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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of

State Farm General Insurance Company,

Applicant.

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

CONSUMER WATCHDOG'S REPLY BRIEF AND SUPPLEMENTAL OBJECTIONS IN OPPOSITION TO CDI AND STATE FARM GENERAL'S TWO-WAY STIPULATION TO INTERIM RATE INCREASE

Hearing Date/Time: April 8, 2025
10:00 a.m.

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INTRODUCTION

This proceeding presents a threshold test of the integrity of California's core consumer protections in the insurance rate-setting process. The central issue is whether the Insurance Commissioner may authorize an emergency interim rate increase—affecting millions of consumers and hundreds of millions of those consumers' dollars—based on a stipulation that fails to meet the threshold legal, procedural and evidentiary safeguards required by law. Specifically, neither the original February 7 stipulation nor its April 4 attempted revision includes the sworn declarations that section 2656.1, subdivision (c) of title 10 of the California Code of Regulations ("10 CCR") mandates, nor address the substantive evidentiary matters required by law.

State Farm General Insurance Company ("State Farm") and the Department of Insurance ("CDI") first jointly provided a stipulation on February 7, 2025 seeking approval of a 21.8% interim rate increase for State Farm's homeowners line (15% for renters/condo, and 38% for rental dwelling) (February 7 Stipulation) with no additional terms. This February 7 Stipulation was later filed with the Administrative Law Bureau on March 17 for approval under section 2656.1; that filing lacked the required supporting declarations—sworn statements attesting that the agreement is fair, adequate, reasonable, and in the interest of justice. Without those declarations, the stipulation was procedurally invalid for proposed acceptance, as Consumer Watchdog pointed out in its timely filed objections.

Later, on April 4, State Farm and the Department of Insurance submitted a revised "Supplement to February 7 Stipulation to Interim Rate" ("April 7 Supplement"). It proposed a 17.0% interim rate increase for State Farm's homeowners policies, added new terms, arrived two days late in violation of the March 27 Amended Notice of Hearing on Stipulation and Order, and again omitted the required sworn declarations. No request for leave to file the stipulation in violation of the March 27 Order was filed. And again, the "supplemental" stipulation presents no legal basis for interim relief.

The regulation is clear: a valid interim stipulation must be jointly submitted and supported by sworn declarations from the parties supporting why the agreement is fair, adequate, reasonable, and in the interests of justice. Neither requirement is satisfied here. The stipulation filed with the Administrative Hearing Bureau on March 17 no longer reflects mutual agreement. On April 2, the Department's Chief Actuary submitted a declaration recommending a lower rate. State Farm's April 3 declarations, meanwhile, generally criticize California's insurance regulations, Consumer Watchdog's legal arguments about reinsurance, and suggest minor modifications to Consumer Watchdog's actuarial analysis, but do little to actually support the original stipulation and its proposed 21.8% increase; they do not address the new terms or any subsequent agreement at all. Then, on April 4, the parties filed a Supplement altering material terms—reducing the rate and adding new conditions—but failed to submit any declarations in support of this revised stipulation—no declarants address the Supplemental Stipulation. The regulation does not permit the ALJ to accept a revised stipulation on the parties' say-so, or to reconstruct some form of Franken-Stipulation based on the narrow pieces that might somehow be supported by some declarant—even if untimely. Without contemporaneous, sworn declarations supporting the Supplement's fairness and adequacy, the filing is legally defective and cannot be considered.

Substantively, the request also fails. Under *Calfarm Insurance Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824 interim relief is proper only if the insurer's current rates are "plainly invalid." That standard is not met. Consumer Watchdog's analysis—based on State Farm's own data and assumptions—shows that current rates remain within a permissible range—neither excessive nor inadequate under the standard regulatory ratemaking formula, even under assumptions most favorable to the company. And neither State Farm's nor the Department's analyses are to the contrary.

Further complicating the matter, State Farm offers improper, scattered references to its financial condition but has explicitly abandoned any relief from use of the standard ratemaking formula under the solvency-based provisions of Variance 6. It has not provided the documentation sufficient to justify the application of that variance. Its decision not to pursue that path forecloses financial condition as a valid basis for "emergency interim" rate relief here.

This is not a close case. Interim rate relief is a narrow, extraordinary remedy. It may be granted only when the statutory prerequisites are strictly satisfied. Here, they are not. The Administrative Law Judge should deny the interim rate request in full and direct the parties to proceed to the evidentiary hearing as noticed to commence by June 1, where their competing claims can be tested under the law and in public view.

I. The April 4 Supplement to the February 7 Stipulation Cannot Be Evaluated and Must Be Excluded

The April 4 Supplement is procedurally defective and legally void. It was filed two days late, without leave to justify the improper filing, and without the sworn declarations that section 2656.1(c) requires.

The March 27 Order set a clear deadline: April 2.

> The California Department of Insurance and Applicant, State Farm General Insurance Company, shall file any applicable declarations in support of the Stipulation under Regulation 2656.1, along with the supplement/amendment to the Stipulation described on the record March 26, 2025, no later than Tuesday, April 2, 2025.

(Amended Notice of Hearing on Stipulation and Order, March 27, 2025 at p. 2.) Recognizing the importance of sufficient evidentiary declarations on the Court under the regulations, the Court made the requirement to provide declarations in support doubly clear, both directly in the text and in footnote 8. Instead, the Supplement was filed at 10:16 A.M. on April 4—two days after the deadline and just 44 minutes before a scheduling conference. No supporting declarations were filed with the Supplement addressing the final agreed-upon terms.[1]

The Supplement added new terms, arrived late, and included no declarations. No extension was requested. No explanation was offered. Just an expectation that State Farm won't be expected to comply with the rules.

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

That should end the matter. Compliance with section 2656.1(c) is mandatory, and this Court cited it twice in its order requiring a compliant filing on April 2. "The parties supporting the stipulation or settlement ***shall file and serve supporting declarations*** indicating the reasons that the settlement or stipulation is fundamentally fair, adequate, reasonable and in the interests of justice." (10 CCR § 2656.1(c) (emphasis added).) This is not optional. A stipulation without sworn support is not merely incomplete—it is void, insofar as there is no evidentiary basis for review. And these omissions are not curable by implication, hindsight, or attorney argument. Without this evidence on the Supplemental Stipulation, there is only the insurer's unjustified request for more money from consumers, which Proposition 103 precludes.

The timing matters. It is not enough for the Parties to attempt to shoehorn justifications into later submissions or at the hearing. The regulation *requires* the declarations *with* the stipulated settlement, consistent with Proposition 103's prime transparency and public notice requirements. The requirement for simultaneous declaration filing to support stipulated settlements is not a mere formality—it is a fundamental procedural safeguard. The ALJ cannot evaluate a stipulation on the basis of unverified claims. These declarations provide the factual foundation necessary for review by the tribunal and by the public. They must be timely submitted so that the terms of the actual agreed-upon stipulation can be considered and evaluated. Their absence renders the filing procedurally deficient and jurisdictionally unfit for consideration.

Moreover, the prejudice to the public interest is plain. Consumer Watchdog, not a party to the negotiations, had no notice of the final proposal until April 4. When no amended stipulation appeared by April 2, it reasonably concluded that negotiations had failed and prepared its reply accordingly. A revised proposal filed at the last minute, without evidence, deprives the public of any meaningful opportunity to respond.

Nor can the parties claim that the new terms were foreseeable. General awareness of possible outcomes is not notice. A stipulation involving hundreds of millions of dollars, filed without warning hours before a hearing and unsupported by declarations, cannot be fairly evaluated by anyone. The Supplement is untimely, unsupported, and thus legally irrelevant. It should be excluded from the record. (See Evid. Code § 352 [evidence that is unduly prejudicial or likely to mislead should be excluded].)

More telling is what the parties failed to do. Neither State Farm nor the Department submitted a declaration swearing that the revised terms are fair, adequate, or reasonable. If the stipulation were defensible, it would have been defended—formally, under oath.

This Court should draw the appropriate inference: the parties declined to offer sworn support because they could not. Financial expedience is not a substitute for fairness. And the Department's silence is especially troubling—it suggests an unwillingness to stand behind the agreement as serving the public interest.

The April 4 Supplement should be excluded in full. It is procedurally untimely, evidentiary unsupported, and legally irrelevant. The Court should strike it from the record and bar any reference to it at hearing.

II. Updated Consumer Watchdog Rate Indication Analysis

The legal bar for interim rate relief is not flexible. It is exacting. Under *Calfarm Insurance Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824, an insurer may receive interim relief only if it proves that its current rates are "plainly invalid." That means clearly unlawful—not arguably that a higher *maximum* rate than State Farm is currently charging could be justified, but demonstrably that their current rates fall outside the zone of reasonableness set by the regulatory maximum and minimum permitted rates or that their current rates are otherwise confiscatory, which no State Farm witness has contended.

This rule ensures that interim rate relief remains the exception—not the norm. It reflects the structure of Proposition 103, a prior-approval regime designed to protect consumers from unjustified rate increases. Unless the existing rate is plainly invalid under the law, no "interim" relief is warranted and the insurer must await the full noticed evidentiary hearing before new rates can be implemented.

State Farm has not made that required showing. In fact, its own data, when tested through independent actuarial analysis, points in the opposite direction.

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

Here are the key values:

Scenario[2]	**Change at Minimum (%)**	**Change at Maximum (%)**	**Midpoint (%)**
1	-27.4%	-0.1%	-13.8%
2	-24.7%	+3.6%	-10.6%
3	-22.2%	+7.0%	-7.6%
4	-16.3%	+15.2%	-0.6%
5	-11.5%	+21.8%	+5.2%

Even in Scenario 5—which incorporates *all* of SFG's preferred assumptions in their interim rate templates filed on February 5—the low end of the rate range remains **solidly negative**. This indicates that current rates are well within the zone of reasonableness under the maximum and minimum earned premium formulas (10 CCR §§ 2644.2, 2644.3) and cannot be deemed plainly invalid. None of the CDI or State Farm declarants contend otherwise.

Consumer Watchdog's methodology is transparent and reflects State Farm's own interim rate templates filed on February 5. The analysis is documented in the Supplemental Declaration of Ben Armstrong submitted with this filing. It applies State Farm's own rate templates and data across a range of plausible variables—exactly the kind of sensitivity testing that a responsible regulator would expect.

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[2]

1. Original range from Consumer Watchdog's initial declaration of Ben Armstrong submitted on March 24 (Armstrong Decl., March 24, 2025).
2. Scenario 1, adjusted to use SFG's selected LDF (1.793).
3. Scenario 2, further adjusted to use SFG's AIY trend factor (9.3%).
4. Scenario 3, further adjusted to use SFG's weighting scheme from the interim Exhibit 9.
5. Scenario 4, further adjusted to use SFG's selected non-catastrophe trend factors.

(Supplemental Armstrong Decl., ¶ 2.)

Notwithstanding that Consumer Watchdog is the only party providing the Court with this type of rate analysis of State Farm's proposed interim rates, the burden of proof ultimately lies with State Farm—not Consumer Watchdog. And that burden must be met with evidence—not assumptions (see Shaw Decl., ¶ 15 [noting that she is presenting her "very early stage, preliminary analysis" that will require further development during the formal rate hearing]), not opinions about regulatory environments, and not general expressions of financial concern. What *Calfarm* and Proposition 103 require is a data-driven showing that the current rate is legally unsound. That showing is not in the record. The law demands more.

The takeaway is clear: there is no actuarial or legal basis for extraordinary interim rate relief. State Farm's own data shows that the company's current rates are within lawful rate parameters, and it will be afforded the opportunity to prove it is entitled to the rate increases it seeks through the formal evidentiary rate hearing. Even if the current rate were plainly invalid (which it is not), State Farm has not proven that its requested interim rates are actuarially justified, given the range of actuarily justified lower maximum permitted rates shown in the table above. The CDI's declarant does not present *any* independent rate calculations supporting that the agreed upon interim rate of 17% for homeowners falls within the regulatory maximum/minimum permitted rates. These findings reinforce Consumer Watchdog's position that SFG's rate requests must be evaluated in the context of a full evidentiary hearing with fully updated data, where assumptions can be tested and validated through the public data driven process Proposition 103 requires.

III. The Legal Framework Under Proposition 103 And Section 2656

The Insurance Commissioner's authority to approve interim rate increases is limited to exceptional circumstances where a company's existing rates are shown to be "plainly invalid." (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824.) The Commissioner's March 14, 2025 Order required this hearing before an administrative law judge to consider State Farm's interim rate request pursuant to the two-way stipulation, which can only be approved through 10

CCR section 2656.1.[3] Subsection (c) limits that authority to situations in which there is a stipulation supported by declarations affirming that the requested interim rate is "fundamentally fair, adequate, reasonable, and in the interests of justice." The regulation does not authorize the unilateral imposition of interim rates untethered from a clear showing of necessity for relief from plainly invalid rates, nor does it permit approval of a stipulation absent mutual agreement.

This regulation must also be read in harmony with Proposition 103's core mandates. The Insurance Code prohibits rates that are excessive, inadequate, unfairly, or otherwise in violation of law discriminatory (Ins. Code § 1861.05(a)) and requires formal hearings conducted under the APA by an administrative law judge on all personal line rate increase requests exceeding 7% (Ins. Code §§ 1861.05(c), 1861.08). These protections are not suspended merely because an insurer claims financial pressure. As the California Supreme Court made clear in *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, the Commissioner's discretion in rate-setting is bound by procedural safeguards and constitutional constraints. A stipulation alone cannot substitute for evidence and declarations in support of that stipulation, nor can it override the requirement for transparency and fairness.

IV. State Farm Mischaracterizes the Standard for Interim Rate Relief

State Farm attempts to rewrite the legal standard governing interim rate relief by suggesting that its own belief in the necessity of a rate increase justifies the Commissioner's approval. This interpretation conflicts directly with the text of Proposition 103 and *20th Century*.

In *20th Century*, relying on the standard set forth in *Calfarm*, the Court addressed the Commissioner's "power to grant interim relief from plainly invalid rates" in the specific context of the rollback period—when insurers were subject to a mandatory reduction of their existing rates to 80% of their 1987 levels. The Court held that insurers who could show those rollback

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[3] Order Regarding State Farm General Insurance Company's Request for an Emergency Interim Rate Pending Rate Hearing, Mar. 14, 2025, p 2 ("Pursuant to 10 CCR 2656.1, subdivision (g), an Administrative Law Judge shall hear from State Farm regarding its emergency interim rate requests based on … the two-way stipulation between the Department and State Farm, Watchdog's objections to the interim rate … along with such additional correspondence, evidence and argument provided at the hearing").

rates were confiscatory were entitled file an application for higher rates and that the Commissioner could approve interim rates pending a final decision after the full review. (*Id*. at pp. 245–246.) The Court also noted that the Commissioner could approve interim rates in the prior approval period pending a final decision on a rate application. (*Id*. at p. 246.) But the Court never held—nor did it imply—that an insurer's subjective belief in rate inadequacy based on a "deteriorating financial condition" suffices to warrant interim relief.

More importantly, the Court emphasized that such interim relief was available only when needed to prevent "plainly invalid" rates such as rates that fall below the minimum permitted rate (the inadequate boundary) under the ratemaking regulations or confiscatory rates—i.e., rates that fall below a constitutionally protected floor. (*Id*. at pp. 245–246.) That principle reinforces, rather than relaxes, the evidentiary burden insurers face. State Farm's proposed standard would upend this framework and allow emergency rate increases whenever an insurer claims financial strain, regardless of whether that strain results from strategic decisions, market forces, or self-imposed delay. As the California Supreme Court has noted, "Proposition 103 was intended to do away with this kind of 'open competition' system." (*20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 300.) "That one of the initiative's purposes is 'to encourage a competitive insurance marketplace' (Prop. 103, Gen. Elec. (Nov. 8, 1988), § 2, reprinted in Ballot Pamp., Proposed Stats. and Amends. to Cal. Const. with arguments to voters, Gen. Elec. (Nov. 8, 1988) p. 99) does not deny that another of its purposes is to subject that marketplace to rate regulation" and "that its ultimate goal is the guaranty that 'insurance is fair, available, and affordable for all Californians.'" (*Ibid*.)

State Farm argues that the Commissioner can approve an interim rate without requiring any proof that its current rates are plainly invalid. (SFG Brief, p. 6.) In State Farm's view, it can stipulate to interim rates based on its claims that those requested interim rates are "fair, adequate, reasonable, and in the interests of justice." But that is the standard for approval of the terms of a stipulation as a whole, not the basis for a finding that the interim relief requested as part of a stipulation is justified. (SFG Brief, p. 7:26–27.) State Farm's application of 10 CCR section 2656.1(c) in this manner misstates both the purpose and the plain text of the regulation. That section allows the Commissioner to approve a stipulation only if it is accompanied by declarations explaining why the is the terms of the stipulation are "fundamentally fair, adequate, reasonable and in the interests of justice." It is not the standard for determining whether interim rate relief is authorized in the first instance. Section 2656.1(c) is not a discretionary license to bypass legal scrutiny of whether interim relief from "plainly invalid" rates is warranted.

V. The Amended Stipulation's Proposed Rate Cannot Be Justified Under *Calfarm*

Even setting aside the substantial procedural and legal deficiencies of the April 4 Supplement, the homeowners rate it proposes—17.0%—cannot be approved under the governing legal standard. Interim relief may be granted only when an insurer demonstrates that its current rates are "plainly invalid." (*Calfarm*, 48 Cal.3d at 824.) The burden of proof lies squarely with the insurer.

Here, that showing has not been made. Consumer Watchdog's independent actuarial analysis, based on State Farm's own data, reveals that even under the company's most favorable assumptions, the indicated rate change ranges from negative 11.5% to positive 21.8%. In the scenario matching all of State Farm's own inputs—including its AIY trend, LDFs, and revised catastrophe load weightings—the low end of the indication remains well below zero. This confirms that the existing rates are not plainly invalid and that no interim increase can be justified under *Calfarm*.

No declarant supports the proposed stipulation with a sworn statement that State Farm's rates are plainly invalid, and State Farm has provided no declarations opining on the fundamental fairness or reasonableness of the terms of the Supplement. While the Department's Chief Actuary, Tina Shaw, has submitted a declaration stating that she believes that an interim rate order including the rates and additional terms of the April 4 Supplement "would be fundamentally fair, adequate, reasonable, and in the interests of justice," she does not attest that State Farm's current rates are plainly invalid nor that any of the proposed interim rates are actuarially justified under the regulatory ratemaking formula. On the contrary, she states that further analysis is needed and that her recommendation is based on judgment and incomplete data—not a full application of the ratemaking formula. Shaw concedes in her declaration—

which is not based on an analysis of the April 4 Amended Stipulation—that her 17% recommendation is not based on any quantified "rate impact" from the parent company's capital contribution or the effects of ongoing non-renewals. Rather, she bases her position on a "very early stage, preliminary analysis" that will require further development during the formal rate hearing. (Shaw Decl., ¶ 15.) This is not a substantiated actuarial assessment—it is a placeholder for future analysis.

The 17.0% figure appears to be a negotiated midpoint rather than a data-driven conclusion. The ALJ cannot lawfully approve an interim rate simply because it is less than what the insurer originally requested. Without an actuarial basis and a showing of current rate invalidity, any interim increase would be arbitrary and capricious.

Accordingly, even if the Court were to disregard the procedural failings of the April 4 Supplement, the proposed rate must still be rejected on substantive grounds.

VI. The February 7 Stipulation Is Procedurally and Substantively Defective

The February 7 stipulation filed on March 17 with AHB for approval no longer reflects a current agreement. Although originally signed on February 7 and referenced in the Commissioner's March 14 Emergency Interim Rate Order, the record—and the agreement itself—has materially changed. The Department's Chief Actuary, Tina Shaw, recommended fundamental modifications to the February 7 stipulation's terms—including a reduction of the requested homeowners rate increase from 21.8% to 17% and a $400 million capital infusion from State Farm Mutual Insurance Company. (Shaw Decl., ¶¶ 2, 17–19.) Shaw did not redress nonrenewals at all. The April 4 Supplement purports to override the originally proposed 21.8% interim rate increase for homeowners with a 17% interim rate and agree to additional terms including a $400 surplus note from State Farm Mutual contingent on approval of the proposed interim rates, but the CDI and State Farm have not submitted one unified amended stipulation. The Administrative Law Judge may approve stipulations under section 2656.1, but only when they are supported by contemporaneous and compliant declarations and reflect actual agreement. This tribunal is not authorized to repair or reconstruct the February 7 Stipulation by inserting missing terms or replacing terms that are no longer agreed upon with new terms. Since there is no unified stipulation supported by compliant declarations, the Administrative Law Judge should reject the February 7 Stipulation under section 2656.2, vacate the April 8 hearing, and direct the parties to either submit a complete amended stipulation or proceed to the noticed full evidentiary rate hearing.

VII. The Declarations Submitted by State Farm and the Department Do Not Establish a Legal Basis for Interim Relief

The declarations submitted in support of interim relief fall short of the requirements set forth in section 2656.1(c). None includes a sworn statement affirming that State Farm's current rates are plainly invalid and no State Farm declarant provides a sworn statement that either the February 7 Stipulation or the April 4 Supplement is "fundamentally fair, adequate, reasonable, and in the interests of justice."[4] Shaw states that a theoretical agreement might comply with section 2656.1(c)'s standards (Shaw Decl., ¶ 19) while generally failing to support the February 7 agreement as presented; she makes no reference in her April 2 declaration, nor could she, to the later-filed Supplement. And even the hypothetical agreement that she says she could support is not fully reflected in the Supplement. These failures are not formal—they deprive the tribunal of the evidentiary foundation required for lawful approval.

A. David Appel – State Farm

David Appel's declaration, for example, offers no actuarial review. His testimony centers on perceived flaws in California's regulatory structure and the intervenor process. These concerns, however sincerely held, are not a substitute for rate analysis. Appel neither applies the ratemaking formula set out in title 10 of the California Code of Regulations, nor evaluates whether the proposed rate fits within the permissible range under sections 2644.2 and 2644.3. He does not claim that State Farm's current rates are inadequate or confiscatory or that the February 7 stipulation is fair or reasonable, and he does not address the April 4 Supplement at all. His declaration is primarily argumentative, presenting the viewpoint of a long-time insurance industry consultant and former Milliman principal (Appel Decl., ¶¶ 3–5) that is better understood as ideological commentary than independent actuarial or financial analysis. While Appel devotes

[4] Shaw does state that an agreement altering rates might meet these standards—but while explaining her analysis is incomplete.

testimony to attacking Proposition 103 and the intervenor process, he provides no quantitative support for the interim rate request and no actuarial justification for the 21.8% increase. (Appel Decl., ¶¶ 47–49.)

Appel focuses on regulatory criticism: Appel's declaration focuses on three themes: State Farm's current financial condition, how SFG arrived there, and what he believes should be done in response. His effort to attribute a deterioration in SFG's financial condition to California's regulatory framework lacks factual foundation and ignores SFG's own business decisions. Indeed, Appel frames SFG as a victim—claiming Proposition 103 and intervenor challenges are responsible for "why SFG have filed rate increases of 7.0% or less when the indications are substantially higher" (Appel Decl., ¶¶ 47–49)—but the evidence shows the company strategically avoided filing for full rate relief and is now seeking to leverage a perceived crisis to extract regulatory concessions.

First, all homeowners insurers in California operate under the same regulatory framework—and insurers other than State Farm are facing claims from the January 2025 fires. *Yet SFG is alone in claiming the system is so dysfunctional that it justifies bypassing the ordinary hearing process for an interim rate increase*.

Second, SFG did not merely cap its filings at 6.9% to avoid hearings—it skipped filings entirely in key years. In 2017 and 2019, SFG did not request rate changes for homeowners coverage. Had it submitted 6.9% increases each year, the cumulative increase would have exceeded 14% by 2020, roughly matching what the Department now proposes. Appel fails to explain why the company did not even attempt these filings.

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

(Armstrong Decl., ¶ 18; Exh. IRH-CWD-234 [source: State Farm General Insurance Company California Homeowners Insurance Rate Filing, SERFF Tracking #: SFMA-133569018, State Tracking #: 23-613, Company Tracking #: HO-45657, PDF File "HO Filing Exhibits", Rate Level History, Exhibit 2].)

Third, Appel's underlying premise—that large rate increases were impossible to obtain—is refuted by SFG's own experience. In 2023, the company filed for a 28.1% increase. The Department and Consumer Watchdog stipulated to a 20% increase *without* a hearing. (*Id*., ¶ 21 [source: SERFF Tracking #: SFMA-133569018, State Tracking #: 23-613, Company Tracking #: HO-45657].) This directly undermines the claim that Proposition 103 or the intervenor process barred SFG from obtaining meaningful relief.

Appel fails to address the rate-setting issues actually at issue in this hearing. Most fundamentally, Appel's perspective reflects a philosophical opposition to public participation in rate-setting, not a rigorous actuarial or economic critique. While he is entitled to his viewpoint, it is a view that was rejected by California voters in enacting Proposition 103. He repeatedly implies that regulation is to blame for SFG's condition, but he never quantifies how State Farm's existing rates as "inadequate," confiscatory, or otherwise invalid under the applicable standards or what the justifiable rate should be under California law. Appel does not apply or even cite the regulatory ratemaking formula under 10 CCR section 2644.1 et seq., nor does he analyze whether the proposed 21.8% increase falls between the minimum and maximum permitted earned premium levels defined in sections 2644.2 and 2644.3.

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

Instead, Appel leans on dramatic rhetoric, arguing that SFG must receive a large increase now without waiting for the required evidentiary hearing or face dire consequences. But even this policy-oriented argument is flawed. Appel claims that policyholders face no real risk if the interim rate is excessive, because refunds will be provided later. (Appel Decl.,¶¶10e, 60.) This reasoning ignores basic economic reality. Policyholders operate under financial constraints, and many of these same consumers in the Los Angeles area are struggling right now to recover from the January 2025 fires. Excessive premiums—even if refundable—can force consumers to drop coverage, accept higher deductibles, or forego other essential expenses. If an interim rate increase causes coverage disruptions or financial hardship, those consequences cannot be undone by a later refund.

In sum, Appel's declaration is a political and ideological defense of deregulation, not a technical or actuarial justification for emergency relief. It is based on selective data, speculative assertions about what might happen if State Farm doesn't "immediately receive higher premiums" to improve its surplus (which he admits will take time regardless of when those rate increases are approved) (Appel Decl., ¶ 44.), and unsubstantiated claims about California's regulatory environment. It fails to demonstrate that the current rates are plainly invalid or that the proposed rates are fundamentally fair, adequate, or reasonable. As such, it should be afforded no weight.

B. Bryon Ehrhart

Bryon Ehrhart, an executive at Aon who serves as a reinsurance broker for State Farm General (SFG), submits a declaration in support of the proposed interim rate increase. (Ehrhart Decl., ¶¶ 2–4.) While his declaration provides general observations about the global reinsurance market, it fails to meaningfully justify the proposed interim rate increases or the various stipulations between CDI and SFG, and raises substantial concerns about transparency and evidentiary fairness.

Critically, Ehrhart acknowledges that over 80% of SFG's catastrophe reinsurance is placed with its parent company State Farm Mutual or other affiliated reinsurers under State Farm Mutual's common control. (*Id.*, ¶¶ 19–20.) He states that these arrangements are priced below market rates and would not be available from unaffiliated reinsurers. (*Ibid.*) That admission substantially undermines SFG's claim that it operates independently of its parent company—and raises questions about whether its reported financial strain is partly self-inflicted through financial arrangements with State Farm Mutual and affiliated companies under its control.

In Paragraph 12, Ehrhart offers a theoretical explanation of how reinsurers may appear to profit disproportionately when high-layer coverage is not triggered. (Ehrhart Decl., ¶ 12.) Consumer Watchdog does not dispute this description in the abstract. However, in the case of SFG, the practical reality differs: Data from Schedule F, Part 3 of SFG's Annual Statements (Exh. IRH-CWD-232) reveals that affiliated reinsurers—most notably its parent, State Farm Mutual—provide the majority of its reinsurance coverage across multiple layers.

Data from SFG Sch. F, Part 3

AFFILIATED 0899999

Ann Stmt Year	**Reins Prem Ceded (6)**	**Net Amt Recoverable (19)**	**(19)/(6)**
2017	**105,781**	**1,561,618**	**1476%**
2018	**131,296**	**516,013**	**393%**
2019	**165,809**	**234,869**	**142%**
2020	**215,883**	**91,247**	**42%**
2021	**355,737**	**115,546**	**32%**
2022	**409,260**	**151,078**	**37%**
2023	**775,406**	**148,335**	**19%**
2024	**803,683**	**164,204**	**20%**

UNAUTHORIZED 26999999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	13,287	128,175	965%
2018	13,305	52,118	392%
2019	14,332	23,039	161%
2020	17,088	1,792	10%
2021	26,583	1,134	4%
2022	33,270	1,126	3%
2023	46,448	1,642	4%
2024	14,055	415	3%

AUTHORIZED US UNAFFILIATED 0999999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	20,707	90,712	438%
2018	22,771	40,593	178%
2019	25,230	25,457	101%
2020	28,637	9,110	32%
2021	34,507	9,297	27%
2022	41,702	10,504	25%
2023	46,894	11,315	24%
2024	35,159	9,895	28%

TOTAL UNAFFILIATED

Ann Stmt Year	**Reins Prem Ceded (6)**	**Net Amt Recoverable (19)**	**(19)/(6)**
2017	**46,089**	**337,300**	**732%**
2018	**49,724**	**139,995**	**282%**
2019	**56,428**	**71,481**	**127%**
2020	**65,722**	**12,557**	**19%**
2021	**94,232**	**11,479**	**12%**
2022	**115,684**	**12,670**	**11%**
2023	**142,442**	**14,474**	**10%**
2024	**71,160**	**10,694**	**15%**

AUTHORIZED NON-US UNAFFILIATED 1299999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	12,095	118,413	979%
2018	13,648	47,284	346%
2019	16,866	22,985	136%
2020	19,997	1,655	8%
2021	33,142	1,048	3%
2022	40,712	1,040	3%
2023	49,100	1,517	3%
2024	21,946	384	2%

TOTALS 99999999

Ann Stmt Year	Reins Prem Ceded (6)	Net Amt Recoverable (19)	(19)/(6)
2017	151,870	1,898,918	1250%
2018	181,020	656,008	362%
2019	222,237	306,350	138%
2020	281,605	103,804	37%
2021	449,969	127,025	28%
2022	524,944	163,748	31%
2023	917,848	162,809	18%
2024	874,843	174,898	20%

Over the years 2017 to 2024, the net recoverables reported from affiliates consistently represented a higher percentage of the corresponding premium than those from unaffiliated reinsurers. This strongly suggests that affiliated entities—including the parent—are providing coverage even in the lower, more frequently triggered layers. Thus, Ehrhart's generalizations about market behavior cannot be presumed to apply to SFG's internal reinsurance structure. (Supplemental Armstrong Decl., ¶ 8.)

In Paragraph 14, Ehrhart asserts that if SFG's financial strength rating were to fall below a certain threshold, it could have dire consequences for homeowners with mortgages—forcing them to obtain insurance elsewhere at "potentially a substantially increased price." (Ehrhart Decl., ¶ 12.) This statement is speculative and unsupported. Insurance from another carrier could be less expensive, and no data is offered to quantify the risk or magnitude of any purported price increase. Without evidentiary support, this language serves only to incite fear and distract from the central rate-setting questions.

Ehrhart further claims, in Paragraph 25, that Consumer Watchdog has contended SFG purchased "too much reinsurance." (Ehrhart Decl., ¶ 25.) It is unclear what statements he relies on for this characterization. In fact, Consumer Watchdog's position is that SFG may have underprotected itself in certain years. Exhibit Q, produced with SFG's July 10, 2024 responses to CDI's objections (IRH-CWD-233), shows that from 2017–2018, SFG's catastrophe occurrence reinsurance did not attach until $1 billion in losses had been incurred. It was not until later years, 2019–2024, that SFG gradually reduced that attachment point to $250 million, resulting in more meaningful protection. (Supplemental Armstrong Decl., ¶ 9.) Ehrhart's suggestion that Consumer Watchdog somehow uniformly opposes reinsurance purchases is inaccurate.

Finally, in Paragraph 32, Ehrhart attempts to compare SFG's affiliated reinsurance terms with external market alternatives. (Ehrhart Decl., ¶ 32.) Consumer Watchdog is currently evaluating that numerical analysis and may address it in subsequent filings or at the hearing. At minimum, any such comparison must be accompanied by complete documentation and underwriting criteria—none of which have been disclosed to date.

In short, Ehrhart's declaration does not provide an independent or comprehensive basis for approving an interim rate increase. It relies on privileged access to undisclosed data, contains unsupported speculation about market behavior, and misrepresents Consumer Watchdog's positions. It should be given little or no weight.

C. Nancy Watkins

Nancy Watkins, an actuary with Milliman, submits a declaration in support of State Farm General's interim rate request. (Watkins Decl., ¶¶ 1–3.) She generally defends the approach used to develop the company's proposed rate, but she does not engage with the legal standard for interim relief. Her declaration does not attempt to establish that SFG's current rates are plainly invalid under the ratemaking formula or any other basis. Nor does she offer any independent calculations of permissible proposed rate indications under the minimum-maximum test. Instead, she addresses criticisms of data selection and methodological choices in Consumer Watchdog's rate analysis—points relevant to a full hearing, but not dispositive here.

Watkins mischaracterizes several aspects of Consumer Watchdog's actuarial critique. In Paragraph 20, Watkins mistakenly claims that Consumer Watchdog's actuary implied 20 years of historical data must be used for both catastrophe and non-catastrophe indications. (Watkins Decl., ¶ 20.) This is incorrect. The concern raised was not about the length of historical data per se, but about the *inconsistent treatment of the latest data point*—using January 2025 for catastrophe losses while limiting non-catastrophe trend analysis to Q4 2023. (March 24 Armstrong Decl., ¶ 5.) This inconsistency distorts the overall projection and undermines actuarial soundness (March 24 Armstrong Decl., p. 3.), and Watkins offers no actuarial justification for this mismatch.

Similarly, in Paragraphs 21 and 23, Watkins disputes the accusation of cherry-picking but fails to rebut the central point: SFG updated only its catastrophe load using the latest available data while leaving other key elements of the filing, such as trend and premium data, frozen. (Watkins Decl., ¶¶ 21–23.; March 24 Armstrong Decl., p. 3.) That is not appropriate actuarial support—it is selective updating that skews the indication. Further, in Paragraph 23, Watkins misreads Consumer Watchdog's critique regarding the time periods for the catastrophe loss data in Exhibit 9 used to calculate the catastrophe adjustment factor and time period for the non-catastrophe loss data used in the Rate Templates. (Watkins Decl., ¶ 23.) The issue is not about the distinction between "actual" and "estimated" catastrophe data but rather the mismatch in the timeframes used for catastrophe and non-catastrophe components. (March 24 Armstrong Decl.,

p. 3.) A rate filing that reflects only the most favorable developments for the insurer, without harmonizing the dataset, is inherently biased to the result State Farm wants to achieve and therefore actuarially unreliable. (*Ibid*.)

Moreover, Watkins's statement in her declaration (¶ 23) that SFG estimated its January 2025 catastrophe losses using industry methods that combine frequency and severity assumptions is unsupported. SFG provided no documentation to show how its case reserve and incurred but not reported cat losses estimates for January 2025 were developed. In the absence of such documentation, Watkins's confidence in SFG's methods is unsupported.

Catastrophe Load Weighting Is Distorted: In Paragraph 36, Watkins criticizes Consumer Watchdog for apparently failing to disclose the weights used in its revised catastrophe load calculation. (Watkins Decl., ¶ 36.) Yet Consumer Watchdog's analysis explicitly states that it relied on the weighting scheme from SFG's original mid-2024 filings to avoid over-weighting January 2025. (Mar. 24 Armstrong Decl., ¶6.) If additional detail is needed, those weights and years can be easily provided, but it appears that Watkins simply failed to carefully read and consider Consumer Watchdog's analysis.

Even more troubling is Watkins's acceptance of State Farm's decision to increase the weight placed on the most recent year—from 6.2% to 7.8%—without requiring any actuarial justification. (Watkins Decl., ¶¶ 38–39.) She further defends the company's decision to truncate its catastrophe data to just 20 years (down from 34 in the original filing), simply citing "general" trends in wildfire risk during those years. (Watkins Decl., ¶¶ 41–48.) And again, she does not explain why a partial year—January 2025—should carry such disproportionate influence. This unbalanced weighting amplifies the impact of the early 2025 Los Angeles wildfires and exaggerates the indicated rate. (Mar. 24 Armstrong Decl., pp. 3–4.) In Paragraph 52, Watkins notes Consumer Watchdog did not address SFG's rationale for placing more weight on recent years to reflect elevated catastrophe risk. Consumer Watchdog does not generally dispute the trend of increasing wildfire activity in California, although any trend should be quantified and data-based, not based on apparent trends, in order to remain actuarially sound. However, the concern remains with the excessive influence placed on a single partial year (and really, a single event)—January 2025—which, unsupported by documentation and data, distorts the projection.

Non-Catastrophe LDFs: Watkins correctly notes in Paragraph 61 that Consumer Watchdog lacked a basis to reduce State Farm's selected homeowners paid Loss Development Factor (LDF). As a result, Consumer Watchdog has reverted to the insurer's selected value of 1.793, which raised the interim rate homeowners line indication by a few percentage points. This transparent correction underscores Consumer Watchdog's commitment to fairness and methodological rigor. (Supplemental Armstrong Decl., ¶ 10.)

AIY Trends Analysis: Watkins points to Exhibit T as support for SFG's selected 9.3% Annual Incurred Year (AIY) trend. (Watkins Decl., ¶¶ 29–30.) Upon review, Consumer Watchdog concedes that this exhibit does support the 9.3% value. However, the continued use of Q4 2023 as the trend cutoff—when January 2025 data is used for the catastrophe load—creates a projection mismatch. A consistent data endpoint should be used across components to avoid distorting the CAT/AIY ratio. (Supplemental Armstrong Decl., ¶ 11.)

Trend Selections: In Paragraph 69, Watkins asserts that SFG's +8.1% net trend is "below the middle" of the reported range (-0.2% to +22.3%). (Watkins Decl., ¶ 69; Exh. SFG-NW-25.) But this claim is misleading. The upper end of this range is skewed by two statistical outliers: +18.0% and +22.3%%, which are more than two standard deviations higher than the mean. Excluding these, the range becomes -0.2% to +12.1%, with a mean of 4.3%. Consumer Watchdog's selected +3.8% trend aligns closely with this adjusted mean. State Farm's selection is therefore not below the midpoint of this range, but significantly above it. (Supplemental Armstrong Decl., ¶ 12.)

In sum, Watkins's declaration is not a neutral independent actuarial review based on her own actuarial calculations and judgment but an effort to justify SFG's desired outcome. Her testimony glosses over methodological inconsistencies, fails to account for data mismatches, and embraces unsupported assumptions. Her analysis does not meet the standards of transparency and reliability required under Proposition 103 and the ALJ should afford it limited weight.

D. Tina Shaw

Tina Shaw, Chief Actuary for the California Department of Insurance, submits a declaration, not in support of the February 7 Stipulation nor the April 4 Supplement, but rather seeking a proposed decision from the ALJ approving a 17.0% interim rate increase with SFG required to obtain a $400 million surplus note from its parent company. While Shaw characterizes the interim measure as a "stop-gap" (Shaw Decl., ¶ 3.), her analysis raises a number of concerns regarding both the justification for interim rate relief and the assumptions underlying her evaluation.

Most notably, Shaw states that "we cannot solely focus on technical rating issues while ignoring the fact that, should Applicant become insolvent, the health of the entire marketplace will continue to deteriorate." (Shaw Decl., ¶ 3.) This line of reasoning echoes the "too big to fail" logic advanced by SFG in Appel's declaration (and throughout these proceedings). But this unsupported general statement about potential marketplace impact, cannot justify imposing unwarranted costs on State Farm policyholders through unjustified interim rate increases with no demonstration that its current rates are "plainly invalid." As a matter of fundamental fairness, marketplace health must not be propped up through unjustified charges to individual homeowners, who otherwise have no equity in SFG.

Shaw's core argument for the interim increase appears to be based on SFG's Risk-Based Capital (RBC) ratios. (Shaw Decl., ¶¶ 9–13.) Shaw calculates RBC values herself using publicly available data using NAIC RBC Instructions. (Shaw Decl., ¶ 10.) While Consumer Watchdog appreciates this transparency, Insurance Code section 739.8(c), which she cites, states that the RBC Instructions "shall not be used by the commissioner for ratemaking nor considered or introduced as evidence in any rate proceeding, nor used by the commissioner to calculate or derive any elements of an appropriate premium level or rate of return." Thus, Ms. Shaw's discussion of RBC values she calculated pursuant to the RBC Instructions should be stricken.

Shaw asserts that the impact of a rate increase on surplus will not become evident for 12 to 24 months. (Shaw Decl., ¶ 15.) While it is true that rate-driven premium increases take time to percolate up to RBC ratios—especially if calculated on a calendar year net written premium basis—her statement fails to account for the volatility of insurer loss experience. Favorable loss development in the near term could strengthen surplus even without a rate increase; conversely, deteriorating losses could erode surplus despite an increase. Shaw's presentation of the relationship between rates and surplus is thus oversimplified and potentially misleading. Rate increases could provide surplus in the short-term, but also do not guarantee surplus improvement, even on a 24-month horizon. (Supplemental Armstrong Decl., ¶ 13.)

Shaw's declaration also includes two tables (Shaw Decl., ¶¶ 16–17) showing projected improvements in SFG's RBC ratios under the 21.8% requested rate and the Department's proposed 17.0% alternative. However, the assumptions underlying these projections are not disclosed. Additionally, Shaw does not disclose the effective date assumed in estimating the $530 million premium impact tied to the 21.8% increase. Nor does she specify whether the increase was applied to direct written premium, net earned premium, or another premium basis. These are critical inputs. Without knowing the assumptions, timing, or premium base used, it is not possible to meaningfully assess the validity of the tables she presents.

Shaw's declaration, though submitted by the Department, does not support approval of the original stipulation as signed or the April 7 Supplement. She concedes that the 17% interim rate she proposes is not based on an independent calculation of the appropriate max/min permitted rate indication under the ratemaking formula nor has she calculated the actual rate impact of either the parent's capital infusion or the ongoing non-renewal program, which she states "will be investigated fully during the rate hearing process once additional data and support are available." (Shaw Decl., ¶¶ 2, 18.) That concession confirms that the proposed interim rate lacks a developed evidentiary foundation. She recommends the reduction from 21.8 to 17% only to address "concerns" and "possibilities." Ratemaking, under Proposition 103, should not proceed purely on speculation, even for an interim rate. Most critically, nowhere in her declaration does Shaw attest that State Farm's current rates are plainly invalid under the legal standard warranting interim relief now rather than waiting for approval after the required evidentiary showing is made. Her declaration highlights, rather than resolves, the February 7

Stipulation's defects, and ultimately supports abandoning this interim rate process for an expedited full rate hearing, based on a developed evidentiary record.

* * * *

Taken together, these declarations may offer some broader context about State Farm's financial condition. But none supplies the specific, sworn support that section 2656.1(c) requires. None provides a fully developed analysis grounded in the law, actuarial principles, and analysis. And none demonstrates that either the February 7 or the April 4 stipulations meet the legal standards for interim rate approval or fundamental fairness. For those reasons, the declarations do not justify interim relief.

VIII. State Farm Has Not Sought a Solvency-Based Variance and Cannot Rely on Financial Condition as a Basis for Interim Relief

Throughout its filings, State Farm references its financial condition—pointing to catastrophe losses, internal capital transfers, and the possible effects of rate suppression. State Farm initially invoked Variance 6 (10 CCR § 2644.27(f)(6)) in support of its 2024 rate application. But it has since expressly disclaimed any reliance on that provision in connection with its interim rate request. (See Consumer Watchdog's Motion in Limine No. 1 [filed April 7, 2025].) It has likewise failed to invoke Variance 10, which requires a formal evidentiary showing of confiscation to obtain a higher maximum permitted rate than justified under the standard ratemaking formula, nor has State Farm otherwise claimed that its current rates are confiscatory.

State Farm claims it doesn't need these variances that allow for consideration of solvency and confiscatory concerns to justify its proposed rate increases, but continues to rely on concerns regarding its financial condition in support of its proposal for "emergency interim rate" increase.

The Commissioner's authority to approve rates based on solvency concerns is defined—and constrained—by statute and regulation. (See Ins. Code, § 1861.05(c); 10 CCR §§ 2644.27(f)(6).) Under Variance 6, an insurer must file a detailed solvency plan and commit to compensate consumers for the excess charges once its condition stabilizes.

The omission appears deliberate. State Farm abandoned its reliance on Variance 6 but continues to rely on its claims about its financial condition to seek the benefit of an expedited rate increase, while avoiding the procedural and evidentiary rigor that such a request demands.

But Proposition 103 does not permit such regulatory shortcuts. Under Consumer Watchdog's calculations of the maximum permitted rate indication, State Farm would still need a variance to get to the interim rates it seeks. Relief based on solvency must be substantiated with transparent disclosures and proof. Without a formal variance, or proof that its current rates are plainly inadequate or confiscatory under the established regulatory and statutory standards, financial condition remains a background issue and interim rate relief is not allowed.

IX. The Commissioner's March 14 Order Is Procedural, Not Substantive

State Farm repeatedly characterizes the Commissioner's March 14, 2025 order as a final endorsement of its 21.8% rate request. (State Farm Prehearing Br. at 1, 3–4.) That misreads the order. The order is clear on its face: the rate is "provisionally granted, subject to the outcome of a public hearing before an Administrative Law Judge." (Prehearing Br., Ex. VW-5, at 2–3.)

Far from resolving the matter, the order initiates a process. It requires State Farm to present "evidence and argument" at hearing and makes express reference to the procedures of section 2656.1 regarding approval of stipulations by an administrative law judge. The Commissioner further stated that an interim rate order would issue only if State Farm "is able to meet its burden to support these interim rate requests." (*Id.* at 3.)

That language leaves no room for doubt. The Commissioner did not approve the stipulation on its merits. He did not approve the requested rates. He ordered a hearing on the proposed interim rates. The burden of proof remains, as always, with State Farm. And nothing in section 2656.1 authorizes the Commissioner to provisionally approve a stipulation for an interim rate increase outside its procedures. The regulation is specific. An interim rate may be proposed by stipulation—but only approved if there is the requisite legal showing that the current rates are plainly invalid and the stipulation is supported by sworn declarations affirming that the agreement is fundamentally fair, adequate, reasonable, and in the interests of justice. (10 CCR section 2656.1(c).)

Properly read, the March 14 order is procedural. It ordered this hearing. It did not resolve the merits. And it does not relieve State Farm of its burden under statute and regulation.

X. The Commissioner's Discretion Is Bound by Statute and Regulation

State Farm invokes *Calfarm* and *20th Century* to argue for broad Commissioner discretion to grant its interim rate request. But those cases underscore the opposite: the Commissioner's discretion is still bounded by law. In *Calfarm Insurance Co. v. Deukmejian* (1989) 48 Cal.3d 805, the California Supreme Court held that even interim rates must meet due-process requirements, are only available for relief from "plainly invalid" rates and remain subject to judicial review. In *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, the court reaffirmed that the Commissioner must operate within Proposition 103's framework and follow its procedural guarantees.

Here, due process requirements are found in Insurance Code sections 1861.05 and 1861.08, and if agreed upon by stipulation, in 10 CCR section 2656.1(c), which as explained above requires that supporting parties "shall file and serve supporting declarations" demonstrating that the stipulation is "fundamentally fair, adequate, reasonable, and in the interests of justice." The word "shall" imposes a duty. The regulation grants no discretion to ignore it; not even to the Commissioner. Neither the February 7 or April 4 stipulations, lacking the required support, can be approved. Nor can the Commissioner, or this tribunal, bypass those requirements under the guise of discretion. The regulation binds everyone equally to protect the public interest under Proposition 103.

XI. Emergency Rate Relief Requires Compelling, Admissible Evidence—Not Speculation

Because Proposition 103 allows insurers requires rates to be justified before they take effect and to prove that proposed rates are not excessive, inadequate, unfairly discriminatory or otherwise in violation of the law (Ins. Code § 1861.05), approval of "interim rates" under Proposition 103 must be an extreme, narrow remedy. Such relief should be granted only where the record shows that, absent immediate action, the currently in effect rates would be plainly excessive, inadequate, or otherwise unlawful. State Farm has not made that showing.

Even its lead declarant, David Appel, does not assert that insolvency is looming. Instead, he speculates about reputational risks and general financial pressures. (Appel Decl., ¶¶ 14–19.) He also admits that State Farm previously sought lower rate increases than what State Farm needed to avoid triggering public hearings. (*Id.* ¶ 12.) That admission undercuts the company's claim of urgency now or that such extraordinary relief should come from ratepayers before evidentiary hearing is held to justify the proposed rates.

More telling is the shifting emphasis—from solvency concerns to financial strength ratings and mortgage-bond eligibility. These may affect corporate strategy, but they are not grounds for emergency rate relief. Neither the Insurance Code nor Proposition 103 authorize interim rate increases to protect brand image or investor confidence. State Farm's brand image is well attended by its ubiquitous advertising, and it is up to State Farm and its parent to manage any concerns raised by financial strength rating agencies, not its policyholders

In short, speculation is not evidence. And without competent, sworn proof of its current rates being plainly inadequate or otherwise unlawful, emergency relief must be denied.

XII. Uncertain Refunds Do Not Cure Procedural or Substantive Defects

State Farm argues that any harm from excessive interim rates is ultimately meaningless because policyholders will receive refunds. But that argument misreads both the structure of Proposition 103 and the real-world impact on consumers.

Start with the law. Proposition 103 is a prior-approval system. Its core protection is that rates must be shown to be fair and lawful before they take effect—not afterward. (Ins. Code § 1861.05(c).) If refunds were enough, the prior-approval requirement would be rendered meaningless, and California would become a file and use system. To permit refunds to substitute for compliance is to replace a rule with a workaround. It undermines the statute's central protection. Refunds should be a remedy for noncompliance—not an excuse for such.

The practical harms are just as significant. Even short-term overcharges can push consumers to reduce coverage, lapse policies, or forgo other essentials to stay insured. For low- and fixed-income households, even a temporary rate hike may cause permanent consequences. A later refund does not make up for a lost policy or a missed payment. Consumers, especially in the Los Angeles area, are already financially stressed in trying to recover from the fires. It is fundamentally wrong to require policyholders to make a loan of hundreds of millions of dollars or risk losing their homes, when it is clear from the April 4 Supplement that loans are readily from the parent company's $144 *billion* in reserves (including reserves obtained from State Farm General).

Any refund process itself is also far from certain. What State Farm offers instead is a conditional promise—unenforceable, untested, and uncertain. Although State Farm agrees to not challenge the Commissioner's *authority* to order refunds, the stipulations include language that would allow State Farm to seek and obtain a stay of any such refund order in order to challenge the amount of any final rate and refund order in court, including by arguing that a higher rate should be approved resulting in no refunds. Even if State Farm lost that challenge, refunds would likely be delayed for years. The supposed safety net is speculative at best.

That State Farm will carry through on seeking a stay of any ordered refunds during a court challenge, is not speculative. Just four years ago, State Farm persuaded the Fourth District Court of Appeal that Proposition 103 did not authorize the Commissioner to require State Farm to issue refunds for an excessive rate. (*State Farm Gen. Ins. Co. v. Lara* (2021) 71 Cal.App.5th 148.) That case arose from State Farm's 2014 rate application, where the Commissioner ordered refunds following a full evidentiary hearing. State Farm objected, arguing that any refund would be unlawful. The court granted State Farm's requested stay of refunds and eventually vacated the refund order.

These positions cannot be reconciled. State Farm can't disavow the Commissioner's authority to issue refunds for excessive rates in one case and use the illusory promise of refunds as a bargaining chip in another case to get extraordinary interim rate relief. The inconsistency is not subtle; it is tactical, raises alarm bells, and is pure opportunism.

State Farm also misrepresents Consumer Watchdog's position in *Lara*. That case involved the Commissioner's authority to order refunds following a full hearing, effective as of a date noticed in the hearing order. (*Id.* at p. 164.) Consumer Watchdog argued—as it does here—that the Commissioner has the power to prevent excessive rates from "remain[ing] in effect" and that that authority necessarily includes the power to order refunds as a remedy for the unlawful rates. (Ins. Code § 1861.05; see also *Calfarm*, *supra*, 48 Cal.3d at p. 824.)

But *Lara* did not address interim rates. It did not discuss the "plainly invalid" standard in *20th Century*. It did not analyze section 2656.1 or what is required to justify interim rate increases before a full evidentiary hearing. The refund debate in *Lara* is legally distinct from the question here.

Consumer Watchdog's position remains consistent: the Commissioner has authority to grant interim relief when existing rates are plainly invalid and may order an insurer to issue refunds to prevent excessive charges from remaining in effect (See Calfarm, supra, 48 Cal.3d at p. 824; 20th Century, supra, 8 Cal.4th at p. 245.) But both actions must follow the requisite substantive and procedural standards under Prop 103 and the regulations, and specifically, if approved based on a stipulation, the procedures outlined in section 2656.1.

Speculative possibilities for refunds are not a legally sufficient substitute for compliance with Proposition 103. Refunds cannot be used to paper over legal and procedural failings. The law requires proof that current rates are plainly invalid, and if an interim rate is presented through a settlement compromise, it must be supported contemporaneously by compliant declarations and evidence. None of that is present here.

Ultimately, the refund argument is a distraction. It asks this Court to excuse procedural defects with a false hope that policyholders might be made whole later. But that is not what Proposition 103 permits. The law demands justification before any rate is imposed—not after.

CONCLUSION

This proceeding tests the integrity of the regulatory safeguards enacted by and pursuant to Proposition 103. State Farm seeks emergency interim rate relief without meeting the substantive or procedural standards required by law. It offers no stipulation properly supported by sworn declarations. It presents no actuarial evidence showing that current rates are plainly invalid. And it invokes its financial condition while disclaiming the only regulatory path that permits the Commissioner to consider it.

California law does not allow rate increases by rhetorical appeal. It requires evidence—submitted under oath, tested through process, and evaluated under established legal standards. On every count, State Farm has failed to carry its burden.

The Administrative Law Judge should deny the interim rate request in full. The parties should proceed to the evidentiary hearing noticed to commence June 1, 2025, where their competing claims can be evaluated through the process Proposition 103 requires: open, transparent, and grounded in law.

Dated: April 7, 2025

Respectfully submitted,

CONSUMER WATCHDOG

By: ____________________
Pamela Pressley
Attorneys for Consumer Watchdog

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

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

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

On April 7, 2025, I caused service of true and correct copies of the document entitled

CONSUMER WATCHDOG'S REPLY BRIEF AND SUPPLEMENTAL OBJECTIONS IN OPPOSITION TO CDI AND STATE FARM GENERAL'S TWO-WAY STIPULATION TO INTERIM RATE INCREASE

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

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

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

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

I declare under penalty of perjury that the foregoing is true and correct. Executed on April 7, 2025 at Los Angeles, California.

Kaitlyn Gentile

Service List

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