines as “inadequate under the regs”¹⁰⁷) and a “plainly invalid” rate can only be one
15 which falls below the minimum permitted earned premium under the rate regulations.¹⁰⁸ This is
16 not so. First, the rate regulations CW relies on would not come into existence until 1991, after
17 *Calfarm*.¹⁰⁹ Accordingly, *Calfarm* could not have considered those regulations. More
18 significantly, the Supreme Court has recognized an interim rate, by definition, must be something
19 other than a final rate. It may be different than the final rate set after a full rate hearing process,
20 and if the “fair and reasonable” rate determined after a full rate hearing process is less than the
21 interim rate, premium shall be refunded and interest shall be paid. If, as CW argues, interim rates
22 can only be the “fair and reasonable” rates determined after a full rate hearing, *Calfarm* and *20th*
23

24 ¹⁰⁵ *20th Century Ins. Co. v. Garamendi*, *supra*, 8 Cal.4th at 245-246.

25 ¹⁰⁶ See *supra*, Section III.A.

26 ¹⁰⁷ Vol. III Transcript at 151:7.

27 ¹⁰⁸ Regulations 2644.2, 2644.3.

28 ¹⁰⁹ New section filed 8-13-91 as an emergency; operative 8-13-91 (Register 92, No. 3) (2644.2).

1 *Century* would not provide the opportunity for a stop-gap rate, and there would be no need for
2 refunds and interest because the interim rate could only be what would be determined after a full
3 rate hearing. Neither *Calfarm* nor *20th Century* suggest such an outcome.

4 Moreover, here there is evidence the current rates are inadequate necessitating an interim
5 rate. Regulation 2642.3 defines “inadequate” rates as “rates under which a reasonably efficient
6 insurer is not expected to have the opportunity to earn a fair return on the investment that is used
7 to provide the insurance.” State Farm has submitted evidence showing that based upon its
8 underwriting data from 2016-2024, it will pay \$1.26 in claims and expenses for every \$1 of
9 premium collected.¹¹⁰ The Department’s Chief Actuary testified, with the rate the Applicant is
10 charging today, its surplus position and solvency positions are “very alarming[ly] low,” such that
11 it should only be writing \$600 million in insurance rather than the \$3 billion in premiums it is
12 currently underwriting.¹¹¹ One of the tenets in ratemaking is that rates cannot be so inadequate that
13 the company will go out of business; “as a matter of sound actuarial principles, insurers, including
14 Applicant, are required to maintain a certain amount of minimum surplus in order to be able to
15 underwrite the amount of insurance in their book of business.”¹¹² Accordingly, under Ms. Shaw’s
16 analysis State Farm’s current rates are demonstrably inadequate to support the amount of
17 insurance it currently underwrites in California, and the proposed stipulated interim rate is not
18 excessive.

19 For all of these reasons, granting the Stipulation would be a proper exercise of the
20 Commissioner’s authority.

21 **IV. CONCLUSION**

22 For the reasons set forth above, the Department respectfully requests that this Court
23 should affirm the Commissioner’s provisional order granting the interim rate increase and find the
24 Stipulation to be fundamentally fair, adequate, reasonable, and in the public interest, and that its
25

26 ¹¹⁰ IRH-SFG-152-07.

27 ¹¹¹ Vol. III Transcript at 33:3-20.

28 ¹¹² IRH-CDI-001[-]004.

1 terms should be recommended for adoption by the Commissioner in a proposed decision.
2 Department staff have worked hard to find a way to stabilize State Farm's financial condition
3 while at the same time ensuring consumer protections. The Stipulation is not a "give-away" to the
4 insurance industry. Rather, it is a negotiated, emergency stop-gap measure which will ensure that
5 SFG will receive an infusion of \$400 million in a surplus note from its parent company, which
6 will immediately help stabilize its financial condition. The Commissioner has plenary authority to
7 take whatever reasonable steps are necessary to ensure consumer protections in California, and
8 this includes fostering a healthy and stable insurance marketplace. As demonstrated during the
9 three-day hearing on CW's objections to the Stipulation, it is fair, adequate, reasonable, and in the
10 public interest to grant the Stipulation, providing State Farm with interim rate adequacy during
11 the pendency of the full rate hearing process.

12
13
14
15 Dated: April 23, 2025

CALIFORNIA DEPARTMENT OF INSURANCE

16
17
18 By *Nikki McKennedy*
19 Nikki McKennedy
20 Attorneys for the California Department of
21 Insurance
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23
24
25
26
27
28

1 NIKKI S. MCKENNEDY (SBN 184269)
JENNIFER McCUNE (SBN 160089)
2 DANIEL WADE (SBN 296958)
DUNCAN MONTGOMERY (SBN 176138)
3 CALIFORNIA DEPARTMENT OF INSURANCE
1901 Harrison Street, Sixth Floor
4 Oakland, CA 94612
Tel: (415) 538-4162
5 Fax: (510) 238-7829
Email: nikki.mckennedy@insurance.ca.gov
6 jennifer.mccune@insurance.ca.gov
daniel.wade@insurance.ca.gov
7 duncan.montgomery@insurance.ca.gov

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

12 In the Matter of the Rate Application of
13 STATE FARM GENERAL INSURANCE
COMPANY,
14 Applicant.

File Nos. PA- 2024-00011, PA-2024-
00012, PA-2024-00013

**CALIFORNIA DEPARTMENT OF
INSURANCE'S REQUEST FOR
OFFICIAL NOTICE IN SUPPORT
OF CLOSING BRIEF**

Interim rate hearing dates: April 8-10,
2025

19 Pursuant to Government Code section 11515, Title 10 of the California Code of
20 Regulations ("CCR") section 2655.10, and Evidence Code section 452, the California Department
21 of Insurance ("Department" or "CDI") hereby notifies all parties of its request that, in reaching a
22 proposed decision regarding approval of the Stipulation entered into between CDI and Applicant
23 State Farm General Insurance Company ("Applicant" or "State Farm") resolving Applicant's
24 request for an emergency interim rate increase, subject to refunds with interest following a full
25 rate hearing process, in the above referenced matter, the Administrative Law Judge ("ALJ")
26 hereby take official notice of certain facts contained in the attached exhibits.

27 Under Government Code section 11515 and CCR section 2655.10, this Court is
28

1 authorized to take official notice in reaching a proposed decision in this matter, “of any fact
2 which may be judicially noticed by the courts of this state.” Evidence Code section 452(c) states,
3 “[j]udicial notice may be taken of . . . official acts of the legislative, executive, and judicial
4 departments of the United States and of any state of the United States. (Evid. Code, § 452(c).)
5 Evidence Code section 452(h) allows the court to take notice of “[f]acts and propositions that are
6 not reasonably subject to dispute and are capable of immediate and accurate determination by
7 resort to sources of reasonably indisputable accuracy.” (Evid. Code, § 452(h).) Taken together,
8 Evidence Code section 452, subdivisions (c) and (h) give the Court discretion to take notice of
9 “[o]fficial acts . . . of any state of the United States’ and ‘[f]acts and propositions that are not
10 reasonably subject to dispute and are capable of immediate and accurate determination by resort
11 to sources of reasonably indisputable accuracy.’” (*Fontenot v. Wells Fargo Bank, N.A.* (2011) 198
12 Cal.App.4th 256, 264 (quoting *Poseidon Development, Inc. v. Woodland Lane Estates, LLC*
13 (2007) 152 Cal.App.4th 1106, 1117).)

14 As the head of an administrative agency, acts of the Insurance Commissioner are
15 judicially noticeable under Evidence Code section 452(c). Further, facts and propositions
16 contained within the Commissioner’s records are judicially noticeable under Evidence Code
17 section 452(h), because they are not reasonably subject to dispute and capable of immediate and
18 accurate determination. (See *Fontenot* at p. 264.)

19 Therefore, the Department respectfully requests that the Court take Official Notice of
20 certain facts as set forth in the following exhibits in this matter:

- 21 1. Facts relating to Insurance Commissioner Ricardo Lara’s Sustainable Insurance
22 Strategy as described in Exhibit IRH-CDI-004, which is a true and correct copy of the
23 press release: “Commissioner Lara Announces Sustainable Insurance Strategy to
24 Improve State’s Market Conditions for Consumers,” dated September 21, 2023,
25 [https://www.insurance.ca.gov/0400-news/0100-press-releases/2023/release051-](https://www.insurance.ca.gov/0400-news/0100-press-releases/2023/release051-2023.cfm)
26 [2023.cfm](https://www.insurance.ca.gov/0400-news/0100-press-releases/2023/release051-2023.cfm);
27 2. Facts relating to Applicant’s prior rate approval application and the settlement of same
28 as set forth in Exhibit IRH-CDI-005, which is a true and correct copy of the

Settlement Stipulation for *In the Matter of the Rate Application of State Farm General Insurance Company*, File No. PA-2023-00007, CDI Rate File No. 23-613, <https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/Settlement-Stipulation-State-Farm-General-Insurance-Co-PA-2023-00007.pdf>;

3. Facts relating to the availability of formulas to calculate RBC ratios in places other than and in addition to the RBC Instructions, as set forth in IRH-CDI-006, which is a true and correct copy of an excerpt (pp. 1-10) from “Criteria/Insurance/General: Insurer Risk-Based Capital Adequacy – Methodology and Assumptions,” S&P Global, published 11/15/2023, and republished 1/22/2025, <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12862217>;
4. Facts relating to the ALJ’s review of RBC admissibility issues in a prior rate proceeding as set forth in IRH-CDI-007, which is a true and correct copy of relevant excerpts (1436-1441, 1549:21-1550:1-5) of the January 5, 2016 transcript for *In re: State Farm Rate Application*, PA-2015-00004, January 5, 2016;
5. Facts relating to the ALJ’s review and analysis of proposed stipulations under CCR 2656.1 as set forth in IRH-CDI-008, which is a true and correct copy of the Order Adopting Proposed Decision issued February 27, 2023, *In the Matter of the Rate Application of: Wawanesa General Insurance Company*, PA-2022-00001; and
6. Facts relating to Applicant’s prior rate approval application and the settlement of same as set forth in Exhibit IRH-CDI-009, which is a true and correct copy of the Settlement Stipulation for *In the Matter of the Rate Application of State Farm General Insurance Company*, File No. PA-2023-00006, CDI Rate File No. 23-563, Settlement Stipulation, <https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/Settlement-Stipulation-State-Farm-PA-2023-00006.pdf>.

Accordingly, because these documents and their contents are judicially noticeable by the courts of this state, they are officially noticeable in this proceeding. (See Gov. Code, § 11515; 10 CCR § 2655.10.) The Department hereby respectfully requests that official notice be taken of the above referenced exhibits and their contents. (See Evid. Code, § 453.)

Dated: April 23, 2025

Nikki McKennedy
Nikki McKennedy

EXHIBIT

IRH-CDI-004

Commissioner Lara announces Sustainable Insurance Strategy to improve state's market conditions for consumers

News: 2023 Press Release

For Release: September 21, 2023

Media Calls Only: 916-492-3566

Email Inquiries: cdipress@insurance.ca.gov

Commissioner Lara announces Sustainable Insurance Strategy to improve state's market conditions for consumers

Governor Newsom issues executive order -- comprehensive package of executive actions aimed at immediate and lasting changes to protect insurance consumers from climate change



Insurance Commissioner Ricardo Lara announces his Sustainable Insurance Strategy in the state capitol.

Watch a [replay of his announcement](#) courtesy of ABC10.

SACRAMENTO, Calif. — Insurance Commissioner Ricardo Lara announced a package of executive actions aimed at improving insurance choices and protecting Californians from increasing climate threats while addressing the long-term sustainability of the nation's largest insurance market. The largest insurance reform since state voters' passage of Proposition 103 nearly 35 years ago, California's Sustainable Insurance Strategy is a comprehensive approach building on Commissioner Lara's multi-year effort to modernize California's insurance market after meeting with thousands of Californians since he took office in 2019.

California Governor Gavin Newsom today issued an [executive order](#) urging prompt regulatory action in support of Commissioner Lara's actions for communities affected by climate change.

The actions announced today are aimed at addressing problems fueled by climate change and being experienced by states across the nation including global inflation and increased costs for rebuilding that have led to several insurance companies pausing coverage for writing new homeowners and commercial insurance policies, non-renewing existing consumers, and increasing rates to maintain their financial stability. Unlike public utilities, which are required by law to cover all consumers, insurance companies will not write insurance, especially in high-risk areas, unless they are able to ensure they have the capital and reserves to fully meet all insurance claims submitted by consumers, cover their expenses, and earn a fair return. Insurance company actions following multiple years of major wildfires and winter storms have pushed more people to the FAIR Plan, which is intended as California's insurer of last resort but has become the only option in some areas of the state.

"We are at a major crossroads on insurance after multiple years of wildfires and storms intensified by the threat of climate change. I am taking immediate action to implement lasting changes that will make Californians safer through a stronger, sustainable insurance market," said Commissioner Lara. "The current system is not working for all Californians, and we must change course. I will continue to partner with all those who want to work toward real solutions."

"This is yet another example of how climate change is directly threatening our communities and livelihoods. It is critical that California's insurance market works to protect homes and businesses in every corner of our state," said Governor Newsom. "A balanced approach that will help maintain fair prices and protections for Californians is essential. I look forward to continuing to work with Commissioner Lara and others to strengthen our marketplace and protect Californians."

Key regulatory elements of the plan include:

- ▶ Executive action by Commissioner Lara to transition homeowners and businesses from the FAIR Plan back into the normal insurance market with commitments from insurance companies to cover all parts of California by writing no less than 85% of their statewide market share in high wildfire risk communities. For example, if a company writes 20 out of 100 homes statewide, it must write 17 out of 100 homes in a distressed area;
- ▶ Giving FAIR Plan policyholders who comply with the new Safer from Wildfires regulation first priority for transition to the normal market, thus enhancing the state's overall wildfire safety efforts;
- ▶ Expediting the Department's introduction of new rules for the review of climate catastrophe models that recognize the benefits of wildfire safety and mitigation actions at the state, local, and parcel levels;
- ▶ Directing the FAIR Plan to further expand commercial coverage to \$20 million per building to close insurance gaps for homeowners associations and condominium developments to help meet the state's housing goals and to provide required coverage to other large businesses in the state;
- ▶ Holding public meetings exploring incorporating California-only reinsurance costs into rate filings;
- ▶ Improving rate filing procedures and timelines by enforcing the requirement for insurance companies to submit a complete rate filing, hiring additional Department staff to review rate applications and inform regulatory changes, and enacting intervenor reform to increase transparency and public participation in the process;
- ▶ Increasing data reporting by the FAIR Plan to the Department, Legislature, and Governor to monitor progress toward reducing its policyholders; and,
- ▶ Ordering changes to the FAIR Plan to prevent it from going bankrupt in the case of an extraordinary catastrophic event, including building its reserves and financial safeguards.

California's Sustainable Insurance Strategy builds on actions that Commissioner Lara has taken including enacting regulations under his authority and sponsoring legislation to improve insurance benefits:

- ▶ Enacting the [Safer from Wildfire Regulation](#): Commissioner Lara has mandated insurance companies to recognize and reward wildfire safety and mitigation efforts made by homeowners and businesses. His new regulation requires insurance companies to submit new rates that recognize the benefit of safety measures such as upgraded roofs and windows, defensible space, and memberships in community-

wide programs such as Firewise USA and the [Fire Risk Reduction Community](#) designation developed by the state's Board of Forestry and Fire Protection. It further requires insurance companies to provide discounts to consumers that meet various elements of the Safer from Wildfires framework and to provide consumers with their property's "wildfire risk score," including a right for consumers to appeal that score.

- **Modernizing the FAIR Plan:** Commissioner Lara continues to reform the FAIR Plan by expanding its coverage options and ensuring wider availability for its policyholders, including expanding residential and commercial coverage limits for the first time in 25 years to keep pace with increased costs. His [agreement with the FAIR Plan](#) increased its commercial coverage limit to \$20 million per location for businesses unable to find coverage in the normal insurance marketplace.
- **Promoting Policyholder Security through Moratoriums on Non-renewals and Cancellations:** Under a law written by then-Senator Lara, the Commissioner has [protected more than 4 million people](#) statewide since 2019 through mandatory one-year moratoriums on insurance companies cancelling or non-renewing residential insurance policies in certain areas within or adjacent to a fire perimeter after a declared state of emergency is issued by the Governor.
- **[Sponsoring New Insurance Protections](#):** Commissioner Lara-sponsored bills signed into law by the Governor -- despite opposition from insurance companies -- will mean quicker payouts for some consumer claims, less red tape from insurance companies, and more help for people under evacuation orders.
- **Supporting Multi-year Funding for Wildfire Safety:** Commissioner Lara strongly supported the Governor and Legislature in increasing our state's wildfire mitigation efforts, including \$2.7 billion directed into wildfire resilience programs over the past three years. These efforts include funding fire prevention grants for local risk reduction projects, creating fire breaks that protect communities, expanding defensible space inspections, and increasing strategies like prescribed fire and fuels reduction projects.

WHAT OTHERS ARE SAYING:

California Farm Bureau:

"California's rural communities have been impacted by wildfires damaging farm structures and crops and by farmers and ranchers being denied insurance coverage to protect their properties. Farm Bureau supports the effort to restore competition to California's insurance market to get insurers doing business in those areas, again," said **California Farm Bureau Federation President Jamie Johansson**. "The California Farm Bureau welcomes Commissioner Lara's announcement about actions the Department of Insurance will take to bring insurers back to California. We support a competitive market that provides consumers and farmers access to comprehensive risk protection."

United Policyholders:

"Commissioner Lara has consistently acted in the best interests of consumers to address the growing challenges of insurance availability and affordability. The agreement he has negotiated directly addresses the problems we have been hearing from residents and businessowners, which are rooted in drastically reduced access to insurance," said **Amy Bach, Executive Director for United Policyholders**. "We will continue to work with the Department to make sure that consumers' voices are heard throughout the public input process as we restore insurance access and bolster wildfire safety, and continue to regulate rate increases."

Community Associations Institute:

"On behalf of the more than 13 million Californians living in the more than 50,000 in community associations located here, we applaud Commissioner Lara for reaching a breakthrough agreement that increases insurance availability and supports community safety," said **Kieran Purcell, Chair, Community Associations Institute, California Legislative Action Committee**. "This much-needed insurance reform will expand options and create long-term sustainability in our marketplace, helping millions of Californians including seniors, first-time home buyers, and many others across our state. We value our partnership with the Commissioner and look forward to continuing our collective efforts on this issue."

REALTORS:

"California REALTORS® thank and support Commissioner Lara for taking necessary actions to strengthen and stabilize the state's insurance market; a strong insurance market is essential to maintaining a healthy housing market," said **C.A.R. President Jennifer Branchini**. "We look forward to working with the Commissioner and

stakeholders to ensure that Californians have access to critical and reliable property insurance to protect their most valuable asset — their home.”

California Credit Union League:

“Commissioner Lara’s action plan to ensure a stable and more reliable insurance market will help consumers across the state purchase and keep their homes knowing they are protected when they need it,” said **President/CEO, California Credit Union League, Diana Dykstra**. “Expanding coverage options and prioritizing wildfire safety will support long-term insurance availability for the communities we serve throughout the state.”

Supportive Housing Alliance:

“As the leading coalition of supportive housing developers in the Los Angeles region, we strongly support the Insurance Commissioner’s proposed plan to increase insurance availability and reliability in California,” said **Policy Specialist, Brad West of the Supportive Housing Alliance**. “Supportive housing is an evidence-based best practice that is a central component in our solution to end our homelessness crisis. If a competitive insurance market is not restored, there will be a drastic reduction in the number of supportive housing units we can build, and our State will make no progress in reducing homelessness. That is why the Insurance Commissioner’s proposal to make needed changes to the FAIR plan and the State’s insurance rate review process is an important first step to restore a competitive and resilient marketplace for admitted insurance companies in the State and to ensure we can continue building supportive housing and end our homelessness crisis.”

California Mortgage Bankers Association:

“Having insurance is an absolute condition for homebuyers obtaining a mortgage,” said **CEO of California MBA, Susan Milazzo**. “The agreement that Commissioner Lara has reached to expand insurance availability across our state means more Californians can be able to achieve the dream of homeownership knowing they will have better access to the insurance they need.”

California Building Industry Association:

“CBIA applauds Governor Newsom and Commissioner Lara’s commitment to California consumers and the steps they are taking to address California’s insurance crisis. Increasing Fair Plan commercial limits to \$20 million per structure will reduce barriers to home construction and ownership,” said **Dan Dunmoyer, President and CEO of the California Building Industry Association**. “Absent this action, consumers living in attached condominiums and homeowners’ associations have been left with little choice but to seek coverage from non-admitted insurance carriers whose rates are exponentially more expensive than the Fair Plan. The Commissioner’s bold move is a major step in the right direction toward addressing our state’s growing insurance crisis.”

California Association of Winegrape Growers:

“Growers are finding that the only commercial property option available to them is FAIR Plan, which should be the insurer of last resort,” said Michael Miller, Director of Government Relations for the California Association of Winegrape Growers. “We fully support efforts to bring stability and sustainability to the insurance market and thank Commissioner Lara and Governor Newsom for their attention to this crisis.”

California Fire Safe Council:

“In a state where wildfire occurs year-round, it’s imperative that we learn to live alongside fire and adapt our lifestyles to it, which includes mitigating risks,” said **Jessica Martinez, Program Director for the California Fire Safe Council**. “We all have a part to play—homeowner or not. Whether it be home hardening , maintaining defensible space, forest and fuels management, or participating in your local Fire Safe Council to mobilize community efforts for preparedness—there’s opportunities for everyone to play a part in making their communities fire adapted.”

###

Media Notes:

- 🔗 [California Sustainable Insurance Strategy overview](#) (PDF)
- 🔗 [California Sustainable Insurance Strategy webpage](#)

Led by Insurance Commissioner Ricardo Lara, the California Department of Insurance is the consumer protection agency for the nation's largest insurance marketplace and safeguards all of the state's consumers by fairly regulating the insurance industry. Under the Commissioner's direction, the Department uses its authority to protect Californians from insurance rates that are excessive, inadequate, or unfairly discriminatory, oversee insurer solvency to pay claims, set standards for agents and broker licensing, perform market conduct reviews of insurance companies, resolve consumer complaints, and investigate and prosecute insurance fraud. Consumers are urged to call 1-800-927-4357 with any questions or contact us at www.insurance.ca.gov via webform or online chat. Non-media inquiries should be directed to the Consumer Hotline at 800-927-4357. Teletypewriter (TTY), please dial 800-482-4833.

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EXHIBIT

IRH-CDI-005

1 NIKKI S. McKENNEDY (SBN 184269)
MELISSA A. WURSTER (SBN 198899)
2 DEIRDRE M. DIGRANDE (SBN 199766)
CALIFORNIA DEPARTMENT OF INSURANCE
3 1901 Harrison Street, Sixth Floor
Oakland, CA 94612
4 Tel: (415) 538-4162
Fax: (510) 238-7829
5 Email: nikki.mckennedy@insurance.ca.gov
melissa.wurster@insurance.ca.gov
6 deirdre.digrande@insurance.ca.gov

7 *Attorneys for the California Department of Insurance*

8
9 **BEFORE THE INSURANCE COMMISSIONER**
10 **OF THE STATE OF CALIFORNIA**
11

12 In the Matter of the Rate Application of

File No. PA-2023-00007

13 STATE FARM GENERAL INSURANCE
14 COMPANY,

SETTLEMENT STIPULATION

15 Applicant.

16
17 Applicant STATE FARM GENERAL INSURANCE COMPANY (“Applicant”),
18 Intervenor CONSUMER WATCHDOG (“Petitioner”), and the Department of Insurance
19 (“Department”; collectively, “Parties”) stipulate as follows:

20 **RECITALS**

21 A. The Applicant is licensed by the Department to conduct insurance business in
22 California.

23 B. On February 28, 2023, Applicant filed a rate application (Application File No. 23-
24 613 [“Application”]) with the Department seeking approval of an overall 28.1 percent rate
25 increase to its California Homeowners Program line of insurance.

26 C. On March 17, 2023, the Department notified the public of the Application
27 pursuant to Insurance Code section 1861.05, subdivision (c).

28 ///

1 D. On May 1, 2023, Petitioner submitted a timely Petition for Hearing, Petition to
2 Intervene, and Notice of Intent to Seek Compensation regarding the Application (collectively,
3 “Petition”).

4 E. On May 15, 2023, the Commissioner granted the Petition to Intervene.

5 F. On May 18, 2023, Applicant responded to the Petition.

6 G. The Parties have engaged in discussions regarding the Application and additional
7 information and analysis the Parties have provided.

8 H. As a result of the Parties’ discussions and negotiations, Applicant has updated the
9 Application per the Parties’ agreement.

10 **STIPULATION**

11 1. This Stipulation, together with the updated Application and the Commissioner’s
12 approval in SERFF, represents the complete and final settlement resolving all issues between the
13 Parties regarding the Application.

14 2. Based upon the Application and additional information provided by the Parties, the
15 Parties agree that an overall rate increase of 20.0 percent to Applicant’s California Homeowners
16 Program line of insurance (by coverage 20.8% for non-tenant homeowners, 0.0% for renters, and
17 20.0% for condominium unit-owners) complies with the applicable laws and regulations, and
18 results in rates that are not excessive, not inadequate, and not unfairly discriminatory. Applicant
19 has made appropriate updated filings in SERFF to reflect the agreed-upon overall rate change and
20 changes by coverage. Approval of the Application described in this Stipulation will only be
21 effective when approved by the Commissioner in SERFF. Applicant will implement this rate
22 change with an effective date of March 15, 2024 in accordance with this Stipulation, the updated
23 Application, and the Commissioner’s approval in SERFF.

24 3. In the event that Applicant submits a new rate increase application for its
25 homeowners line, it agrees that the effective date for such application will be no earlier than
26 September 15, 2024, except that Applicant may file for an earlier effective date if requested by a
27 state regulator with authority to regulate Applicant’s financial condition. As used herein,
28

1 “effective date” means the first date on which premiums calculated at a new, approved rate are
2 due.

3 4. Following final resolution of the Application, Applicant further agrees that within
4 a reasonable time it will confidentially provide Petitioner with a copy of its 2023 Actuarial
5 Reserve Report (“Report”) pursuant to a nondisclosure agreement agreed-upon among Applicant,
6 Petitioner, and PwC (Applicant’s auditor and creator of the Report).

7 5. This Stipulation does not constitute an endorsement or approval of models
8 generally, or any specific model, eligibility, or nonrenewal criteria, or rating methodology.

9 6. Applicant agrees that the terms of the Settlement Stipulation executed on July 22,
10 2020 in Department File No. PA-2018-00005 (arising from Application File No. 18-4896)
11 pertaining to underwriting guidelines apply to all prior approval rate applications filed by
12 Applicant with respect to any line of insurance.

13 7. Consistent with Title 10 of the California Code of Regulations (“10 CCR”) sections 2656.1(b) and 2662.3(c), no agreement regarding Petitioner’s compensation has been
14 made. However, the Parties agree that the Commissioner’s approval of the Application,
15 consistent with this Stipulation will be a decision or order within the meaning of Insurance Code
16 section 1861.10, subdivision (b). Petitioner agrees to submit any request for compensation to the
17 Public Advisor within 30 days after notice of the Commissioner’s approval in SERFF.

18 8. Petitioner will withdraw its Petition for Hearing within 10 days after notice of the
19 Commissioner’s approval in SERFF.
20

21 9. This Stipulation is made solely to reach a compromise among the Parties. The
22 Commissioner’s approval of the Application shall not constitute approval of or precedent
23 regarding any principle or any issue in any other proceeding.

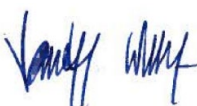
24 10. The Commissioner retains jurisdiction to ensure that the Parties comply with this
25 Stipulation and the updated Application and the Commissioner’s approval in SERFF.

26 11. This Stipulation may be executed in counterparts.
27
28

1 Dated: December 22, 2023

HOGAN LOVELLS US, LLP

2
3 By:


Vanessa Wells

*Attorneys for Applicant State Farm General
Insurance Company*

4
5
6 Dated: December 22, 2023

Petitioner CONSUMER WATCHDOG

7
8 By:

Pamela Pressley

*Attorneys for Petitioner/Intervenor
Consumer Watchdog*

9
10
11 Dated: December 22, 2023

CALIFORNIA DEPARTMENT OF
INSURANCE

12
13
14 By:

Nikki S. McKennedy

*Attorneys for the California Department of
Insurance*

1 Dated: December 21, 2023

HOGAN LOVELLS US, LLP

2

3

By: _____

4

Vanessa Wells

5


*Attorneys for Applicant State Farm General
Insurance Company*

6 Dated: December 21, 2023

Petitioner CONSUMER WATCHDOG

7

8

By:  _____

9

Benjamin Powell

10

*Attorneys for Petitioner/
Intervenor Consumer Watchdog*

11 Dated: December 21, 2023

CALIFORNIA DEPARTMENT OF
INSURANCE

12

13

14

By: _____

15

Nikki S. McKennedy

16

*Attorneys for the California Department of
Insurance*

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Dated: December 21, 2023

HOGAN LOVELLS US, LLP

By: _____
Vanessa Wells
*Attorneys for Applicant State Farm General
Insurance Company*

Dated: December 21, 2023

Petitioner CONSUMER WATCHDOG

By: _____
Pamela Pressley
*Attorneys for Petitioner/Intervenor
Consumer Watchdog*

Dated: December 21, 2023

CALIFORNIA DEPARTMENT OF
INSURANCE

By: *Nikki McKennedy*
Nikki S. McKennedy
*Attorneys for the California Department of
Insurance*

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PROOF OF SERVICE
In the Matter of the Rate Application of
Sate Farm General Insurance Company, Applicant.
CDI File No. PA-2023-00007
(RRB FILE No. HO-23-613)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On December 22, 2023, I served the following document(s):

SETTLEMENT STIPULATION

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city and county of San Francisco, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.


Cecilia Padua

**In the Matter of the Rate Application of
Sate Farm General Insurance Company, Applicant.
CDI File No. PA-2023-00007
(RRB FILE No. HO-23-613)**

<u>Name/Address</u>	<u>Phone/Fax Numbers</u>	<u>Method of Service</u>
Vanessa O. Wells, Esq. Victoria C. Brown, Esq. Attorney(s) for Applicant HOGAN LOVELLS US LLP 855 Main Street, Suite 200 Redwood City, CA 94063 Vanessa.wells@hoganlovells.com Victoria.brown@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Jordan D. Teti, Esq. Attorney(s) for Applicant HOGAN LOVELLS US LLP 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Jordan.teti@hoganlovells.com	Tel: (310) 785-4600 Fax: (310) 785-4601	Via EMAIL
Nicole Pettis Pricing Manager STATE FARM GENERAL INSURANCE COMPANY One State Farm Plaza Bloomington, IL 61710-0001 Nicole.pettis.m3ht@statefarm.com	Tel: (309) 766-2265	Via EMAIL
Harvey Rosenfield, Esq., Pamela Pressley, Esq. Benjamin Powell, Esq. Ryan Mellino, Esq. Attorney(s) for Intervenor CONSUMER WATCHDOG 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org ben@consumerwatchdog.org ryan@consumerwatchdog.org	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL

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NON PARTIES

Kenneth Allen
Deputy Commissioner
Rate Regulation Branch
**CALIFORNIA DEPARTMENT OF
INSURANCE**
300 South Spring Street, 14th Floor
Los Angeles, CA 90013
ken.allen@insurance.ca.gov

Tel: (213) 346-6783
Fax: (213) 897-9051
Via EMAIL

Jon Phenix, Esq.
Staff Counsel III & Public Advisor
Office of the Special Counsel
**CALIFORNIA DEPARTMENT OF
INSURANCE**
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
Jon.phenix@insurance.ca.gov

Tel: (916) 492-3705
Fax: (510) 238-7830
Via EMAIL

EXHIBIT

IRH-CDI-006

15-Nov-2023 | 16:08 EST

Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions

(**EDITOR'S NOTE:** On Jan. 22, 2025, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)

OVERVIEW AND SCOPE

These criteria provide S&P Global Ratings' methodology and assumptions for analyzing the risk-based capital (RBC) adequacy of insurers and reinsurers. We apply the output from these criteria in our insurance framework (see our insurers rating methodology in "Related Criteria") to assess capital and earnings--a key rating factor for insurers.

These criteria apply globally to all insurers in the life, property/casualty, health, mortgage, trade credit, and title insurance and reinsurance sectors. We apply the bond insurance capital adequacy criteria (see "Related Criteria") to assess the risk-based capital adequacy of bond insurers.

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SECTION 1: STRUCTURE OF THE METHODOLOGY

SECTION 2: TOTAL ADJUSTED CAPITAL

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SECTION 3: RISK-BASED CAPITAL REQUIREMENTS

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SECTION 4: DIVERSIFICATION

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Glossary
Market Variables

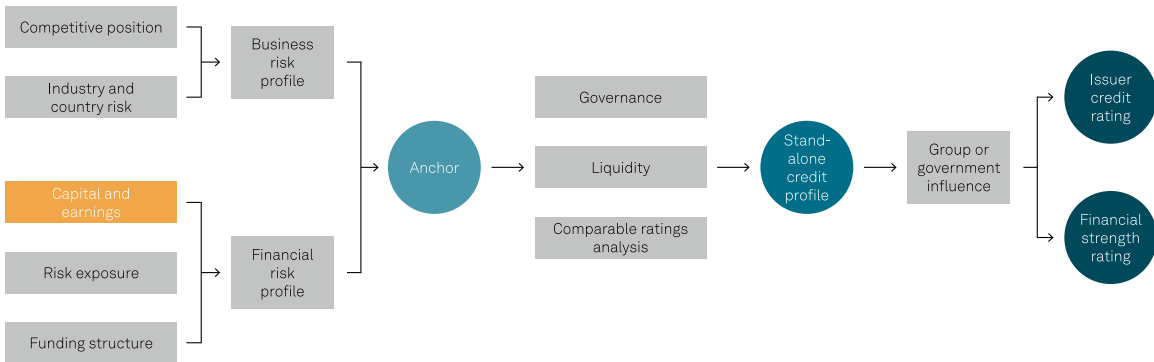
METHODOLOGY

SECTION 1: STRUCTURE OF THE METHODOLOGY

The methodology describes the framework for assessing the capital adequacy of insurers and reinsurers. The output from these criteria is the starting point to assess capital and earnings in our insurance ratings framework (see chart 1). The glossary contains definitions of terms we use in these criteria.

Chart 1

Insurance ratings framework

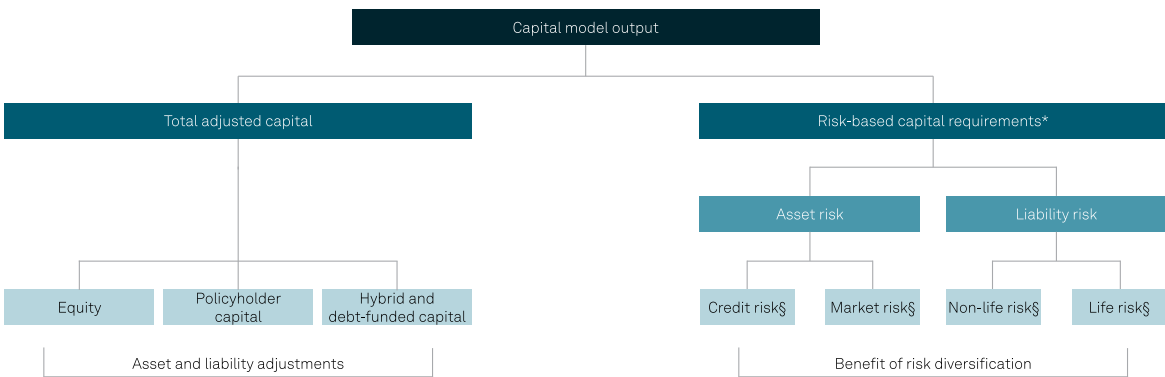


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In our capital analysis, we compare our measure of capital, total adjusted capital (TAC), with our measure of RBC requirements at different stress levels, based on an insurer's risks (see chart 2).

Chart 2

Capital model output



*The different stress levels we use for individual risks are 99.5%, 99.8%, 99.95%, and 99.99%.

§Subject to any applicable company-specific adjustments.

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RBC requirements are the amounts of capital in excess of reserves that an insurance company may need to cover losses from different risks in stress scenarios. The stress scenarios we typically apply to calibrate RBC requirements for individual risks are:

- 99.5% (moderate stress);
- 99.8% (substantial stress);
- 99.95% (severe stress); and
- 99.99% (extreme stress).

The calibration of the RBC requirements represents the potential volatility in risk drivers over a one-year period, measured using a value-at-risk (VaR) approach. We base the calibration on observed volatility, generally using data for periods of up to 30 years--depending on the risk--supplemented by scenario-based analysis and analytical judgment where appropriate. We also use scaling factors relative to a 99.5% confidence level to calibrate risk charges at higher confidence levels--for example, where there is a limited time series of data.

The total RBC requirement is the sum of the capital requirements for each risk less an explicit credit for risk diversification. This explicit diversification is in addition to implicit diversification that is embedded in many of the individual charges that were calibrated with indices and industry-level data. The explicit diversification credit brings the sum of the capital requirements across each risk to a level commensurate with the defined stress scenarios.

Financial Statements

For companies or groups producing financial statements in accordance with International Financial Reporting Standards (IFRS) or generally accepted accounting principles (GAAP), we typically calculate TAC and use exposures from information contained in those statements.

However, in certain countries, some companies produce financial statements only in accordance with the local regulatory basis (statutory basis) of accounting. We may calculate TAC and use exposures from

information contained in these regulatory financial statements if there are no IFRS or GAAP financial statements or if the regulatory financial statements provide information that we believe is more relevant to our capital analysis.

We may also use information from other sources, such as survey information from issuers, to supplement information in reported financial statements.

SECTION 2: TOTAL ADJUSTED CAPITAL

TAC is the measure we use to define the capital available to meet a company's capital requirements. We calculate TAC using a globally consistent methodology. To determine TAC, we adjust common shareholders' equity (or policyholders' surplus, such as for mutual companies) for differences in valuation assumptions for assets and liabilities, including for different accounting standards (see table 1). We believe TAC is a more economic view of the capital that is available to absorb losses than reported equity (or surplus).

Table 1

Components Of Total Adjusted Capital

Common shareholders' equity/policyholders' surplus	
Plus	Equity noncontrolling interests
Minus	Investments in own shares/treasury shares

Minus	Shareholder distributions not accrued
-------	---------------------------------------

Minus	Intangible assets
-------	-------------------

Plus/minus	Postretirement employee benefits
------------	----------------------------------

Plus/minus	Unrealized gains and losses on investments
------------	--

Plus/minus	Non-life reserve adjustments
------------	------------------------------

Plus/minus	Life reserve adjustments
------------	--------------------------

Plus/minus	Company-specific analytical adjustments to determine ACE
------------	--

= Adjusted common equity (ACE)	
---------------------------------------	--

Plus	Hybrid capital/debt-funded capital (subject to tolerance limits)
------	--

Minus	Investments in noninsurance subsidiaries and unconsolidated insurance subsidiaries
-------	--

Plus	Policyholder capital available to absorb losses
------	---

Plus	Unrealized gains on investments backing participating life business
------	---

Plus/minus Company-specific analytical adjustments to determine TAC

= Total adjusted capital (TAC)

Adjustments to common shareholders' equity are net of the related tax impact, unless otherwise stated.

Adjusted common equity (ACE) offers a narrow definition of the group's capital resources because it excludes items such as hybrid capital instruments, eligible debt-funded capital, and policyholder capital. These items may, however, be included in TAC. TAC represents the capital that is available to absorb losses in the insurance business, which is why we typically exclude the capital invested in noninsurance businesses from TAC.

Routine Adjustments To Common Shareholders' Equity To Determine ACE And TAC

Routine adjustments to common shareholders' equity or policyholders' surplus are made where applicable. Adjustments to determine ACE and TAC are net of the related tax impact. Adjustments for items that are on balance sheet are net of the related on-balance-sheet deferred tax asset or liability. We apply tax-effect adjustments for items that are off balance sheet. Where the tax effect is not disclosed or is otherwise unavailable, we use the effective tax rate. We may adjust the value of on-balance-sheet deferred tax assets that relate to other items where asset recoverability is questionable or distant.

Common shareholders' equity

Common shareholders' equity (or regulatory surplus where we use the regulatory financial statements) is the starting point for determining ACE and TAC. For mutual companies, we may use policyholders' surplus or net assets. Common shareholders' equity excludes any minority interests, preferred stock, or hybrid securities that are included in total equity. Where we use regulatory surplus, we also exclude items that do not relate to common shareholders' equity, such as the policyholder dividend liability.

For group capital models that are not based on consolidated financial statements (for example, if the financial statements do not include the group parent):

- We deduct from common shareholders' equity the total amount of hybrid equity and debt-funded capital that is funding the capital of the insurance entities (see the section on hybrid capital and debt-funded capital);
- We typically deduct intragroup transactions from common shareholders' equity (for example, a loan from a subsidiary to its parent in lieu of a dividend); and
- We include adjustments for other entities, such as the group parent, to ensure our capital analysis fully captures the resources and risks of the consolidated group.

Equity noncontrolling interests

ACE includes the holdings of certain minority investors in consolidated group entities (also called equity minority interests). We add them to shareholders' equity because they constitute capital controlled by the group that is available to absorb losses. However, there are some noncontrolling interests that we do not include in equity noncontrolling interests, such as minority interests in special-purpose entities that are

not operating subsidiaries or those relating to consolidated property companies or funds. If equity noncontrolling interests are negative, we deduct this amount from shareholders' equity.

Investments in own shares or treasury shares

If an insurer reports treasury shares (or has investment in its own shares) as assets, we deduct this figure from shareholders' equity to determine ACE to produce a consistent measure of the resources available to absorb losses.

Shareholder distributions not accrued

We deduct from shareholders' equity the expected dividend relating to the most recent financial year that is not accrued on the balance sheet (including any expected distributions on other capital instruments included in equity). This deduction recognizes capital expected to be paid out.

If an entity has not formally announced a dividend or if that information is otherwise unavailable, we deduct our estimate, based on factors such as the company's stated dividend policy or historical payouts. We also deduct dividends that will be paid in the form of ordinary shares unless there is a clear strategy not to eliminate the dilutive effect.

If a company has withdrawn its proposed dividend (in effect canceling the proposed dividend), we do not deduct this amount from shareholders' equity. But if a dividend has been proposed and then deferred, we deduct this amount if we expect payment will be made within a year. Otherwise, we capture the deferred payment in our forecasts.

Intangible assets

We deduct goodwill and other intangible assets from shareholders' equity to determine ACE. This recognizes that these assets are unlikely to be realizable during stress (e.g., they may be integral to the ongoing operations of the business) and ensures consistency between companies that have grown organically and those that have grown through acquisitions.

We do not adjust equity for negative goodwill. We typically treat intangibles related to nonaffiliated equity investments as assets exposed to equity market risk and do not deduct such intangibles from shareholders' equity.

Postretirement employee benefits

To determine ACE, we deduct from equity any deficits in defined-benefit employee pension (or long-term health care) schemes that are held off balance sheet.

We also deduct from equity on-balance-sheet surpluses related to defined-benefit employee pension (or long-term health care) schemes to determine ACE, unless we believe the surplus is fungible (i.e., not ring-fenced) and sustainable. We add off-balance-sheet surpluses if we believe they are fungible and sustainable.

Unrealized gains and losses on investments

We add to shareholders' equity unrealized investment gains (or deduct unrealized investment losses) that are not included in reported equity (or surplus). This adjustment ensures we capture the full market or fair value

EXHIBIT

IRH-CDI-007

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STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE

PUBLIC HEARING
IN RE: STATE FARM RATE APPLICATION

PA-2015-00004

SAN FRANCISCO, CALIFORNIA

TUESDAY, JANUARY 5, 2016

VOLUME VII, PAGES 1436-1610

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REPORTED BY: CARRIE HEWERDINE, RDR, CSR NO. 4579

FILE NO.: A90CF5D

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STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE

PUBLIC HEARING
IN RE: STATE FARM RATE APPLICATION

PA-2015-00004

SAN FRANCISCO, CALIFORNIA

TUESDAY, JANUARY 5, 2016

Proceedings taken at California Department of
Insurance, 45 Fremont Street, 22nd Floor, San Francisco,
94104, before John H. Larsen, Administrative Law Judge,
commencing at 10:00 a.m., Tuesday, January 5, 2016,
before Carrie Hewerdine, RDR, CSR No. 4579.

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A P P E A R A N C E S

For the Applicant:

HOGAN LOVELLS US, LLP
4085 Campbell Avenue

Menlo Park, California 94025
650.463.4000

E-mail: Vanessa.wells@hoganlovells.com
Christian.mammen@hoganlovells.com
Michael.shepard@hoganlovells.com

BY: VANESSA WELLS, ESQ.
CHRISTIAN MAMMEN, ESQ.
MICHAEL J. SHEPARD, ESQ.

For the Department of Insurance:

CALIFORNIA DEPARTMENT OF INSURANCE
Legal Division - Rate Enforcement Bureau
45 Fremont Street
21st Floor

San Francisco, California 94105
415.538.4500

E-mail: Daniel.goodell@insurance.ca.gov
Nikki.mckennedy@insurance.ca.gov
Summer.volkmer@insurance.ca.gov

BY: NIKKI MCKENNEDY, ESQ.
DANIEL M. GOODELL, ESQ.
SUMMER VOLKMER, ESQ.

For the Intervenor Consumer Watchdog:

ZOHAR LAW FIRM, P.D.
601 S. Figueroa Street
Suite 2675

Los Angeles, California 90017
213.689.1300

E-mail: Dzohar@zoharlawfirm.com
tforeman@zoharlawfirm.com

BY: DANIEL Y. ZOHAR, ESQ.

For the Intervenor Consumer Watchdog:

ZOHAR LAW FIRM, P.D.
1100 Peachtree Street NE
Suite 200

Atlanta, Georgia 30309

404.490.0025

E-mail: Tforeman@zoharlawfirm.com

BY: TODD M. FOREMAN, ESQ.

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A P P E A R A N C E S (Continued)

For the Intervenor, Consumer Watchdog:
CONSUMER WATCHDOG
2701 Ocean Park Boulevard
Suite 112
Santa Monica, California 90405
310.392.0522
E-mail: Jonathan@consumerwatchdog.com
BY: JONATHAN PHENIX, ESQ.

For the Intervenor, Consumer Federation of California:
CONSUMER FEDERATION OF CALIFORNIA
1107 9th Street
Suite 625
Sacramento, California 95814
916.498.9616
E-mail: Alewis@consumercal.org
BY: AARON J. LEWIS, ESQ.

For the Intervenor, Consumer Federation of California:
CONSUMER FEDERATION OF CALIFORNIA
Consumer Advocate, Consultant
310.480.4170
BY: DOUGLAS HELLER, ESQ.

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1 that support our overall point.

2 JUDGE LARSEN: All right. Anything else,
3 Ms. Wells?

4 MS. WELLS: Yes, your Honor. Just for the
5 record, I would like to make the point that this is a
6 statute that was adopted in 1996, 20 years ago. It does
7 preclude certain information from being used in a rate
8 hearing, and the Commissioner is bound to follow that
9 statute unless and until Consumer Watchdog brings the
10 complaint that they believe it unconstitutionally amends
11 Proposition 103 to a court and let the court decide that
12 question.

13 MR. FOREMAN: We don't think it amends. We
14 don't think it's relevant to this particular testimony
15 because it doesn't talk about the RBC values. So we
16 don't think this statute applies. I'm just making an
17 alternative argument to the extent you consider it might
18 apply.

19 JUDGE LARSEN: Okay. Anything else?

20 MS. WELLS: No, thank you.

21 JUDGE LARSEN: All right. I think the
22 statute is unclear. I think I have the discretion to
23 rule either way, but it's not clear to me that the
24 testimony -- it appears to be cumulative to me. In the
25 interest of limiting the rebuttal testimony, I'm granting

1 the objection and striking pages 31, line 7, through
2 33 -- no -- excuse me -- yeah, well, that includes the --
3 yes, let me go back.

4 I'm striking pages 31, 7, through 33, 16, of
5 Mr. Schwartz's testimony.

6 Okay. Is that -- anything else for Mister --
7 for your motions?

8 MR. MAMMEN: So that's the only issue from
9 State Farm General's motion. We do want to be heard on
10 several of the tentatives as to the motions pertaining to
11 State Farm General's witnesses and some of the testimony
12 that your Honor ordered stricken.

13 JUDGE LARSEN: Which was -- which -- what do
14 you mean? Be more specific.

15 MR. MAMMEN: There's some testimony of Appel,
16 Watkins, Larson, and Terry that we think should be
17 permitted and should not be stricken. We can address
18 that now or we can ...

19 JUDGE LARSEN: Okay. Who do you want to
20 start with? Those are the other parties' motions.

21 MR. MAMMEN: Correct.

22 JUDGE LARSEN: So let's go to CDI then.

23 MS. McKENNEDY: Your Honor, with respect to
24 Ms. Spiker, what I would propose is that the Court defer
25 issuing a final ruling on striking any portions of

EXHIBIT

IRH-CDI-008

1 DEPARTMENT OF INSURANCE
EXECUTIVE OFFICE
2 300 Capitol Mall, 17th Floor
Sacramento, CA 95814
3 Telephone: (916) 492-3500
Fax: (916) 445-5280
4
5
6
7

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

11 In the Matter of the Rate Application of:

File No. PA-2022-0001

12 **WAWANESA GENERAL**
13 **INSURANCE COMPANY,**

14 Applicant.
15

ORDER ADOPTING PROPOSED
DECISION

16
17 This matter came before Kristin L. Rosi, Chief Administrative Law Judge (hereafter
18 “CALJ”) of the Administrative Hearing Bureau. On September 23, 2023, the Applicant and the
19 California Department of Insurance (hereafter “the parties”) submitted the filed Stipulation to the
20 CALJ (hereafter “Stipulation”). On February 9, 2023, the CALJ held a status conference to
21 address questions regarding the parties’ Stipulation.

22 The CALJ considered the Stipulation entered into by the parties and prepared a Proposed
23 Decision that determined that the Stipulation is fundamentally fair, adequate, reasonable and in
24 the interest of justice. The CALJ submitted her Proposed Decision on February 16, 2023, and
25 recommended its adoption as the decision of the Insurance Commissioner. The Insurance
26 Commissioner then considered the adoption of the Proposed Decision.

27 ///

1 Now, therefore, pursuant to the provisions of California Insurance Code section
2 1861.08(c) and California Government Code section 11517(c)(2)(C), IT IS SO ORDERED that
3 the attached Proposed Decision is hereby adopted by the Insurance Commissioner as his decision
4 in the above-entitled matter.

5 This Decision shall become effective thirty (30) days after it is delivered or mailed to the
6 parties unless reconsideration is ordered within that time.

7
8 DATED: February 27, 2023

9 By: 

10 RICARDO LARA
11 Insurance Commissioner
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**DEPARTMENT OF INSURANCE
ADMINISTRATIVE HEARING BUREAU
1901 Harrison Street, 3rd Floor
Oakland, CA 94612
Telephone: (415) 538-4243 or (415) 538-4172
Fax: (510) 238-7828
www.insurance.ca.gov**

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA**

In the Matter of the Rate Application of)	FILE NO. PA-2022-0001
)	
WAWANESA GENERAL)	
INSURANCE COMPANY,)	
)	
Applicant.)	
)	
)	

PROPOSED DECISION

I. Introduction

Proposition 103, passed by California voters in November 1988, requires the California Department of Insurance's prior approval before insurance companies can implement property and casualty insurance rates, including automobile insurance rates.

On September 23, 2022, the California Department of Insurance (Department or CDI) and Wawanesa General Insurance Company (Wawanesa or Applicant) entered into a Stipulation and Request for Proposed Decision (Stipulation) regarding Wawanesa's private passenger automobile rate application. The Stipulation authorizes an overall 6.4% rate increase in Applicant's private passenger automobile line. This decision addresses

whether the Stipulation is fundamentally fair, adequate, reasonable, and in the interest of justice, in accordance with California Code of Regulations, title 10, section 2656.1(c), and as such whether the Stipulation shall be approved.

Based on the evidence presented and after careful consideration, the Chief Administrative Law Judge (CALJ) finds the Stipulation is fundamentally fair, adequate, reasonable, and in the interest of justice, and therefore should be approved.

II. Procedural History

On December 31, 2021, pursuant to Insurance Code section 1861.05, Wawanesa filed Rate Application No. 21-3573 (Application), requesting a 6.4% overall rate increase in its private passenger automobile line.¹ On January 14, 2022, the Department provided public notice of the rate application.

On March 3, 2022, Wawanesa waived the 60-day and 180-day “deemer” dates set forth in Insurance Code section 1861.05, subsection (c), with a five-day grace period for reactivation. On April 10, 2022, Applicant reactivated the “deemed approved” dates.

On May 3, 2022, the Department issued a Notice of Hearing, pursuant to Insurance Code section 1861.05, subdivision (c)(2), and California Code of Regulations, title 10, section 2648.3. The Notice of Hearing stated the Commissioner had not yet had time to determine whether the requested rate change is excessive, inadequate, and/or unfairly discriminatory.²

¹ SERFF Tracking No. WAWA-133081408.

² Notice of Hearing, p. 2:9-14.

On May 11, 2022, Applicant filed a Notice of Defense. Applicant stated the rate application met all statutory and regulatory requirements and was not excessive, inadequate, and/or unfairly discriminatory.³

On May 23, 2022, Applicant submitted updated data supporting its Application, including updated exhibits and templates. The updated data and Application did not include a Variance 8 request, as Applicant believed the data supported its rate increase without a variance request.⁴

On May 31, 2022, the Department issued its first set of discovery requests seeking additional information regarding the Application and its underlying data. CDI stated it was unable “to identify the main issues that must be resolved in the hearing, because it is still reviewing the Application and waiting on additional information.”⁵

On June 13, 2022, CALJ Kristin L. Rosi held a recorded, video status conference in this proceeding. During the status conference, each party presented a timeline for a discovery and evidentiary hearing. The CALJ held a second status conference on June 22, 2022, during which the judge adopted discovery timelines contemplating a November 1, 2022 evidentiary hearing date.⁶ On July 25, 2022, the CALJ held a third status conference, during which the judge established deadlines for concluding discovery and pre-filing testimony in anticipation of a November 1, 2022 hearing.

On August 11, 2022, the parties participated in a fourth status conference. During the conference, CDI requested the CALJ continue the evidentiary hearing date, as CDI

³ Notice of Defense, pp. 1-2.

⁴ The original rate application contained a Variance 8 request, pursuant to Regulations section 2644.27. Variance 8 requests the maximum and minimum earned premium be adjusted away from the loss trend codified in Regulations section 2644.7.

⁵ Joint Scheduling Conference Statement, dated June 10, 2022, p. 3:13-16.

⁶ Transcript of Status Conference, dated June 22, 2022, 83:8-16.

had not yet received complete discovery responses from the Applicant. Wawanesa argued the Department had received all necessary and requested documents. After reviewing the statutory and regulatory deadlines, the CALJ continued the evidentiary hearing to December 12, 2022.

On August 25, 2022, at the parties' request, the CALJ held another status conference. During that conference, the parties indicated a willingness to settle this proceeding and requested AHB's assistance. In accordance with Government Code section 11511.7, the CALJ assigned Administrative Law Judge Alicia Clement to assist the parties.

On September 23, 2022, the parties filed the Stipulation, along with Declarations from John Erickson, Applicant's Vice President, and Waley Chun, a Senior Casualty Actuary with the Department.

On February 9, 2023, the CALJ held a reported, video status conference to address questions regarding the parties' Stipulation.

III. Stipulations and Findings of Fact

The evidentiary record consists of the Stipulations, accompanying exhibits and Declarations. The facts set forth in the Stipulation, exhibits and declarations were submitted without objection, and those facts are adopted as the findings herein.

A. Rate Application

Wawanesa's private passenger automobile rate application requested a 6.4% overall rate increase.⁷ Wawanesa supported this application by providing data through the

⁷ Although Wawanesa requests an overall 6.4% rate increase, the application itself requests by-coverage increases or decreases, as outlined more fully *infra*.

first quarter of 2022. The Department's review called out several features of the rate application, as discussed below.

1. Projected Premium

Beginning April 1, 2022, Wawanesa revised its rating of physical damage coverages. Prior to April 1, Wawanesa employed a methodology based on vehicle age. After April 1, the Applicant utilized a practice based on model year.⁸ The revised methodology was not fully accounted for in the Application's projected premium and resulted in Wawanesa understating its projected premium for certain physical damage coverages. The Department determined that based on Wawanesa's by-coverage requests, the Applicant was likely to earn more actual premium than projected on its Application.⁹ This additional actual premium would result in Wawanesa receiving a larger than 6.4% overall rate increase.

2. Insurance Marketing System

An insurance marketing system is a method of producing or selling insurance. Annually, the Department issues a survey requesting insurers categorize their marketing distribution system as either Captive, Direct or Independent.¹⁰ A Captive system is defined as policies sold through a company's exclusive agents on a commission basis, where the agents pay their own business expenses. Direct writers are policies sold directly to the public through mail, telephone, internet, or by the insurance company's employees. And independent agent system is defined as policies sold through independent agents or brokers who pay their own expenses, own their own renewal

⁸ Chun Decl. ¶ 9.

⁹ *Ibid*; Stipulation and Request for Proposed Decision (Stipulation), ¶ K.

¹⁰ Cal. Code Regs., tit. 10, § 2644.12.

business and represent several insurance carriers.¹¹ An insurer's marketing system determines which efficiency standard applies to its rate application, and therefore may impact its rates.¹²

Wawanesa sells its policies through an in-house employee sales force of licensed agents that work without commission. Prior to 2020, Wawanesa reported that it used a Direct marketing system to sell its policies. Beginning in 2020, Wawanesa began reporting its marketing system as primarily Captive. At the time of the change, Wawanesa informed the Department that it had not changed its marketing system, but instead was correcting a misunderstanding of the Department's Regulations.¹³ With regard to the above-referenced rate application, Wawanesa categorized itself as having a primarily Captive distribution system. The Applicant also categorized itself as Captive in two other pending rate applications before the Commissioner. The Department disagreed with Wawanesa's categorization as Captive, and argued Applicant's marketing system is properly defined as Direct.¹⁴

3. Installment Payments

Amendments to rating rules and underwriting guidelines are subject to the Commissioner's prior approval pursuant to Proposition 103 and its subsequent regulations. In 2018, Wawanesa submitted rule filing 18-3830 with a primary purpose to "add a Nonbinary Gender option with rating factors" to comply with Senate Bill 179. The Applicant also included other underwriting and rate rule changes with that rule filing.

¹¹ California Marketing Survey Cover Letter dated January 2022, available on the California Department of Insurance website.

¹² Cal. Code Regs., tit. 10, § 2644.12.

¹³ Stipulation, ¶ H.

¹⁴ Chun Decl. ¶ 10.

Among the amendments was language indicating its installment premium plan options “are available subject to Company approval.”¹⁵

On or about April 2, 2022 for new business, and July 19, 2022 for renewal business, Wawanesa discontinued offering its installment premium payment plan options. The Applicant did so without seeking the Commissioner’s prior approval through a rule or rate filing.¹⁶ Wawanesa argued it had authority to discontinue the installment premium payment plan due to the “subject to Company approval” language previously filed. The Department disagreed.

B. Stipulation

Pursuant to the Stipulation, Wawanesa amended its Application to adjust its projected premium and by-coverage rate requests to result in an actual projected overall 6.4% rate change, as follows:¹⁷

	Coverage/Form/Program	Proposed % Change
1.	Bodily Injury	-20%
2.	Property Damage	2.0%
3.	Medical Payments	13.0%
4.	UM Bodily Injury	30.0%
5.	UM Property Damage	-15.0%
6.	Comprehensive	71.1%
7.	Collision	15.7%
8.	Rental Expense	-22.0%
9.	Roadside Assistance	32.5%
10.	UM Collision Deductible Waiver	5.0%
Total		6.4%

¹⁵ Stipulation, ¶ I.

¹⁶ *Ibid*; Chun Decl. ¶ 11. The Department became aware of this change via consumer complaints.

¹⁷ Stipulation, Exhibit A, p. 4.

The parties also agreed Wawanesa would recategorize its distribution system from primarily Captive to 100% Direct, for purposes of this Application and the two other pending rate filings.¹⁸ The updated rate template recategorizing Applicant's distribution system from Captive to Direct is filed as Exhibit B to the Stipulation. Lastly, regarding Wawanesa's installment payment plan options, the parties agreed that Wawanesa would remove the "subject to Company approval" language from its rule guide and permit installment payment plans on its private passenger auto policies.¹⁹

Mr. Chun analyzed the update rate filing on the Department's behalf. Although Mr. Chun disagreed with some of Wawanesa's selections in the rate application, Mr. Chun determined Applicant's overall 6.4% rate increase results in rates that are not excessive, inadequate or unfairly discriminatory. Mr. Chun further states that the terms of the proposed settlement are fundamentally fair, adequate, reasonable and in the interest of justice.²⁰

Mr. Erickson states the rates are fundamentally fair as they reflect current data, provide for rate increases at the low end of the indicated rate spectrum and are based on actuarially sound assumptions.²¹ Mr. Erickson further provides that the stipulated rate changes are adequate and reasonable based on the agreed-upon recorded period and the statutory rate template. Mr. Erickson notes Wawanesa's updated application makes concessions regarding the installment payment plan and direct marketing system.²² Lastly, Mr. Erickson notes the Stipulation is the result of arms' length negotiations

¹⁸ Stipulation, ¶ I. Wawanesa also agreed to update its response on its 2022 Marketing Survey.

¹⁹ Stipulation, ¶ I; Chun Decl. ¶ 12.

²⁰ Chun Decl. ¶ 14.

²¹ Erickson Decl. ¶ 9.

²² *Id.* at ¶ 13.

between CDI and Wawanesa, in the form of numerous conference calls and updated applications.²³

IV. Applicable Law

California Code of Regulations, title 10, section 2656.2, subdivision (a) provides that “the administrative law judge shall reject a proposed stipulation or settlement whenever, in his or her judgment, the stipulation or settlement is not in the public interest and is not, taken as a whole, fundamentally fair, adequate and reasonable.” This standard of review is substantially a restatement of the standard courts apply when reviewing class action settlements. It is also identical to the California Public Utilities Commission’s standard.²⁴

In reviewing the fairness of settlement agreements, the inquiry “must be limited to the extent necessary to reach a reasoned judgment that the agreement is not the product of fraud or overreaching by, or collusion between, the negotiating parties, and that the settlement taken as a whole, is fair, reasonable and adequate to all concerned.”²⁵ In considering reasonableness, the trier of fact should consider “the strength of plaintiff’s case, the risk, expense, complexity and likely duration of further litigation, the risk of maintaining class action status through trial, the amount offered in settlement, the extent of discovery completed and the stage of the proceedings, the experience and views of counsel, the presence of a governmental participant, and the reaction of the class members to the proposed settlement.”²⁶ This list is not exhaustive and should be tailored

²³ *Id.* at ¶ 14.

²⁴ See *Officers for Justice v. Civil Service Commission of the City & County of San Francisco* (9th Cir. 1982) 688 F.2d 615, 625, cert. denied 459 U.S. 1217 (1983); *In Re PG&E (Diablo Canyon)* (1988) 30 Cal. P.U.C.2d 189, 222.

²⁵ *Dunk v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, 1801; *Reed v. United Teachers of Los Angeles* (2012) 208 Cal.App.4th 322, 336-337.

²⁶ *Ibid.*

to each case. And while the proponent of settlement bears the burden to show that it is fair and reasonable, there is a presumption of fairness when: (1) the settlement is reached through arm's-length bargaining; (2) investigation and discovery are sufficient to allow counsel and the trial court to act intelligently; (3) counsel is experienced in similar litigation; and (4) the percentage of objectors is small.²⁷

In the context of Proposition 103 proceedings, a fairness, adequacy, and reasonableness determination involves balancing some or all of the following factors: (1) the relative strength of each party's case; (2) the risk, expense, complexity, and likely duration of further litigation, with the attendant delay in modifying the rate; (3) the terms of the settlement; (4) the amount of discovery undertaken; (5) the current state of the proceedings; (6) the experience and views of counsel and/or the parties' managers or experts; (7) the involvement of a governmental entity; and (8) the reaction of consumers to the proposed settlement. Review of the settlement should not be turned into a full hearing on the merits or a rehearsal for one, nor is the court to reach ultimate conclusions on the contested issues of fact and law.

V. Analysis

Based on the declarations provided and all evidence in the record, the Stipulation taken as a whole is fundamentally fair, adequate and reasonable, for the reasons set forth below.

The initial rate filing took place over one year ago. During the subsequent year, the Department undertook significant discovery and both parties participated in pretrial litigation, including declaring witnesses, setting dates for pre-filed direct testimony and preparing for trial. The amount of discovery undertaken allowed counsel to act

²⁷ *Dunk v. Ford Motor Co.*, *supra*, 48 Cal.App.4th at 1802.

intelligently, and accordingly favors a finding of fairness. Indeed, discovery in this proceeding led to Wawanesa altering its Application to accurately reflect its marketing distribution system. In addition, the settlement avoids the risk, delay and expense of further litigation. The CALJ notes that this matter was set for evidentiary hearing at the time of settlement.

Mr. Erickson notes the negotiations were conducted at “arm’s length,” and no allegation or evidence exists to the contrary. During negotiations, actuaries and other experts advised counsel and those expert opinions resulted in amendments to the Application. Further, all counsel and experts involved are experienced in Proposition 103 proceedings and able to evaluate the relative strengths and weaknesses of their positions.

The Stipulation’s terms are reasonable and fair to all parties, and are in the best interest of California consumers. California policyholders and consumer advocates have voiced no objection to the terms, and settlement is in the public interest, as the Stipulation results in a final determination of Wawanesa’s Application.

VI. Conclusion

For all the reasons discussed above and based on the facts as set forth in this proposed decision and in the declarations submitted without objection, the Stipulation, taken as a whole, is fundamentally fair, adequate, and reasonable.

Accordingly, the CALJ accepts the attached Stipulation and recommends its adoption to the Commissioner. The attached Stipulation’s terms are adopted as part of this Proposed Decision, and are incorporated by reference with the same force and effect as if they were set forth herein.

ORDER

1. Wawanesa shall file the amended Application, attached to the Stipulation as Exhibit A, in SERFF reflecting an overall 6.4% rate increase and by-coverage rate changes as reflected on page 4 of Exhibit A.

2. Wawanesa shall recategorize its marketing distribution system from primarily Captive to 100% Direct for the purpose of this Application, its two pending rate filings (CDI File Nos. 22-480 and 22-463), and its 2022 response to the Department's annual marketing survey. Wawanesa shall file a copy of the amended rate template (Exhibit B of the Stipulation), reflecting the change in marketing distribution, in SERFF.

3. Wawanesa shall file an amended rule guide (Exhibit C of the Stipulation) removing the "subject to Company approval" language regarding installment payment plan options for private passenger automobile policyholders.

4. The parties shall meet every other term or obligation set forth in the Stipulation attached hereto and incorporated by reference herein.

5. Upon approval by the Commissioner, Wawanesa shall implement the new rates as soon as may be practicable, but in no event more than 90 days after the issuance of the Commissioner's Order.

6. The parties' Stipulation and this Order, as well as the underlying settlement discussions, are not precedential and should not be discoverable or admissible in other proceedings except as provided by law.

7. The Commissioner retains jurisdiction to ensure that the parties comply with the provisions and terms of the Stipulation and this Order; however, in all other regards, this matter is closed.

This proposed decision is submitted based on the entire record in this proceeding, and I recommend its adoption as the decision of the Insurance Commissioner of the State of California.

Dated: February 16, 2023



KRISTIN L. ROSI
Chief Administrative Law Judge
Administrative Hearing Bureau
California Department of Insurance

1 **NOTICE OF TIME LIMITS FOR RECONSIDERATION & JUDICIAL REVIEW**
2 **In the Matter of Wawanesa General Insurance Company**
3 **Case No. PA-2022-0001**

4 Petitions for reconsideration may be made pursuant to California Government Code
5 Section 11521 and California Code of Regulations, Title 10, section 2659.1. The power to order
6 Reconsideration shall expire thirty (30) days after service of the Decision on the parties, but not
7 later than the effective date of the Decision, and shall be based solely upon and shall set forth
8 specifically, the grounds upon which the decision of the Commissioner allegedly is contrary to
9 law or is erroneous. A petition for reconsideration shall not refer to, or introduce, any evidence
10 which was not part of the record of the evidentiary hearing. Any such evidence nonetheless
11 provided shall be accorded no weight. Copies of documents received in evidence or already part
12 of the records shall be referenced and attached as exhibits.

13 A Petition for Reconsideration must be served on all parties and should be directed to:

14 Lucy F. Wang
15 Deputy Commissioner & Special Counsel
16 California Department of Insurance – Executive Office
17 19001 Harrison St, 6th Floor
18 Oakland, CA 94612

19 Judicial review of the Insurance Commissioner’s Decision may be had pursuant to
20 California Insurance Code Sections 1858.6 and 1861.09, California Government Code Section
21 11523, and California code of regulations, Title 10, Section 2660, by filing a petition for a writ of
22 mandate against the Insurance Commissioner or the Department of Insurance, in accordance with
23 the provisions of the California Code of Civil Procedure. The right to petition shall not be
24 affected by the failure to seek reconsideration before the Commissioner.

25 A petition for a writ of mandamus (writ petition) shall be filed with the Court, and served
26 on the Insurance Commissioner as follows:

27 Agent for Service of Process
28 Government Law Bureau
29 California Department of Insurance
30 300 Capitol Mall, 17th Floor
31 Sacramento, California 95814

32 Since the Administrative Hearing Bureau is a division of the Department of Insurance,
33 and not a separate legal entity, the writ petition should **not** name the Administrative Hearing

1 Bureau or the Administrative Law Judge who presided over the matter as respondents. However,
2 a courtesy copy of any writ petition should be delivered to the Administrative Hearing Bureau of
3 the California Department of Insurance as follows:

4 Department of Insurance
5 Administrative Hearing Bureau
6 45 Fremont Street, 22nd Floor
7 San Francisco, California 94105

8 A request to the Commissioner or the Hearing Officer for a copy of the administrative
9 record for a writ petition pursuant to California Code of Regulations, Title 10, section 2509.76,
10 subdivision (d) should be made to:

11 Agent for Service of Process
12 Government Law Bureau
13 California Department of Insurance
14 300 Capitol Mall, 17th Floor
15 Sacramento, California 95814

16 The request should include the Matter name and Case Number specified above.
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DECLARATION OF SERVICE BY ELECTRONIC MAIL

Case Name/No.: In the Matter of the Rating Practices of:
Wawanesa General Insurance Company
File No. PA-2022-0001

I, ABIGAIL GOMEZ, declare that:

I am employed in the County of Sacramento, California. I am over the age of 18 years and not a party to this action. My business address is State of California, Department of Insurance, Executive Office, 300 Capitol Mall, 17th Floor, Sacramento, California, 95814.

I am readily familiar with the business practices of the Sacramento Office of the California Department of Insurance for collection and processing of correspondence for mailing. Said ordinary business practice is that correspondence is deposited with the United States Postal Service that same day in Sacramento, California. In light of the COVID-19 pandemic and statewide stay at home orders, however, current business practice is to serve administrative orders via electronic mail only. Upon request by a party to this matter, the Office of the Special Counsel will arrange for a hard copy to be deposited with the United States Postal Service.

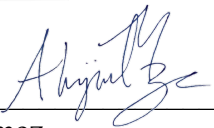
☒ On February 28, 2023, (**VIA ELECTRONIC MAIL**), I caused a true and correct copy of the following document(s):

- 1. ORDER ADOPTING PROPOSED DECISION**
- 2. PROPOSED DECISION**
- 3. NOTICE OF TIME LIMITS FOR RECONSIDERATION & JUDICIAL REVIEW**
- 4. DECLARATION OF SERVICE BY ELECTRONIC MAIL**
- 5. PARTY SERVICE LIST**

to be served by electronic mail transmission to all parties and non-parties where indicated per this Declaration:

(SEE ATTACHED PARTY SERVICE LIST)

I declare under penalty of perjury that the foregoing is true and correct, and that this declaration was executed at Sacramento, California, on February 28, 2023.



Abigail Gomez

PARTY SERVICE LIST
FILE NO. PA-2022-00001

Ian S. Shelton, Esq. Attorney(s) for the Applicant

Daniel R. Brown, Esq.

Theresa M. Fitzgerald, Esq.

EVERSHEDS SUTHERLAND (US) LLP

500 Capitol Mall, Suite 1750

(via Email)

Sacramento, CA 95814

Tel. No.: (916) 844-2965

IanShelton@eversheds-sutherland.com

DanRBrown@eversheds-sutherland.com

TheresaFitzgerald@eversheds-sutherland.com

amybotelho@eversheds-sutherland.com

Alec Stone

Attorney(s) for the

Nikki S. McKennedy, Esq.

Department of Insurance

CALIFORNIA DEPARTMENT OF INSURANCE

Legal Division – Rate Enforcement Bureau

1901 Harrison Street

(via Email)

Oakland, CA 94612

Tel. No.: (415) 538-4162

Alec.Stone@insurance.ca.gov

Nikki.mckennedy@insurance.ca.gov

Michelle.Perz@insurance.ca.gov

Cecilia.Padua@insurance.ca.gov

Tina.Warren@insurance.ca.gov

Kenneth Allen

(via Email & Intra-Agency)

Deputy Commissioner

CALIFORNIA DEPARTMENT OF INSURANCE

Rate Regulation Branch

300 South Spring Street, 14th Floor

Los Angeles, CA 90013

Tel. No. (213) 346-6783

Ken.Allen@insurance.ca.gov

PARTY SERVICE LIST
FILE NO. PA-2022-00001

Rebecca L. Greene (via Email & U. S. Mail)
Associate General Counsel
WAWANESA GENERAL INSURANCE COMPANY
7650 Mission Valley Road
San Diego, CA 92108
Tel. No. (858) 774-6478
rgreene@wawanesa.com

John Erickson (via Email & U. S. Mail)
Vice President & Chief Product Officer
WAWANESA GENERAL INSURANCE COMPANY
P.O. Box 82867
San Diego, CA 92138-9492
Tel. No. (858) 715-5949
jerickson@wawanesa.com

NON-PARTY

Jamie Katz (via Email)
Staff Counsel & Public Advisor
Office of the Public Advisor
CALIFORNIA DEPARTMENT OF INSURANCE
1901 Harrison Street, 4th Floor
Oakland, CA 94612
Tel No. (415) 538-4180
Jamie.Katz@insurance.ca.gov

EXHIBIT

IRH-CDI-009

1 NIKKI MCKENNEDY (SBN 184269)
2 MELISSA WURSTER (SBN 198899)
3 DEIRDRE DIGRANDE (SBN 199766)
4 CALIFORNIA DEPARTMENT OF INSURANCE
5 1901 Harrison Street, 6th Floor
6 Oakland, CA 94612
7 Tel: (415) 538-4162
8 E-mail: Nikki.McKennedy@insurance.ca.gov

9 *Attorneys for the California Department of Insurance*

10
11 **BEFORE THE INSURANCE COMMISSIONER**
12 **OF THE STATE OF CALIFORNIA**
13

14 In the Matter of the Rate Application of
15 STATE FARM GENERAL INSURANCE
16 COMPANY,
17 Applicant.

File No. PA-2023-00006

SETTLEMENT STIPULATION

18 Applicant STATE FARM GENERAL INSURANCE COMPANY (“Applicant”),
19 Intervenor CONSUMER WATCHDOG (“Petitioner”), and the California Department of
20 Insurance (“Department”) (collectively, the “Parties”) stipulate as follows:

21 **RECITALS**

22 A. The Applicant is licensed by the Department to conduct insurance business in
23 California.

24 B. On February 28, 2023, Applicant filed a Rate Application with the Department
25 seeking approval of an overall 20 percent rate increase to its California Rental Dwelling Program
26 line of insurance (File No. 23-563 [“Application”]).

27 C. On March 17, 2023, the Department notified the public of the Application
28 pursuant to Insurance Code section 1861.05, subdivision (c).

29 D. On May 1, 2023, Petitioner submitted a timely Petition for Hearing, Petition to
30 Intervene, and Notice of Intent to Seek Compensation regarding the Application (collectively,
31 “Petition”).

1 E. On May 15, 2023, the Commissioner granted the Petition to Intervene.

2 F. On May 18, 2023, Applicant responded to the Petition.

3 G. The Parties have engaged in discussions regarding the Application and additional
4 information and analysis the Parties have provided.

5 H. As a result of the Parties' discussions and negotiations, Applicant has updated the
6 Application per the Parties' agreement.

7 **STIPULATION**

8 1. This Stipulation, together with the updated Application and the Commissioner's
9 approval in SERFF, represents the complete and final settlement resolving all issues between the
10 Parties regarding the Application.

11 2. Based upon the Application and additional information that the Parties provided,
12 the Parties agree that an overall rate increase of 11.43 percent is supportable and should be
13 implemented in accordance with this Stipulation, the updated Application, and the
14 Commissioner's approval in SERFF. Applicant has made appropriate updated filings in SERFF
15 to reflect the overall rate change. Approval of the Application described in this Stipulation will
16 only be effective when approved by the Commissioner in SERFF. Applicant will implement this
17 rate change with an effective date of February 1, 2024.

18 3. This Stipulation does not constitute an endorsement or approval of models
19 generally, or any specific model, eligibility or nonrenewal criteria, or rating methodology.

20 4. State Farm agrees that the terms of the Settlement Stipulation executed July 22,
21 2020 in CDI File No.PA-2018-00005; 18-4896, pertaining to underwriting guidelines, apply to
22 all prior approval rate applications filed by State Farm with respect to any line of insurance.

23 5. Consistent with Title 10 of the California Code of Regulations ("10 CCR")
24 sections 2656.1(b) and 2662.3(c), no agreement regarding Petitioner's compensation has been
25 made. However, the Parties agree that the Commissioner's approval of the Application,
26 consistent with this Stipulation, will be a decision or order within the meaning of Insurance Code
27 section 1861.10, subdivision (b). Petitioner agrees to submit any request for compensation to the
28 Public Advisor within 30 days after notice of the Commissioner's approval in SERFF.

6. Petitioner will withdraw its Petition for Hearing within 10 days after notice of the Commissioner's approval in SERFF.

7. This Stipulation is made solely to reach a compromise among the Parties. The Commissioner's approval of the Application shall not constitute approval of or precedent regarding any principle or any issue in any other proceeding.

8. Consumer Watchdog's assent to this Stipulation expressly reserves Consumer Watchdog's rights to challenge the Commissioner's failure to enforce the requirement that any proposed underwriting guideline changes be submitted in a rate application that must be reviewed and approved prior to such changes being implemented and State Farm's failure to comply with that requirement in the future, and to challenge any new Rental Dwelling rate application by State Farm seeking an additional rate increase with an effective date within one year of the approval of the current Application at the stipulated rate. Applicant and the Department disagree with Consumer Watchdog's positions on law as stated in this paragraph, and expressly retain and reserve all rights and defenses.

9. The Commissioner retains jurisdiction to ensure that the Parties comply with this Stipulation and the updated Application and the Commissioner's approval in SERFF.

10. This Stipulation may be executed in counterparts.

[SIGNATURES ON NEXT PAGE]

1 Dated:

HOGAN LOVELLS US, LLP

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7 Dated:

By: _____

Vanessa Wells

Attorneys for Applicant

State Farm General Insurance Company

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13 Dated: 11/17/2023

CONSUMER WATCHDOG

By: _____

Pamela Pressley

Ben Powell

Attorneys for Petitioner/Intervenor

Consumer Watchdog

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CALIFORNIA DEPARTMENT OF
INSURANCE

By: _____

Nikki McKennedy

Nikki S. McKennedy

*Attorneys for the California Department of
Insurance*

1 Dated: November 17, 2023

HOGAN LOVELLS US, LLP

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Dated:

By:  _____

Vanessa Wells
Attorneys for Applicant
State Farm General Insurance Company

CONSUMER WATCHDOG

By: _____

Pamela Pressley
Ben Powell
Attorneys for Petitioner/Intervenor
Consumer Watchdog

Dated:

CALIFORNIA DEPARTMENT OF
INSURANCE

By: _____

Nikki S. McKennedy
Attorneys for the California Department of
Insurance

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Dated:

HOGAN LOVELLS US, LLP

By: _____

Vanessa Wells
Attorneys for Applicant
State Farm General Insurance Company

Dated: November 17, 2023

CONSUMER WATCHDOG

By:  _____

Pamela Pressley
Ben Powell
Attorneys for Petitioner/Intervenor
Consumer Watchdog

Dated:

CALIFORNIA DEPARTMENT OF
INSURANCE

By: _____

Nikki S. McKennedy
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Insurance

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PROOF OF SERVICE
In the Matter of the Rate Application of
State Farm General Insurance Company, Applicant.
CDI File No. PA-2023-00006
(RRB FILE No. HO-23-563)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On November 17, 2023, I served the following document(s):

SETTLEMENT STIPULATION

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city and county of San Francisco, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

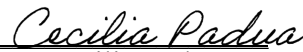
If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.


Cecilia Padua

**In the Matter of the Rate Application of
State Farm General Insurance Company, Applicant.
CDI File No. PA-2023-00006
(RRB FILE No. HO-23-563)**

<u>Name/Address</u>	<u>Phone/Fax Numbers</u>	<u>Method of Service</u>
Vanessa O. Wells, Esq. Victoria C. Brown, Esq. Attorney(s) for Applicant HOGAN LOVELLS US LLP 855 Main Street, Suite 200 Redwood City, CA 94063 Vanessa.wells@hoganlovells.com Victoria.brown@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Jordan D. Teti, Esq. Attorney for Applicant HOGAN LOVELLS US LLP 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Jordan.teti@hoganlovells.com	Tel: (310) 785-4600 Fax: (310) 785-4601	Via EMAIL
Harvey Rosenfield, Esq., Pamela Pressley, Esq. Benjamin Powell, Esq. Ryan Melino, Esq. Attorney(s) for Intervenor CONSUMER WATCHDOG 6330 San Vicente Blvd., Suite 250 Los Angeles, CA 90048 harvey@consumerwatchdog.org pam@consumerwatchdog.org ben@consumerwatchdog.org ryan@consumerwatchdog.org	Tel: (310) 392-0522 Fax: (310) 392-8874	Via EMAIL

NON PARTIES

Kenneth Allen Deputy Commissioner Rate Regulation Branch CALIFORNIA DEPARTMENT OF INSURANCE 300 South Spring Street, 14 th Floor Los Angeles, CA 90013 ken.allen@insurance.ca.gov	Tel: (213) 346-6783 Fax: (213) 897-9051	Via EMAIL
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Jon Phenix, Esq.
Staff Counsel III & Public Advisor
Office of the Public Advisor
**CALIFORNIA DEPARTMENT OF
INSURANCE**
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
Jon.phenix@insurance.ca.gov

Tel: (916) 492-3705
Fax: (510) 238-7830

Via EMAIL

PROOF OF SERVICE
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

I am over the age of eighteen years and am not a party to the within action. I am an employee of the Department of Insurance, State of California, employed at 1901 Harrison Street, 4th Floor, Oakland, CA 94612. On April 23, 2025, I served the following document(s):

**CALIFORNIA DEPARTMENT OF INSURANCE'S CLOSING BRIEF IN SUPPORT
OF ORDER APPROVING STIPULATION & OVERRULING OBJECTIONS
and REQUEST FOR OFFICIAL NOTICE**

on all persons named on the attached Service List, by the method of service indicated, as follows:

If **U.S. MAIL** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items to be sent by mail, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for mailing by U.S. Mail. Under that practice, outgoing items are deposited, in the ordinary course of business, with the U.S. Postal Service on that same day, with postage fully prepaid, in the city and county of San Francisco, California.

If **OVERNIGHT SERVICE** is indicated, by placing on this date, true copies in sealed envelopes, addressed to each person indicated, in this office's facility for collection of outgoing items for overnight delivery, pursuant to Code of Civil Procedure Section 1013. I am familiar with this office's practice of collecting and processing documents placed for overnight delivery. Under that practice, outgoing items are deposited, in the ordinary course of business, with an authorized courier or a facility regularly maintained by one of the following overnight services in the city and county of San Francisco, California: Express Mail, UPS, Federal Express, or Golden State overnight service, with an active account number shown for payment.

If **FAX SERVICE** is indicated, by facsimile transmission this date to fax number stated for the person(s) so marked.

If **PERSONAL SERVICE** is indicated, by hand delivery this date.

If **INTRA-AGENCY MAIL** is indicated, by placing this date in a place designated for collection for delivery by Department of Insurance intra-agency mail.

If **EMAIL** is indicated, by electronic mail transmission this date to the email address(es) listed.

Executed this date at San Francisco, California. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Cecilia Padua

Cecilia Padua

SERVICE LIST
In the Matter of the Rate Applications of
State Farm General Insurance Company, Applicant
CDI File Nos. PA-2024-00011 (RRB File #24-1273),
PA-2024-00012 (RRB File #24-1271 &
PA-2024-00013 (RRB File #24-1330)

<u>Name/Address</u>	<u>Phone/Fax Numbers</u>	<u>Method of Service</u>
Karl Fredric J. Seligman Administrative Law Judge Administrative Hearing Bureau CALIFORNIA DEPARTMENT OF INSURANCE 1901 Harrison Street, 3 rd Floor Oakland, CA 94612 Florinda.Cristobal@insurance.ca.gov Camille.Johnson@insurance.ca.gov	Tel: (415) 538-4243 Fax: (510) 238-7828	Via EMAIL
Vanessa Wells Victoria Brown Kristel Gelera Cathy Perry Attorneys for Applicant HOGAN LOVELLS US LLP 855 Main Street, Suite 200 Redwood City, CA 94063 Vanessa.wells@hoganlovells.com Victoria.brown@hoganloverlls.com Kristel.gelera@hoganlovells.com Cathy.perry@hoganlovells.com	Tel: (650) 463-4000 Fax: (650) 463-4199	Via EMAIL
Katherine Wellington Attorney(s) for Applicant HOGAN LOVELLS US LLP 125 High Street, Suite 2010 Boston, MA 02110 Katherine.Wellington@hoganlovells.com	Tel: (617) 371-1000 Fax: (617) 371-1037	Via EMAIL
Jordan D. Teti Attorney(s) for Applicant HOGAN LOVELLS US LLP 1999 Avenue of the Stars, Suite 1400 Los Angeles, CA 90067 Jordan.Teti@hoganlovells.com /// /// /// ///	Tel: (310) 785-4600 Fax: (310) 785-4601	Via EMAIL

1 Harvey Rosenfield
2 Pamela Pressley
3 William Pletcher
4 Ryan Mellino
5 Benjamin Powell
6 Attorneys for Intervenor
7 **CONSUMER WATCHDOG**
8 6330 San Vicente Blvd., Suite 250
9 Los Angeles, CA 90048
10 harvey@consumerwatchdog.org
11 pam@consumerwatchdog.org
12 will@consumerwatchdog.org
13 ryan@consumerwatchdog.org
14 ben@consumerwatchdog.org

Tel: (310) 392-0522
Fax: (310) 392-8874

Via EMAIL

10 Michael Martinez
11 Chief Deputy Commissioner
12 Office of the Commissioner
13 **CALIFORNIA DEPARTMENT OF**
14 **INSURANCE**
15 300 Capitol Mall, 17th Floor
16 Sacramento, CA 95814
17 Michael.Martinez@insurance.ca.gov

Tel: (916) 492-3573

Via EMAIL

15 Teresa Campbell, Deputy Commissioner
16 & General Counsel
17 Heather Hoesterey
18 Assistant General Counsel
19 Legal Division
20 **CALIFORNIA DEPARTMENT OF**
21 **INSURANCE**
22 1901 Harrison Street, 6th Floor
23 Oakland, CA 94612
24 Teresa.Campbell@insurance.ca.gov
25 Heather.Hoesterey@insurance.ca.gov

Tel: (415) 538-4126
(415) 538-4176
Fax: (510) 238-7829

Via EMAIL

22 **NON PARTIES**

23 Kenneth Allen
24 Deputy Commissioner
25 Rate Regulation Branch
26 **CALIFORNIA DEPARTMENT OF**
27 **INSURANCE**
28 300 South Spring Street, 14th Floor
Los Angeles, CA 90013
Ken.allen@insurance.ca.gov

Tel: (213) 346-6783
Fax: (213) 897-9051

Via EMAIL

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Margaret W. Hosel
Attorney and Public Advisor
Office of the Public Advisor
**CALIFORNIA DEPARTMENT OF
INSURANCE**
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Margaret.Hosel@insurance.ca.gov

Tel: (415) 538-4383
Fax: (510) 238-7830

Via EMAIL