



September 29, 2026

VIA EMAIL

Insurance Commissioner Ricardo Lara
California Department of Insurance
300 Capitol Mall, 16th Floor
Sacramento, CA 95814

Commissioner Lara:

Your Department is considering raising the maximum profit that California regulations allow insurance companies to build into the premiums Californians pay for home, auto, and other property-casualty coverage. Those regulations set both a maximum and a minimum “rate of return” for every rate the Department approves; raise them, and insurers may charge more. The current limits were adopted in 2007 after nearly two years of public workshops, hearings, and comment. Insurers are reporting soaring profits, and the Department has offered no evidence that these record profits are too low.

We are particularly concerned that your Department may be considering raising both these limits without a transparent and public process. To put it bluntly, any effort to increase these rates of return on an expedited basis as your term in office ends would represent an undeserved gift to the insurers you are charged with regulating and a slap in the face to the consumers you purport to protect. Allowing insurers to charge even higher rates will only exacerbate any availability issues still impacting the market.

Consumer Watchdog therefore asks that any such proposed changes to the rate-of-return limits or other provisions of the ratemaking regulations be publicly noticed and subject to a full rulemaking under the Administrative Procedure Act (“APA”)—which means at a minimum consideration of a published text, public comment by all interested parties, and review by the Office of Administrative Law.

We were informed about your Department’s consideration of potential amendments to the projected yield and rate of return regulations by email on August 12, 2026,¹ the Discussion Questions circulated in advance of a call on August 25, and the discussion with your staff on that call.

¹ The Department’s August 12 email was an invitation to participate in an “initial” meeting with the Department to discuss amendments to the projected yield regulation (section 2644.20), and while it stated that the “Department did not receive responses from several people included in a previous meeting invitation,” Consumer Watchdog did not receive any such previous invitation.

Like the Department, we recognize that amendments to the projected yield regulation could be considered in light of the Court of Appeal's ruling in *State Farm General Ins. Co. v. Lara* (2021) 71 Cal.App.5th 148, and look forward to working with the Department on a potential solution (subject to an APA rulemaking proceeding) that respects the Court of Appeal's ruling while also recognizing the reality of how insurer groups may try to unreasonably segregate affiliates from the other insurers in the group, to avoid having to use the group's investment assets in calculating projected yield, the result of which is an increase in rates charged to California policyholders.²

However, we were both confused and concerned as to why the Discussion Questions circulated by the Department included questions about whether the minimum and maximum rates of return provided in the rate regulations (10 CCR § 2644.16) should also be adjusted. These questions appeared unrelated to the potential projected yield regulation amendments that the August 12 email initially invited participants to discuss.

The Department staff that we spoke with at the August 25 meeting seemed reticent to provide information about why proposed changes to the rates of return were being discussed in relation to proposed changes to the projected yield regulation. The Department claimed to be in an investigatory posture and to just be in listening mode. Consumer Watchdog's representatives, as well as representatives for the Consumer Federation of California Education Foundation (the two consumer groups on the August 25 call), explained that they could not properly comment on or respond to the discussion questions on rate of return without a more complete understanding of what concern or issues the Department was intending to address through any such potential amendments. Ultimately, while the Department claimed that a negative minimum rate of return may not be high enough to avoid inadequate rates, it provided no evidence to support this concern and otherwise failed to articulate any particular need that warranted potential amendments to the minimum or maximum allowable rates of return.

The current maximum and minimum rates of return, which are used in calculating the maximum and minimum permitted premiums,³ were established by regulation nearly two decades ago after a noticed public rulemaking hearing subject to extensive public comment by the industry and consumer advocates,⁴ and there is no evidence that those rates of return are no longer appropriate; at least, none that the Department identified on the August 25 call. Even considering the destructive wildfires in January 2025, California continues to be a highly profitable market for property-casualty insurers.

² This is not a theoretical possibility: GEICO has already used such a mechanism in its filing for Private Passenger Auto rates for GEICO Protection Insurance Company (SERFF Tracking No. GECC-134953695), removing billions of dollars of stock profits from the rate calculation.

³ See 10 CCR §§ 2644.2, 2644.3; Prior Approval Rate Template, p. 7.

⁴ This rulemaking included five rounds of public comment on proposed draft and revised regulation text, including three public workshops (on June 24, 2005; November 7, 2005; and May 3, 2006) as well as a public hearing on September 13, 2006 and further amendments noticed on October 5, 2006.

Insurance industry profits are soaring. According to the latest Report on Profitability by Line by State from the National Association of Insurance Commissioners (“NAIC”), dated July 2026, California homeowners insurance companies did better than the nation in 2024, and on average over the last two decades. Direct return on net worth—a measure of profitability that includes insurers’ largest source of income, investments—for the homeowners line of insurance rose to 26.3% in California for 2024, compared to an average 13.9% nationwide. Over the past 20 years, the average return on net worth for California homeowners insurance was 9.7%, compared to 6.4% nationwide.

A report issued by industry vendor Verisk and the American Property Casualty Insurance trade association this month reported soaring property-casualty insurer profits in the first half of 2026. Net underwriting income—money left over after the company pays all claims and overhead and before investment income is calculated—was \$31.7 billion nationwide for the first half of 2026.

For example, Allstate’s second quarter 2026 net income jumped to \$3.2 billion, 56% higher than last year. The insurer reported an adjusted net income return on equity of 44.2% over the past 12 months, and Allstate’s property-liability underwriting income also soared, increasing nearly 57% to \$2 billion. Policies in force grew 3.8% to 215.9 million.

2025 was also a banner year for property insurers nationwide that enjoyed \$68.7 billion in underwriting income in 2025 and more than \$111 billion in investment income, according to an analysis by Public Citizen and the Revolving Door Project of the NAIC annual report.

Our concern about bypassing public rulemaking is heightened by your decision to rely on the APA’s ratemaking exemption when promulgating previous complex regulatory amendments to the ratemaking regulations. For example, the Net Cost of Reinsurance regulations were sent to the Office of Administrative Law on December 27, 2024 for filing with the Secretary of State pursuant to the ratemaking exemption, after just one “informal informational presentation” with consumer groups in which the Department stated it would not answer any substantive questions and instead only presented broad “possible options for inclusion of the net cost of reinsurance in the rate application process,”⁵ and one public workshop on December 5, 2024, for which no proposed amended text was provided—indeed, the Department never made the proposed amended text public in advance of its adoption.

Any contemplated regulatory amendments to the projected yield regulation and/or the minimum and/or maximum allowable rates of return would be significant changes that deserve to be fully vetted through the public rulemaking procedures established under the APA, including public notice of proposed text and an opportunity to comment.⁶ There is no urgent need to make

⁵ Teresa Campbell email, August 20, 2024, “Invitation to Informal Informational Presentation on Net Cost of Reinsurance Solutions.”

⁶ 10 CCR § 2646.3, subds. (a)–(b) (a “generic determination”—a finding the regulations authorize the Commissioner to make that applies to the rate applications of several or all insurers—“shall be adopted as a regulation pursuant to chapter 3.5” of the APA); *id.*, subd. (c) (contemplating “a hearing convened for the purpose of making a generic determination,” at

adjustments to the minimum and/or maximum rates of return. Public participation and compliance with the APA should be the norm—even if the Department believes it could invoke the ratemaking exemption, there is no cognizable benefit to avoiding public participation, public scrutiny, and full review by the Office of Administrative Law.

We welcome continued discussion of these issues. We ask only that it happen in public, on a public record, before the Department acts.

Sincerely,

A handwritten signature in cursive script that reads "Pamela Pressley".

Pamela Pressley
Senior Staff Attorney

which “any person” may make proposals); *id.*, subd. (d) (petition to revise a generic determination must “specify the changes in circumstances giving rise to the need for a revised determination”). The minimum rate of return rests on exactly such a finding. (10 CCR § 2644.16, subd. (b) [finding that a -6% minimum rate of return “is high enough to prevent any undue risk of insolvency and to prevent injury to competition through predatory pricing”].) And even when the Department adopted the current rate of return provisions in 2007 under the ratemaking exemption, it first published proposed text and took public comment.