

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE**

Closed Meeting Transcript | Zoom

**Follow-up Meeting re. State Farm General Insurance Company Request for
Emergency Interim Rate**

March 11, 2025

Commissioner Ricardo Lara | 0:17 - 0:20

Lucy, is everybody on, that we know that's supposed to be?

Lucy Wang | 0:21 - 0:23

Is Mr. Krause going to be joining us?

Keesha-Lu Mitra | 0:25 - 0:25

Yes.

Commissioner Ricardo Lara | 0:27 - 0:27

Oh, he's here.

Lucy Wang | 0:28 - 0:30

He's here. Okay.

Dan Krause | 0:28 - 0:30

I'm here. Yep. Thank you.

Lucy Wang | 0:31 - 0:33

Okay, Commissioner, I think everyone is here.

Commissioner Ricardo Lara | 0:35 - 1:12

Perfect. Thank you. Thank you. Good afternoon everyone. Thank you for joining me in this call regarding the State Farm Insurance Company's request for approval of an emergency interim rate. We're going to be recording. I know we're going to be recording this meeting and I have a couple folks from the department that are running the Zoom, which I do not know how to do. So, I hope you don't mind. And again, today I've asked all the parties involved - State Farm, the Department, and Watchdog - to join me because I want to share some additional thoughts and a proposal moving forward.

Commissioner Ricardo Lara | 1:13 - 1:36

And of course, just to remind everybody, we are on a video conference call. The call is being recorded and can be transcribed if needed. So since, and I don't want to take too much of your time because I know we all have a busy calendar. So, since our last meeting, State Farm Mutual and State Farm General released their 2024 year-end annual statements.

Commissioner Ricardo Lara | 1:37 - 2:19

And based on my review of the State Farm's year-end annual statements from 2023 to 2024, there is, in my opinion, indeed a concern regarding its surplus and a need to strengthen, especially, its Risk-Based Capital ratio. And I do note, that this is only one of the indicators that regulators use to evaluate a company. However, State Farm is seeking the interim rate, as we all know. And it goes without saying that State Farm's assertions regarding its financial situation will be fully reviewed and investigated in a full and transparent rate hearing.

Commissioner Ricardo Lara | 2:19 - 2:55

I know this is something that was brought up in our last meeting and something that we all want. And so, I want to reiterate that the situation will be fully reviewed and investigated in a full and transparent rate hearing. You'll hear me say that often because I want to reiterate that point. Because we, I do feel it's important that we have this discussion and based on State Farm's RBC ratio at the end of 2024, as well as its CAT load factors due to the LA wildfires, I believe there is support for an issuance of an interim rate to State Farm.

Commissioner Ricardo Lara | 2:56 - 3:37

Again, pending a full rate hearing. And you know, we know that the CAT load doubled from January, from June 2024 to February 2025. However, you know, this type of request, again is unprecedented. I want to make that very clear. I'm making it more complex than a straightforward request for an interim rate. As I mentioned in our last meeting, California's

insurance crisis, California's insurance market, I should say, I keep saying crisis, is currently facing significant challenges due to the climate catastrophes, rising global reinsurance cost, and a tightening national property insurance market.

Commissioner Ricardo Lara | 3:38 - 4:08

And now, further underscoring these potential trade and tariff wars that we are going to potentially enter into, which are only going to exacerbate the cost to rebuild and the cost for critical materials. As I mentioned in our last meeting, one of the biggest challenges I face as the commissioner is balancing a stable and sustainable insurance market with effective oversight while ensuring that Californians have access to a variety of insurance options.

Commissioner Ricardo Lara | 4:09 - 4:43

So, a significant concern of many consumers is the fear of non-renewal, which often leads to them to forgo filing legitimate claims due to worries that, you know, doing it might result in losing their insurance coverage. This, to me, is completely unacceptable, especially in the largest market in the country. Additionally, this fear continues to fuel misinformation and discourages consumers from accessing the benefits that they're entitled to.

Commissioner Ricardo Lara | 4:43 - 5:26

And many are already anxious about losing their coverage and being forced onto the Fair Plan. And this is why I continue to raise this issue. And in terms of what certainty can consumers expect from State Farm if granted an interim rate, I do appreciate State Farm was the first insurer to voluntarily suspend pending non-renewals and cancellations in areas affected by the Palisades-Eaton fires. Additionally, State Farm paused the notification process for homeowner non-renewals across all of LA County, but I believe that State Farm can and must take further action.

Commissioner Ricardo Lara | 5:27 - 5:59

Therefore, I am proposing granting State Farm's request for an emergency interim rate and I accept my department's recommendation of a 22% interim rate increase, while all parties also prepare for a full rate hearing. Again, let me say that again, while we all prepare for a full rate hearing. This approval would be provisional and will require State Farm to issue full refunds with interest if it fails to substantiate the validity of this rate.

Commissioner Ricardo Lara | 6:00 - 6:34

Additionally, along with the interim rate, I would like State Farm to undertake two specific actions. First, I would like State Farm to agree to pause any pending non-renewals and cancellations for all of its policyholders throughout California through the end of 2025. And second, I would like State Farm to obtain a loan or capital infusion from State Farm Mutual in the amount of \$500 million to help strengthen its surplus and improve its RBC ratio.

Commissioner Ricardo Lara | 6:35 - 7:19

And you know, again as made clear from the State Farm documents and comments from last meeting, it needs to shore up its financial strength. Raising rates alone is not going to do it. The Department granted State Farm a 20% increase last year and its surplus continued to decrease throughout 2024. And this is despite the fact that 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.

Commissioner Ricardo Lara | 7:20 - 7:34

And so, you know, we don't have your financials from the first quarter of 2025. This is why I propose State Farm Mutual provide you with additional capital support and demonstrate that you are also putting some skin in the game.

Commissioner Ricardo Lara | 7:34 - 8:10

And it's not just on the backs of the rate payers in California. This type of support is not without precedent. Between 2000 and 2010, State Farm Mutual made loans to State Farm Lloyd's, its Texas subsidiary, in the amounts of \$1.2 billion and \$642 million. In the past five years, State Farm Mutual has helped out other subsidiaries such as HiRoad Assurance Company, Dover Bay Specialty Insurance Company and State Farm Classic Insurance Company.

Commissioner Ricardo Lara | 8:11 - 8:41

So, you know, one of State Farm's focus is the ability to be self-sustaining and should be their main focus. Continuing to rate, continuing rate increases alone without capital support is not going to be sufficient. And now I know that Mr. Schwamberger spoke at great length about State Farm's desire to continue serving millions of customers in the state of California and how that cannot happen without a rate increase in order to achieve greater financial stability.

Commissioner Ricardo Lara | 8:42 - 9:20

And then Mr. Krause also stated that granting a rate increase is a positive sign needed in order to be able to continue to non-renew customers and a signal to the State Farm Mutual that California's investing and ensuring that State Farm General is on the path to being self-sustaining. But as you know, as the California regulator, my responsibility is to ensure, yes, a sustainable insurance market. I also acknowledge that State Farm insures more, you know, more Californians, State Farm insures, more Californians than any other insurer that everyone on this call is already aware of.

Commissioner Ricardo Lara | 9:20 - 9:48

It's important to also recognize that other insurers in California cannot absorb State Farm's customers, which raises concerns that these customers may end up on the Fair Plan. Something that we all need to avoid. The situation would undermine one of my main, this situation, if it were to happen would undermine one of my main objectives of the Sustainable Insurance Strategy, which is to reduce reliance on the Fair Plan.

Commissioner Ricardo Lara | 9:49 - 10:20

So, my priority is the welfare of California consumers, including your current consumers who should not face higher rates or uncertainty of losing their coverage. So, for this reason, I fear I'm being fair and asking State Farm to demonstrate its commitment to California by providing a capital infusion from its parent company, State Farm Mutual, and by agreeing to suspend non-renewals for all of Californian through 2025.

Commissioner Ricardo Lara | 10:20 - 10:50

Look, I understand this is a significant request, one that I don't make lightly either because you know, again, our consumers are going to have another rate increase and we need to demonstrate, we need to see, that State Farm is willing to also put some skin in the game. And look, you don't have to respond immediately. I would like to give you at least a day to consider it and have all the parties involved consider the proposal.

Commissioner Ricardo Lara | 10:50 - 11:25

And if you require more time, please let Lucy know. Ideally, I would like to issue my order by the end of the week, but you know, I know I've been talking the entire time, but wanted to kind of put out our proposal and give some justification for that. And if you have any questions, I would entertain those now, but also understand that everybody's just got this information and we could allow for other questions that could be sent to Lucy throughout the next couple hours or the next day.

Commissioner Ricardo Lara | 11:25 - 11:55

Again, I'm committed to getting this done within two weeks. We are down to the last week and want to see if people have any initial reactions or thoughts. Again, this action is going to go hand in hand with the full rate hearing. I feel it's important so that we can have some transparency and really get down to looking at these financials to how do we get State Farm's financial house in order? And I know it's something that the department wanted, something that Watchdog wanted.

Commissioner Ricardo Lara | 11:55 - 12:01

It's something that I feel is very important. So, I'll stop talking now, Lucy, and see if there's any questions.

Dan Krause | 12:07 - 12:43

Thank you, sir. Appreciate the opportunity to think about what you've just proposed. I do think we had talked about, with that rate, we believe we could refrain from any additional non-tenant homeowner block renewals for at least one year. That's something that we would be willing to offer, at least initially. And then I think, what else I would say is our State Farm Mutual board did just conclude their meeting. We did receive confirmation that the State Farm Mutual board is willing to consider capital support if our interim rate request is approved.

Dan Krause | 12:44 - 13:05

While the State Farm Mutual board of directors must approve that support inform and amount, it is our informed belief that State Farm Mutual will approve a SERFF surplus note of at least \$250 million. This would position State Farm General well for the short term and creates the opportunity to seek additional capital as the full rate review is completed and risk exposure is being managed.

Commissioner Ricardo Lara | 13:08 - 13:12

Okay, we'll take note of that. I think Pamela, you raised your hand.

Pamela Pressley | 13:21 - 13:47

Sorry about that. Yeah, just a couple questions. You mentioned that you had a concern about surplus and then also, I think you mentioned the CAT load doubled. I, one question was, are you

referring to the CAT load that State Farm calculated in its proposed interim rate or something different?

Commissioner Ricardo Lara | 13:47 - 13:48

Yeah, Lucy, if you can.

Lucy Wang | 13:49 - 14:07

Yeah, we're talking about the CAT load that State Farm put in SERFF. I mean we reviewed what State Farm submitted in SERFF for their June 2024 application and then the updated information is provided after its request on February 3rd.

Pamela Pressley | 14:08 - 14:29

Okay. So that was based on their methodology for doing CAT load. Okay. And then the other question was, is this including the other two policy forms? You mentioned the 22% for homeowners, but is this also including the rental dwelling and the renter's condo request?

Lucy Wang | 14:30 - 14:44

I believe that is the recommendation the department provided. I mean, I think primarily we've always talked about the homeowners. Is it the 22% the department recommendation? I see Nikki nodding her head.

Nikki McKennedy | 14:50 - 15:16

Good afternoon. There were different rates requested for the different lines and it is 22% for the non-tenant homeowners. I think it's 15% for the renters, Vanessa, stop me if I'm wrong. And then was it 11% or 12% for the renters or for the condo rental building?

Commissioner Ricardo Lara | 15:17 - 15:25

My goal was to follow the department's recommendations on all the three rates. But if we can, Nikki, if you can just, for sake of certainty.

Nikki McKennedy | 15:26 - 15:29

I've got it. Okay, so sorry.

Nikki McKennedy | 15:34 - 15:55

It's exactly 21.8% for the homeowners' non-tenant. It's 15% for the overall renter condo tenant line and it's a plus 38% for the rental dwelling. And that's in line with the stipulation that State Farm and the department staff previously submitted.

Nikki McKennedy | 16:00 - 16:09

The biggest chunk of the business is with the homeowners' non-tenant line. So that is the most significant interim rate request.

Commissioner Ricardo Lara | 16:14 - 16:17

Pamela, do you still have a question or is that a legacy handout?

Pamela Pressley | 16:19 - 16:20

No, those were my questions for now.

Commissioner Ricardo Lara | 16:21 - 16:56

Okay. Okay, great. Okay. If nobody has any other questions, I'll give you all a day to circle back and see what your thoughts are. We're really looking forward to trying to close this by the end of the week, but also understand we want to give all the parties an opportunity to ask questions and get their thoughts in order. So, I just wanted to propose that today. And then any further questions or comments, if you could forward that to Lucy and then we can start the ball rolling and see what people think.

Commissioner Ricardo Lara | 16:57 - 16:58

So, I appreciate your time. Thank you.

Lucy Wang | 16:58 - 17:02

Wait, I see Will Pletcher, oh, do you have a question?

William Pletcher | 17:02 - 17:17

Just wanted to thank you for this proposal and you know, for this meeting and we'll certainly consider it and also really appreciate the opportunity to go to a full rate hearing, as well. So just wanted to thank you for that.

Commissioner Ricardo Lara | 17:17 - 17:19

I heard you loud and clear and I agree.

Lucy Wang | 17:21 - 17:22

Thank you everyone.

Commissioner Ricardo Lara | 17:22 - 17:23

Thank you.

Ben Armstrong | 17:25 - 17:25

Thanks.

Nikki McKennedy | 17:26 - 17:26

Thank you.