BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

RICARDO LARA

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TRANSCRIPTION OF PROCEEDINGS

State Farm Emergency Interim Rate Approval

Wednesday, February 26, 2025

Reported by:

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Hearing Reporter

Job No.:
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TRANSCRIPTION OF PROCEEDINGS, taken at 1901 Harrison Street, 3rd Floor, Oakland, California, commencing at 10:30 a.m. and concluding at 11:52 p.m. on Wednesday, February 26, 2025, reported by Christina L. Rodriguez, Hearing Reporter.

APPEARANCES:

CALIFORNIA DEPARTMENT OF INSURANCE:	RICARDO LARA Insurance Commissioner
	LUCY F. WANG Deputy Commissioner and Special Counsel
	NIKKI MCKENNEDY Senior Staff Attorney
	MICHAEL R. O. MARTINEZ Chief Deputy Commissioner
	KEN ALLEN Deputy Commissioner
STATE FARM INSURANCE:	KEESHA-LU M. MITRA SVP and General Counsel
	DAN KRAUSE CEO and President
	MARK SCHWAMBERGER Treasurer and Chief Financial Officer
	VANESSA WELLS Attorney
	DAVID GROW Associate General Counsel
CONSUMER WATCHDOG:	PAMELA PRESSLEY Senior Staff Attorney
	WILLIAM PLETCHER Litigation Director
	BEN ARMSTRONG Staff Actuary

Live Proceedings, Wednesday, February 26, 2025
10:30 a.m.

THE COMMISSIONER: Thank you, and good morning. I want to be respectful of everyone's time. Thank you for coming. We are going to begin with our meeting. Again, thank you for joining me to discuss State Farm's General Insurance Company's request for approval of an emergency interim rate.

Today's meeting differs from the informal conferences that you all randomly and routinely participate in that typically occurred during the rate filings which are closed to the public. Unlike those discussions, everything shared here will remain public.

We have a court reporter to my left present to transcribe our meeting, and this transcript will be accessible to everyone. We have requested an expedited transcript, but it may take up to two days to receive it.

I ask that everyone please state their names and company affiliation for the court reporter. I am Insurance Commissioner Ricardo Lara, and to my right is Commissioner -- Deputy Commissioner Lucy Wang. Several employees from the Department will also be present in the back of the room to observe.

Can State Farm please state their appearances for the court reporter this morning. Thank you.

MS. MITRA: Certainly. Good morning, Commissioner. Keesha-Lu Mitra, State Farm.

MR. KRAUSE: I'm Dan Krause, CEO and President of State Farm General.

MR. SCHWAMBERGER: Mark Schwamberger, State Farm General.

MR. GROW: David Grow. State Farm.

MS. WELLS: I am Vanessa Wells. I am outside counsel representing State Farm, as I've done rate hearings for the last three years.

THE COMMISSIONER: Thank you.

From the Department of Insurance.

MS. McKENNEDY: Good morning, Commissioner. Nikki McKennedy of the Rate Enforcement Bureau.

MR. MARTINEZ: Michael Martinez, Chief Deputy Commissioner.

MR. ALLEN: Ken Allen, Deputy Commissioner of the Rate Regulation Branch.

THE COMMISSIONER: Thank you.

And Consumer Watchdog.

MS. PRESSLEY: Good morning. My name is Pamela Pressley. I'm Senior Staff Attorney for Consumer

Watchdog.

MR. PLETCHER: Good morning. William Pletcher, Litigation Director for Consumer Watchdog.

MR. ARMSTRONG: Hi. Ben Armstrong, Staff Actuary with Consumer Watchdog.

THE COMMISSIONER: Great. Thank you everybody, again, for being here.

This type of meeting is truly unprecedented, and it's rare for an insurer to reach out directly to the commissioner to request this rate approval. This process typically occurs between the insurer, my department, and, often, with the interveners.

However, as the elected head of this department, I am responsible for overseeing the nation's largest insurance market during these challenging times, and I recognize the importance of this direct communication.

California's insurance market is currently facing the effects of climate change, rising global insurance cost, and a tightening national property insurance market. My department has managed over 100 disaster responses in the past six years, with the most recent events being 14 wildfires in Los Angeles and San Diego County in this month alone -- or January, I should say.

We've held two weekend workshops where we helped over thousands of wildfire survivors understand their insurance benefits, with two more planned this March. I attended both workshops and saw firsthand the critical need to assist consumers understanding their insurance options during these difficult times of loss.

Since the fire started, my department has supported more than 5,000 wildfire survivors through workshops, disaster recovery centers, and our hotline. My priorities remain to protect consumers; my priorities also are to hold insurance companies accountable and ensure stability in our California insurance market.

Throughout this process, I adhere to Proposition 103's mandate that approved rate -- insurance rates and must not be excessive, inadequate, or unfairly discriminatory.

Also, Prop 103 grants me, the Insurance Commissioner, the authority to approve insurance rates, including interim rates. In addition to the challenges mentioned, I face the task of regulating an insurance market operating under outdated regulations that have not been significantly reformed since the passage of Prop 103 in 1988.

This outdated regulatory structure has hindered insurers from actively reflecting the true cost of doing business in California. As a result, many insurers have paused writing new business and increase annual renewals in recent years.

Over the past year, my department has implemented my sustainable insurance strategy, which updates regulations to allow insurers to use risk management tools such as catastrophe models and re-insurance in rate making; something that all other states permit except California.

We implemented these reforms by requiring insurers to operate in California's high-risk areas where consumers have faced significant challenges due to limited insurance availability. Additionally, we have mandated that insurers depopulate the fair plan. Both of the requirements are unique to our state.

This difficult decisions -- decisions are essentially essential for addressing the ongoing availability issues. Achieving affordable rates is impossible without tackling these challenges, which include preventing insurers from withdrawing from riskier areas and encouraging them to expand their coverage.

So today's meeting focuses on State Farm's request for an emergency interim rate increase due to the alarming capital deterioration. State Farm is seeking a 22% increase for a homeowner policies, a 15%

increase for tenant policies, and a 38 increase for rental dwelling policies.

Additionally, State Farm has three pending rate applications with the Department filed this past June. This request follows a 20% rate increase granted to State Farm in December of 2023, resulting from a stipulation agreement involving State Farm, Watchdog, and the Department which took effect in March 2024.

Given that State Farm is one of the largest insurers in California and holds the most homeowners' insurance policies, I take this emergency rate request very seriously. State Farm's financial concern are (sic) significant not for the company, but for the entire California insurance market.

I have reviewed the recent correspondence from State Farm, the Department, and Consumer Watchdog, as well as State Farm's rate application from June and the latest updates. After reviewing this information, I have some questions for State Farm; questions that I've previously posted or posed in my letter dated February 24th.

Although I call this meeting for my benefit, I want to ensure that the Department and Watchdog have the chance to speak at the end, and only if they've learned anything new from this dialogue. You have all been in communications with State Farm's June filing for several months now. Today is not a debate. It is not opportunity.

It is an opportunity, however, for State Farm to clarify the need for emergency interim rate on behalf of consumers. I'm really seeking today the facts and answers, so this is not to relitigate anything. I've read all the correspondence. This is only an opportunity to speak if you have any new concerns from what you've learned today from our discussion.

So, State Farm, is there anything you would like to say before we begin with our questions?

MR. KRAUSE: Thank you, Commissioner. Appreciate the opportunity to be here today. You asked us to come here today ready to answer the questions that you put forth in your letter, as you mentioned, and why State Farm General needs more rate and why we need it on an emergency basis, and we're prepared to do that.

At the outset, though, I did want to take a moment just to say thank you and appreciate the work of your staff and reviewing everything we've provided to them that support our interim rate request, and we agree with their assessment that should be granted for all the reasons they noted in their recommendations.

We plan to reiterate information we've shared with the Department that supported their recommendation and also some new information today that we expect you'll find helpful in line with what we shared in our letter yesterday. State Farm General is at a crucial point, and timing is of the essence. Its ability to continue to provide coverage to customers in the future first depends on sufficient capital to stabilize its financial condition, which this interim rate approval will certainly help to do.

Mark Schwamberger, our Treasurer, is going to address the questions that you've asked.

And without further ado, Mark, we'll allow you to start.

THE COMMISSIONER: Go ahead.

MS. MITRA: Okay. Thank you, Commissioner. And, Mark, just before I turn it over, I just wanted to also ground us, Commissioner, in the fact that since we're discussing the financial solvency of State Farm General, as an Illinois domestic, while Illinois is the financial solvency regulator, I wanted to acknowledge the fact that there have been multiple conversations between the CDI's Financial Analysis Division and Illinois. And just ensure that those -- assure you that those important conversations continue.

THE COMMISSIONER: Thank you. Appreciate that.

Mark, you'll be answering the questions that we posed in the letter?

MR. SCHWAMBERGER: Most of them, sir.

THE COMMISSIONER: Perfect. Okay. Well, why don't we begin. Let's get to these questions. I want to be mindful of peoples' times.

So what, if anything, has changed for State Farm between your pending rate application filed in June 2024 and now that necessitates this emergency relief.

MR. SCHWAMBERGER: Yup. And thank you, again, for allowing this.

I would say two things: You mentioned in your opening the fact that you're focused on insurance -- insurers' stability and viability, and that's why we're here today. That's why we filed under the Variant 6 back in June, and that's why we're here to reinforce it again.

I would also just very much agree with you on the seriousness of this. We are at a crucial point in terms of the financial stability and viability of State Farm General.

So, now, let me get to your question and give you some information that is new since June of 2024. So first, State Farm General's policyholders' surplus has continued to decline. It's declined 300 million during 2024, which is a 23% decrease from year-end 2023, and it currently stands just over a billion dollars.

That billion dollars, when you think about our risk-based capital formula -- so this is the NAIC risk based capital formula -- based on that year-end surplus, we will now be at the regulatory action level within -- within -- right at the company action level and right short of the regulatory action level for risk-based capital.

As you think about the fires and the impact of the fires, and we foreshadow into 2025. On a net basis, State Farm General will take on 212 million related to the fires, and then when you bring in the fair plan assessment as well as our share of the fair plan losses, our overall aftertax impact due to the fires is roughly $400,000,000.

So when we think about our year-end surplus, when you think about that $400,000,000 impact from the fires, that puts us very near -- or in -- authorized control level risk-based capital according to your departments and the Illinois departments and the NAIC risk-based capital. In addition, the ratio of our premium to surplus is also considered an unusual value based on the Insurance Regulatory Information Service, which is an early warning indicator, and that's also at an unusual value at year-end, and that will only further to deteriorate based on the January fires.

So that is the most significant change, and we still sit in a position where we don't have the prospective ability to generate capital. And we obviously have to be there should there be another event, another fire; State Farm General has to be able to be there, so we're operating a much weaker condition.

THE COMMISSIONER: So, Mark, just to clarify. You said -- and my understanding is that you dropped the Variant 6 since -- from June 2024; is that the case or no?

MR. SCHWAMBERGER: So when we filed the new rate for the 22% you mentioned, based on the fires and including those, we would feel that that rate is justifying without Variant 6.

MS. WELLS: And I can add for that as State Farm's Counsel. We anticipate that filing an amended rate application once we get the data from first quarter of 2025. Once we have that data, we don't believe that we will continue to require Variant 6 to get (inaudible).

THE REPORTER: I'm sorry, what was that last part? What was the last thing you said?

MS. WELLS: We anticipate that we will no longer require Variant 6 to get our rate view.

THE REPORTER: Thank you.

THE COMMISSIONER: And just for the court reporter, do you want them to repeat their -- state their name before? Or are you okay with them just --

THE REPORTER: They're okay. Thank you.

THE COMMISSIONER: Okay. Perfect.

MR. SCHWAMBERGER: Commissioner Lara, and one other thing that I would emphasize that's new and since the last filing is yesterday, S&P Global did put State Farm General's rating on credit watch negative.

So that's not a letter downgrade, but it does indicate that as they adjudicate and look at State Farm General's rating and they consider its financial position, they may have a downgrade, and they noted in their release that that downgrade could be multiple notches, so our credit watch indicates near term; it's not a long term. It's near term.

THE COMMISSIONER: So let me ask you this, too: So your decreased surplus doesn't affect the ability to pay claims?

MR. SCHWAMBERGER: Our ability to handle the fires is not in question, and that's due in large part to the very robust re-insurance program we have. So

State Farm General, our estimate -- our current estimate -- for the fires is 7.9 billion. State Farm General will retain 212 million of that, external reinsurers will assume a billion, and State Farm Mutual and one of its affiliates will assume the 6.7 billion of that total loss.

So State Farm General, the legal entity, it has the ability to pay its claims and move forward with the fires. However, it's in a dramatically different and weakened position. So the ability, prospectively, to continue to stay behind our policies --

THE COMMISSIONER: As we enter fire season.

MR. SCHWAMBERGER: -- as we enter fire season, it's in jeopardy sir, and it's a very serious situation. And when you think about risk-based capital, we are just falling into further and further regulatory action levels that also might require action from Illinois and others. And the rating downgrade, that's a situation where a multi-notch downgrade, depending on S&P and how they file and what they do, that could have immediate ratifications as well.

THE COMMISSIONER: Okay. Let's move on to the other question. I appreciate your answers.

In the absence of, you know -- I'm trying to get a grasp here of the answer -- in the absence of the non-wildfire catastrophic losses in 2022 and 2023, how does State Farm explain the significant decrease in its policyholder surplus?

You can see what we're trying to look at. We're trying to understand that you have a decrease surplus, but, yet -- you know. Go ahead.

MR. SCHWAMBERGER: Yes, sir. And I think that's a critical point, too, as we look at the last couple years, and we think about our rate adequacy and the ability to generate capital going forward, those couple years are indicative. So let me give you information that helps you understand what drove that policy over surplus.

So first of all, first and foremost, it's just the surplus was driven by underwriting losses. It's not investment losses or others, it's underwriting losses as our premium just didn't keep pace with the escalating loss cost along with the impact of catastrophes. We had the mountain fire and other things, so there was an impact there.

So here's how I would kind of break it down. We experienced a rapid increase of inflation which drove increases in construction and other costs. We had a ligation trends contributing to significant increases in the severity of liability claims. Particularly with our personal liability and policies and our commercial policies. We had a changing -- and you noted this -- we had changing views of wildfire risk, which was influenced by actual experience, as well as model updates and looking at it prospectively.

And then we had an increase need for re-insurance coverage given the increases in exposure -- that was driven by inflation, changes in view of risk, and, also, a decrease in surplus. So we adjusted our re-insurance program to provide protection for State Farm General. If we had not made those changes, State Farm General could be insolvent right now, and we wouldn't necessarily be sitting here.

So in the face of all of those trends, and you mentioned this in your opening, the outdated regulatory structure just was not able to keep up with these escalating trends. So the structure, you know, in terms of our trying to raise rates restrict growth. In order to keep our risk profile in line with available surplus, those were constrained by the regulatory considerations, and we were met with limited success.

And I think about it this way in terms of the structure: It doesn't necessarily facilitate speed. It's not as responsive to short-term trends, and that's what we saw with inflation and litigation and liability trends. It doesn't allow, in the past, for the model catastrophe exposure, and it didn't allow us to take that escalating re-insurance cost and fully factor that re-insurance cost into our rates.

THE COMMISSIONER: So then -- okay. I understand that, and even with the current structure, you know, State Farm received a steady rate increase of 6.9 in November of 2021; that was effective January 2022, another 6.9 in in January 2023, and a 20% increase in December 2023 which is effective March 2024.

And this is my question, though, which as even with this current structure, State Farm surplus has been declining since 2016, I believe you said, yet it continues to aggressively write in 2020 in high-risk areas such as Pacific Palisades.

Why was that the case?

MR. SCHWAMBERGER: We have had a -- and we put it in the letter -- we've been robust in managing our risk exposure in the high wildfire risk areas. And I also mentioned there, as we were trying to control growth, control exposure, again, we were met with resistance in terms of nonwithdrawal -- or nonrenewals -- and also the impact on rate, which puts us back into the rate cycle to the degree we tried to do, um, significant nonrenewals, again, to manage our risk in line with our exposure.

THE COMMISSIONER: Okay. So what was -- what have you all done -- or State Farm, I should say for the record -- to prevent a surplus from further deteriorating, specifically between May 2023 to the present, besides shed policyholders through ceased writings and nonrenewals? I keep going back to a conversation around, you know, and reports and letters that say, you know, rate increases are not enough to deal with what's happening at State Farm.

So what has been going on?

MR. SCHWAMBERGER: Yeah. So I would say two things: In terms of that comment about rate increases, about not being enough, that was a comment we made in our March 2024 filing. We had to make that unfortunate decision because we want to be in the State of California, we want to serve our customers, but we're at a point where our capital and our exposure were out of line, and we had to announce nonrenewals.

So that's why we made that comment that rates weren't enough, and it really kind of reinforces your prior question which is we knew rates weren't enough. We knew our financial strength was being impaired, so we had to reduce our exposure because at the end of the day, our financial strength is the amount of capital we have to stay behind exposures, so that was the comment.

Now -- go ahead, sir.

THE COMMISSIONER: No, go ahead.

MR. SCHWAMBERGER: So now in terms of what we've been doing is we have been actively, as you know, and there's been rate increases approved -- not always at the amount we ask for and not always as timely as we may be needed -- but we have been actively pursuing rate including taking the proactive position of doing this Variant 6 filing in June of last year to get this moving given the financial condition of State Farm General, and so that's one aspect of what we were doing.

And I think the other aspect of what we have done is we have, in the face of comments about our re-insurance program, which are false and inappropriate and the fact that we weren't able to bring the re-insurance cost in, we still maintain that valuable re-insurance program for State Farm General.

THE COMMISSIONER: I don't mean to interrupt you. You're still just talking about rate.

MR. SCHWAMBERGER: Well, I'm talking about re-insurance. In this case, I'm talking about re-insurance. So we --

THE COMMISSIONER: But your previous comments -- I'm sorry -- was just referring to the rate.

MR. SCHWAMBERGER: Yeah, yeah, yeah. And but -- I agree, but you're asking what we were doing to maintain. Rate has to be part of it, sir. We -- we can't avoid the economic realities of things that you mentioned in the beginning in terms of catastrophe risk, climate change, and the impact on the state. You can see it in the results.

You can see it in the escalating trends that I've talked about in terms of frequency and severity of wildfire. You can see it in liability trends. You can see it in construction costs. We can't escape those economic realities. So at the end of the day, we either have to be able to generate capital in line with our exposures, or we have to significantly rein- -- reduce exposures.

Now, while we continue to work with you in order to secure rate and manage our exposures, we have this -- and this is what I'm saying, is we have this very effective rate insurance program in place that allows us, for the time being, to handle those exposures and handle events like the January -- January fires. Again, without that, we would be in a much different position.

MR. LARA: And, Mark, as you're talking about -- this is a -- a personal pet peeve of mine, not the Department, is when we say, you know, "You're getting the rate" --

"You are getting significantly less of the rate you were asked for," but you have every right to come in with the rate that you need, yet we still saw a 69 -- a 69 (sic) when you clearly needed more.

And so again, this is an ongoing frustration with me that we keep asking, you know, companies to be forthwith about what is the actual rate they need and -- and have that dialogue and conversation as opposed to simply, you know, death by 1,000 cuts here with constant 6.9's; right?

And so again, it's -- it's -- as -- as we have these conversations, not only -- nothing in Prop 103 impedes you from asking for the actual rate that you need. Now, that is whatever you all decide to ask for, that's -- that's -- that's on you, but just to clarify that, in the existing process, you have every right to come for the rate that you, you know, that -- that you want.

MR. GROW: If I could, Commissioner, just point out that, being responsive to that message from you and your staff, we began to work towards those larger rating paces that led to the last rate increase with you, so I acknowledge what you're saying.

MR. LARA: Fair enough. And has State Farm provided adequate documentation to the Department to support the current rate increase request for each of the line of business? I know this is a point of contention for the intervener and -- and for the Department.

And so we would like to -- given that I haven't been part of these conversations, I want to be able to get some clarity around what has been given and why is there still such, you know, misinformation around "Did you provide information? Have you not? Is it enough?" So if you can please help me understand and answer those questions.

MR. GROW: And if I can speak to that as well, I just want to point out that we have responded to every request or objection that's come through, sir, from the Department, and to acknowledge that, because these applications were based on Variant 6 --

MR. LARA: Can you sit close to the --

MR. GROW: Yeah.

MR. LARA: -- microphone, please? I just want to hear.

MR. GROW: Yeah. I have a soft voice. Because these applications were based on Variant 6, there were a lot of novel issues to work through. And to our knowledge, Variant 6 hasn't been used or approved by the Department in the past, so we worked with your staff trying to work through those -- those questions and issues.

And also wanted to acknowledge that at one point, we were asked if State Farm General would provide full and un-redacted copies of a long list of documents, many of which we considered trade secret and confidential. We did pull out the portions of information from those documents that we felt were responsive to the Department -- to the issues at play in this application and provided those.

And we invited the Department to identify if there were other points of information that could be shared that would help meet the need. We haven't -- there hasn't been a response to that specific invitation, but we're still open to have that conversation. And then I guess I'll turn it to Vanessa for this next thing.

MS. WELLS: Yes, Commissioner. I am here to respond to the portion of your question that goes to Consumer Watchdog's request. And just for the record, since this is not well-known, I'll identify that there are two types of requests that could come from Consumer Watchdog.

Consumer Watchdog has started sending out what they're calling Requests For Information, or RFI's, in the course of the informal proceedings that proceed a notice of hearing. And while insurers don't have to respond to those, they generally do. They voluntarily respond to those in order to reach an efficient and amicable solution.

So insurers generally will respond to all of the

RFI's except those that request confidential information. In this proceeding, Consumer Watchdog came out of the box prior to there being any notice of hearing, sending out discovery requests, and Deputy Commissioner Wang sent out a letter saying, "There is no right to discovery until there has been a notice of hearing."

She also indicated that the parties could treat these as those informal RFI's if they wish to. I sent a letter to Consumer Watchdog pointing out that those requests are not in the form that we normally see RFI's. There is a difference, that Consumer Watchdog discovery requests asked for a lot of confidential documents.

MR. LARA: Vanessa, give me --

MS. WELLS: Yes.

MR. LARA: Give me -- give me a quick second. I just want to make sure we're not here to continue with the disagreement --

MS. WELLS: Right.

MR. LARA: -- and so -- and -- and we're here to try to get these questions answered. And I've read the correspondence and understand --

MS. WELLS: Right.

MR. LARA: -- the points of contention, so I just want to make sure that, you know -- and we'll have a chance to -- you all will have a chance to continue around that as well --

MS. WELLS: Yes.

MR. LARA: -- so I just want to make sure we don't -- I'm not here to open up, you know, the discussions that already have been had.

MS. WELLS: Right. And I -- I don't want to do that, either. My concern was the press releases that we've seen from Consumer Watchdog. Short answer is, we've responded to everything from the Insurance Department, which is the regulator.

We have responded to all RFI's that have been sent to us by Consumer Watchdog on the two additional rate applications concerning the lines, other than the non-tenant homeowners, and we plan to respond any requests, any RFI's from Consumer Watchdog that would go to our new situation. Not the Variant 6, the new situation with -- after the fires.

MR. LARA: Okay. Thank you. I -- I know there's a -- you have a comment from the Department?

MS. MCKENNEDY: Yes, Commissioner. If we could just be heard for one moment, I -- I don't want to take up too much time, but I do want to address --

MR. LARA: Let me make sure we just have your microphone --

MS. MCKENNEDY: I don't have control -- there we go. You asked whether State Farm had satisfactorily responded to all of the Department's questions, and I think the answer is actually, no, we are not currently satisfied that State Farm has proven it is entitled to an overall rate increase at the level that they've requested in their rate applications.

But what we have determined is that they made a preliminary showing that they can get the interim rates subject to refunds with interest, if necessary. So I would also let you know that there are two types of information requests that have been floating out there.

One relates to the Variant 6, and the other kind relates to sort of the general, usual actuarial issues. And we've tried to get both sets of information. One of the things that is impeding the Department's ability to get that information is State Farm's confidentiality concerns.

And so at this point, your staff feels like if we go into a rate hearing, we can come to some sort of confidentiality arrangement in order to fully investigate and determine what information actually needs to be made public in order to support the rate.

So that's why we feel confident that we can go ahead and approve the interim rate, subject to refunds with interest, while we then dig in to a full rate hearing and fully investigate.

MR. LARA: Thank you. Just cause we gave the Department a chance, why don't you respond?

MR. PLETCHER: Yes. Thank you. If we could just briefly respond to a -- a couple -- We -- we don't want to get into a back-and-forth on -- on the record, but just a couple points.

MS. PRESSLEY: Yeah, I just responded briefly to a couple points made by Ms. Wells. We did serve discovery requests back in July and August, and that was because in the past, we've been told, "Don't wait," right, "Don't wait until the Department calls us for a three-way call. Get your requests out very quickly."

So we thought, okay, this time, Variant 6, we want to ask all of our financial-related questions right upfront; understand, you know, in Ms. Wang's order, she said, "Treat those formal request" -- you know, because we did serve them as formal, and the order said, "Treat them as informal requests for discovery."

So my goal was, since September, let's get on a call. Let's -- let's have, you know, a discussion about which things can be responded to. And it did take, like, four months.

Because I said right up front to both Ms. McKennedy and Ms. Wells, "We need to hash this out.

Like, how -- this is different from other rate proceedings. We're not going to be able to get the financial information that State Farm was claiming was confidential."

And a lot of the issues that they're talking about today, which they say are not now related to Variant 6 but they're using to support, like, the urgency and the emergency, are things that we did ask about: Reports on their risk-based capital issues, all of -- things related to the reinsurance, underlying actuarial reserve reports, and everything, we were told, was confidential.

But I then asked for, "Okay. Let's just get a list of what you can provide, and I -- you're free to make the objections on confidentiality, but you need to tell us, like, which ones you're not going to and which ones you are."

And then Mis- -- Mr. Armstrong, who's their actuary, went through everything that they produced to the Department and made a determination that still none of the documents that we had asked for -- and there's 35 requests, which I can give you copies of, have still not been --

MR. LARA: Okay.

MS. PRESSLEY: -- responded to.

MR. LARA: Thank you.

MS. PRESSLEY: That's all I wanted to say.

MR. LARA: Okay.

MS. PRESSLEY: Yeah.

MR. LARA: And quickly, just so that we can get to the -- to the questions. Go ahead.

MS. WELLS: So, Commissioner Lara, what I am going to do is refrain from responding to those allegations, even though we disagree with all of that, because Your Honor has asked -- I called you "Your Honor" -- because you have asked us not to rehash the past, so I will not rehash the past, but, please, for the record, take it that there's more than one side to that discussion.

MR. LARA: Thank you. I appreciate that.

MS. WELLS: Thank you.

MR. SCHWAMBERGER: Commissioner?

MR. LARA: Go ahead.

MR. SCHWAMBERGER: Can I -- maybe -- maybe let me reiterate something. There's been a lot of discussion and a comment right there about, you know, Variant 6 or not. I think I want to be clear, and I think the team would support this, we're not divorced from the Variant 6.

It's the reason we're sitting here today asking for this interim break under our prior filling, which is under Variant 6, which is why the opening statement, which is: What has changed since June 2024, it's the significant and continued depletion of State Farm's capital, putting it in an even more precarious position relative to risk-based capital, relative to the ability to stand another event.

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

Because without this emergency order, without this emergency rate, unfortunately, that subpoena (phonetic) may take actions that were out of both of our control, but yet we may have to take actions that we otherwise don't want to do, either --

MR. LARA: Understood.

MR. SCHWAMBERGER: -- like we said in our March letter. So I just wanted to be clear about that comment; about Variant 6 or not, we're here because of our financial distress, and that's what our letter said, and tat's why we need this emergency order, and that's we need it as fast as possible, sir.

It's -- it is -- it is a precarious situation. When you said this was serious, I could not agree with you more about how serious the financial condition is.

MR. LARA: It's understood.
MR. SCHWAMBERGER: So anyway --
MS. LARA: Understood.
MR. SCHWAMBERGER: And I -- I appreciate that. I know you do, but I just don't believe that --
MR. LARA: No, I understand.
MR. SCHWAMBERGER: -- you made that clear about the --
MR. LARA: Thank you. And just -- and in the spirit of trying to move fast --
MR. SCHWAMBERGER: Yes.
MR. LARA: -- I want to be able to get to these questions. So other than -- other than the rate interest -- the -- the rate increases, you know, I -- I think this is what we -- we are really curious about. What are -- what are the other plans for State Farm to address its financial challenges?
For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm, as it has in similar situations? I know this -- you know, this happened in other states, for example.
MR. SCHWAMBERGER: Yeah. Go ahead, Keesha.
MS. MITRA: So -- yeah, let -- let me just jump in here really quickly. So just for fundamental

understanding in terms of the governance structure from State Farm General to State Mutual, the State Farm Mutual Board is comprised of all external, independent directors except for the State Farm Mutual CEO.

So it's a com- -- almost completely external, independent board, and so their fiduciary duties require them to exercise reasonable care, judgment, and diligence of what is in State Farm Mutual's best interest as an entity and its policyholder group as a whole.

So what we would expect, and this is why I wanted to preface Mark's comments with this, is what we would expect is robust consideration by this State Farm Mutual independent board of any request that may be presented to them for potential assistance on behalf of State Farm General.

MR. KRAUSE: Yeah, I think, Commissioner, that's -- it would be up to me to request that type of assistance. I think, you know, there has to be some sort of positive sign that State Farm General would be able to sustain itself from a capital position to support its risk profile.

I think that's the purpose of the interim rate request. That would give us that type of a positive sign, both to the rating agencies and to any potential investors including State Farm Mutual, and so that's -- that's the emergency basis of this, because it would help, at least me building a case to go to the Mutual board to ask for consideration.

MR. LARA: So just for the record, it is a possible request?

MR. KRAUSE: It is a possible request, yes.

MR. LARA: Okay. Thank you. Mark, any further --

MR. SCHWAMBERGER: No. That's perfect, sir.

MR. LARA: Thank you. So what is State Farm doing to manage and restore its financial position, given its statement that -- again, I know we've talked about the rate increases were sufficient, so I want delve deeper a little bit in terms of, you know, an interim rate would then just be -- some would say an interim rate would just be a bailout for their own financial problem without any personal benefit for consumers.

What are your thoughts, and what else is being done to be able to -- to get your financial house in order?

MR. SCHWAMBERGER: Well, let me -- let me start by, you know, kind of getting to your first point. I think, again, the reason we're here for this emergency order is because we don't feel State Farm General is rate adequate. So without rate adequacy, we're unable to demonstrate our ability to be self-sustaining.

So when you're in that position where you don't have rate adequacy, you don't believe you can be self-sustaining, that is the emergency need, because any other actions are not going to be sufficient to restore the profit ability and the financial strength that an interim can.

So when you have a situation where your capital is a certain level and your exposure is another level, if you can't grow this capital -- and rate is the most significant and immediate need.

Any other actions, Commissioner Lara, simply aren't going to be enough in order to prevent the unfortunate situation that could arise should we not have positive signs about the prospective ability to be self-sustaining that may allow other considerations.

So, therefore, the only other thing that we could do without rate and without the ability to increase capital, is to substantially reduce exposure. I'm not saying -- I'm not saying that's a decision; I'm just giving you -- you know, putting forward the equation we can't grow capital; we have to reduce exposure significantly in line with that --

MR. LARA: Meaning, you would continue to non-renew or have to cancel policies?

MR. SCHWAMBERGER: At the end of the day, yes, sir.

To the degree you cannot be self-sustaining and you don't have viability and the capital to stand behind promises, there's -- we're left with no other alternative.

MR. LARA: So let me -- let me get to this other question that -- that I think is my final question and one of the most important ones. So how would granting an Emergency Rate Impact impact State Farm's business decision to pause arriving new residential coverage or non-renew policies?

And -- and, for the record, let me -- let me just be clear on what that means and what I'm asking. If I approve an emergency rate, will you rent more business in California?

MR. SCHWAMBERGER: I think the short-term answer to that is: No, in a short-term. Again, the ability to get rate and grow capital takes time, and given our current exposure and where we are, we would not be in a position to fiscally and responsibly starting to re- -- regrow within the California market just because of this rate in the very near term.

It's ju- -- it just wouldn't be fiscally responsible because we could potentially put ourselves in the situation of being back here in front of you, given the continued change in exposure relative to capital. These things take time. And we do look forward -- we're here in large part because we want to be in the California market.

We look forward to some of the reforms. We literally just want to survive to be able to see that day when the reforms are there and we continue to serve the -- the millions of customers in the State of California. That is absolutely our objective, but we have to be able to get to the other side.

MR. KRAUSE: Commissioner, we have over one million homeowners' policies, so almost 2.8 million policies in total at State Farm General. It is very important to us to take care of our onboard customers. That's why it's very difficult when we have to make those decisions to non-renew current customers. Very difficult.

And we want to put ourselves in a financial position where we would have to minimize that moving forward, and that's what this interim rate would help us do, and I think, you know, obviously we -- we want to support the California market. We've been here for almost 100 years. We want to be here for 100 more, but we've got to be able to have this -- our State Farm General survive this financial piece in order for that to happen.

MR. LARA: So, Don, let me -- let me follow up with that and maybe ask my question differently, as I -- I appreciate your honesty because -- so if I were to approve this interim rate increase, would you commit to non-renewing your existing customers?

MR. SCHWAMBERGER: To not -- not renew?

MR. LARA: Yeah. English language (indiscernible.)

MR. SCHWAMBERGER: I think that's -- I think that's an appropriate way to think about it. The ability to have that prospective ability to generate capital and be self-sustaining, that is the positive sign that John -- or Dan talked about earlier, which is what we need to see, you know, from the market.

And our ability to be self-sustaining, that ability and that signal allows for other decisions and actions which could prevent significant -- I want to say that -- significant non-renewals or -- and, again, this is -- this is not something we desire, but to the degree that we don't have the ability to grow capital in the future and have rate adequacy to be self-sustaining, we simply can't handle this much exposure.

Because even in a situation -- if you have a situation where you're not rate adequate and you're not self-sustaining, capital support just then becomes a subsidy for the risk, and that just doesn't work over time because other states, right, don't want to subsidize the risk of California, just like, and you've appropriately said, you don't want Californians to subsidize the catastrophe risk of other states.

So that's why this ability for State Farm General to be rate adequate, to have the ability to be self-sustaining is just so critical looking forward to send that positive signal to allow us to have a bridge to the future.

MR. LARA: As -- as you can imagine, the -- the -- the anxiety that your current customers are facing and those that have been non-renewed or are, you know -- were in the cancellation process is the fact that, you know, here we are, asking for this emergency rate, yet, you know -- and again, they will be faced with higher rates but without any guarantee of keeping their coverage during this difficult climate year that we've already had in 2025.

And, as we pointed out, we haven't even got into the summer fire season, and so that just elevates the level of anxiety from your customers that are currently potentially facing a higher rate but no guarantee that they're going to, you know, maintain their coverage.

And -- and I'll tell you that is -- as somebody who has traveled to every county in this state, and I've met with over hundred of thousand -- hundreds of thousands of consumers, that is their ongoing fear.

Many of them understand the risk of where they live and understand what is happening. They see it and read the papers, but it's the anxiety of losing their coverage, yet having to pay more without the certainty of being able to keep their coverage puts their entire family budget in turmoil because, you know, people need time to budget this out.

And so I say that as, you know, we've -- we've ad- -- we'll be trying to address this -- these -- these catastrophic wildfires for several years now, and that is the number one question I get from consumers is, you know, "We will figure this out and try to make sure" -- "we don't want to lose our coverage. We don't want to end up in the FAIR Plan."

But the constant fear of being dropped is what really is consternating so many consumers across the country, that many of them are in fear to actually submit a claim because they -- that -- that -- they feel that that's going to trigger some sort of non-renewal or put them on or give them a black mark or red mark that keeps them from, you know, potentially being dropped.

So the last thing I want is somebody who has a legitimate claim, that needs some redress, not obtain it because of the fear of being non-renewed or dropped. Then it becomes -- it goes into a horrific cycle of this fear of not being able to access what you're contractually obligated by their insurer and addressing an issue because of this -- this fear.

This is why I keep asking the question if, you know, we -- if I am to grant this rate and emergency rate increase, what certainty can I give the consumers -- more importantly, your customers -- of what the future's going to hold, or are they going to have certainty as State Farm customers?

MR. SCHWAMBERGER: Let me -- a couple things that I heard there that I think are important, especially if we have shared agreement that residents understand their risk and we collectively confront the reality of the risk, and, therefore, the premium that has to be paid for that risk.

If we can -- if we can collectively agree on that, that is a huge starting point, because that's what will drive the appropriate rate for the risk that State Farm General has. So confronting that economic reality and having, you know, the collective might, courage to allow that rate, even though I understand the burden's on folks.

But at the end of the day, we have to confront those realities. So if we can start there, and we have a market that is disciplined, it is reactive, it does approve rates and move, and it does allow catastrophe modeling reinsurance costs to be included, I think all of those things will absolutely generate greater stability in the California market.

And greater stability in the California market creates greater stability for the companies operating in it because they can have degrees of certainty as to what the future holds, how they'll be dealt with from the -- from the regulator, how all those processes would work. That gives us confidence, which allows us to stay in the market, at a 20% market share, as you indicated.

So at the end of the day, and I know it's not lost on anybody in this room, we absolutely insure more Californians than anybody else. We desire to remain within the state and to continue that coverage, but this certainty that we're talking about is confronting the economic realities of the risk that's present.

And allowing the rate that allows us to be self-sufficient over time, I think that's what drives confidence; and, therefore, will drive confidence in the market, and, potentially -- I think this is what you're driving for -- drive more writings from others, other than State Farm in the market, to drive competition, to drive innovation, to drive people competing for customers so there is valuable coverage, and the FAIR Plan can be depopulated over time.

So I think we absolutely share those interests; it's probably the mechanism by which you get there is maybe what there's been disagreement in this room collectively in the past.

MR. LARA: So I'm curious to see -- I appreciate those comments, but, you know, why can't State Farm, then, just wait to file an application under the sustainable insurance strategy that, as you said, uses catastrophic models and reinsurance, under those regulations that have been just been implemented under the strategy?

MR. SCHWAMBERGER: Yeah, it goes back to time. It goes back to our letter where we sent in March of '24 where we talked about this being our financial condition; at that time, being alarmed, signaling the grave need for action -- for immediate, fast action.

And as we stated, that -- that signal and that alarm has turned into a crisis. So, sir, bottom line, it's time. It's -- we're in a position where post the fires, we are right within the cusp and likely in the -- in the area of being in the authorized control level risk-based capital.

We are faced with a downgrade from S&P, which could make State Farm General's paper not accepted, and that will create disorderly. We -- we want -- the last we want is anything to be disorderly, but there's certain things that are just, unfortunately, outside of our control.

So this immediate rate allows us to start restoring, and it sends a really important -- you send a very important signal to the market about the consideration, the thinking about -- you mentioned insurer viability, and those signals can, therefore, be sent to others in terms of how we're thinking about the California market and our ability to operate in it.

And those signals are not unimportant to capital providers, rating agencies, and the like. We have to be able to get this rate, start restoring, and be able to project it in the future, the ability to be self-sustaining.

MR. KRAUSE: Commissioner, we're excited about sustainable insurance, too. I think it includes a lot of the provisions that we've been asking for for a long time. I think it's about time to get to that place where we can start to operate under that -- you know, have that operational.

We don't have that time. I mean, we're -- we're at a point where we're in a critical state, and we -- you know, I hear from the same -- I hear from customers. I hear from our agents. We have almost 1,900 agents, almost 7,000 of their employees in this state.

And we don't like to part with our customers. We share that concern. We want to take care of our customers. Our ability to put State Farm General in -- into financial stability allows us to do that, and that's why this interim rate is so important.

MR. LARA: Thank you. In addition, just to further clarify and highlight, in terms of the fact that this would also help you potentially make a successful request to the parent company for additional support.

MR. KRAUSE: It would -- it would allow a positive sign that would show that this is a market that we can compete, generate a return in, and stay in, and give us a chance for consideration for the parent company, yes.

MR. LARA: Thank you. So those were all the questions that we had posed. I -- I want to -- I would like to give the Department and Watchdog a chance to ask just some focus -- focused follow-up questions about, again, anything new that you heard here today.

And please keep in mind, again, I want to reiterate that you have all been discussing these matters amongst yourselves for months without my involvement. So I know this is not any of -- many of these points are not going to be new to you.

So, please, I ask that you avoid reiterating points you've already shared, including any objections submitted and served. We've read those already, and I've seen those, and -- or anything mentioned in previous communications to me, as I've also received all the letters from all of the parties involved.

I'd like to start with the Department, if there's any additional questions or comments.

MS. MCKENNEDY: Thank you, Commissioner. I don't think we have any additional questions right now. The Department is very interested in seeing that first quarter of 2025 data come in, and we think that will be very instructive.

One additional comment I wanted to make for your assistance, Commissioner, is that as one of the few people who was actually here during the prior State Farm rate hearing during 2015 and '16, I can tell you that at that time, we didn't have the interim rate procedure that's being contemplated here, and so our solution was to try to run that rate hearing as fast as humanly possible.

And it was really hard, and it didn't ultimately end up being that fast, you know, and so that is one of the reasons why your staff is invested in the interim rate, subject to refunds with interest, as a possible solution to combining our ability to fully investigate State Farm's position during a full rate hearing, but at the same time, providing the company with financial protection.

So that's where your staff is coming from, if that helps you. Is there anything you wanted to add, Michael?

MR. MARTINEZ: I just wanted to add that I've been on this side of the wall, prosecutorial side of the wall, working with the hardworking staff of the Department, your regulation experts and lawyers, and I'd say that we have been in a very aggressive and -- and -- and negotiating with State Farm and providing this recommendation, which the Department, the Department staff, fully support and has continued to stand by here today.

And this is not a final order. This is a provisional order that is subject to a full rate hearing, in which we will be able to get the additional requests for information, including the quarter 1 data of this year and including the more financial -- the more granularity of financial information that we need, again, during a rate hearing that we'll be able to determine whether the immediate emergency -- immediate interim rate increase is valid, or if it's subject to potential refunds to consumers with interest after, again, that full rate hearing.

And so it's something where, you know, I -- I know that we, under -- under your leadership, under all the transformational action that we have done with the sustained strategies these last several years.

We have really, I believe, moved mountains in reforming a lot of the work and -- and regular -- regulatory work and oversight here in the Department of Insurance, and so we just want to thank you for taking the time and due diligence here today for today's informal conference.

MR. LARA: Thank you. Ken, do you have anything you'd like to add? Okay. Thank you. Watchdog, is there anything --

MR. PLETCHER: Yeah. Just -- just -- just want to take a brief moment to thank you for this informal hearing and having us here today. I certainly appreciate this opportunity to hear from everyone.

I just want to take a quick step back, Commissioner, to a point you -- you raised earlier that, you know, there's nothing in Proposition 103 that prevents an insurer from -- from requesting the rate and getting the rate that they want, backing it up with data and justifying it.

And I think what I'm hearing is a significant issue that's arisen here is because this went through the informal process, that the informal process is just really not set up to deal with the sort of confidentiality concerns that arise in a Variant 6 context or concerns about the financial strength of a company.

Our position is, you know, this -- this interim process, we don't think is justified at -- at this time, because when you look at the regulatory framework of when you can go into an interim process, the rate is not inadequate under those formulas, but there's nothing that prevents a new rate application with updated data from being submitted very rapidly.

I appreciate the experiences that folks had in 2015 and 2016 -- I wasn't part of that process -- and the difficulty in doing a rate process on an expedited basis, but I'll also say I've done plenty of complicated federal court litigation in the country on expedited basis when the court sets aggressive deadlines.

And it is possible to do things, you know. It takes long nights. It takes lots of pots of coffee, but it is possible to do it when you have parties that are willing to work cooperatively, to work rapidly through discovery issues and come to reasonable resolutions, and we're certainly prepared and ready to work on that basis.

We think that would, you know, best protect the interests of consumers and comply with Proposition 103. You know, this is -- you've talked, you know, as you've indicated, thousands and thousands of consumers.

Our -- our calculation is that with this -- just the interim rate, we're looking at $600 per household.

This is going to be a huge impact on consumers that are already, as you've noted, struggling with lots of challenges regarding inflation and other issues, and the economy now.

So we see this as a significant issue, but if we're under the Proposition 103 framework of a full rate hearing on a expedited basis, then that will best protect the interests of those consumers with transparency and the ability of participation through that, and, you know, we certainly aren't looking to do anything other than to meet the urgency of the situation, to -- address this in a rapid way. And I'll just turn this over quickly to --

MR. LARA: Yeah, and just to also respond to you, and I hear you. We can still have a rate hearing --

MR. PLETCHER: Yeah.

MR. LARA: I mean, so it's, you know -- we're not shutting the door there. Again, we're here informally to gather that -- to gather the information that we need, but I -- I hear you.

MS. PRESSLEY: I mean, I was going to turn to -- I was going to turn it over to Ben because I know there was some follow-up questions.

MR. PLETCHER: I believe we had a couple follow-up questions that are -- Ben just had to step out for just a moment, so if we could, you know, perhaps continue the meeting and then return to him as soon as he -- I assume he will return quickly.

MR. LARA: I hope so, because we -- we are at -- at the end of the meeting.

MR. PLETCHER: Okay.

MS. PRESSLEY: I mean, while we're waiting, I would just reiterate that a lot of the information that we're hearing today and that was in the letter that we were provided yesterday, we've been asking for a lot of this, like, the underlying documentation for a long time.

And, you know, I -- I think we would be a lot sooner -- we would be a lot further along in the process if we had gotten some of this information earlier, and I know there were discussions back in November, even if it --

MR. LARA: Sorry. I -- yeah, I get it. I know we've -- we've -- we've said that, and I know you were stalling for Ben. So Ben, you're --

MR. ARMSTRONG: Yeah.

MR. LARA: You're on.

MR. ARMSTRONG: Thanks. I knew I was going to have a coughing fit at some point during when I'm going to talk, so my apologies for having to step out there for a second.

Yeah, I had a couple of numerical questions for State Farm, if you don't mind. One has to do with the

$400 million share of the FAIR Plan assessment, but they have a 20 percent market share. Just curious if you guys have a little more color around of why that is presented as a lineup?

MR. SCHWAMBERGER: Yeah, so what did was, we used publicly available information from the FAIR Plan based on its estimates of its -- of its losses related to the fires, which ultimately led to the assessment, but the assessment, obviously, is not the full impact of the fires.

So the full impact of the fires times our market share, which I know we have a 20 percent market share in homeowners, but effectively, it ended up being 16 percent, is what we took of the FAIR Plan's estimated losses for the fires, which is what generated that $400 million estimate of our share.

MR. ARMSTRONG: Got it. So it's -- it's State Farm share of the FAIR Plan and then also the assessment --

MR. LARA: Ben, you could just -- so I can hear, you can direct your questions to Mister --

MR. ARMSTRONG: Oh, sorry. Yeah, you're right.

MR. LARA: (Indiscernible) microphone. Thank you.

MR. ARMSTRONG: Yeah, yeah. So it's -- it's the combination of State Farm's share of the FAIR Plan losses, and then also the assessment?

MR. SCHWAMBERGER: So it would be the share of the FAIR Plan losses. The assessment is really just cash flow, so the $400 million, and then we did offset that --

MR. ARMSTRONG: Right.

MR. SCHWAMBERGER: For the impact of getting the recoupment on the 50 percent of $165 million assessment.

MR. ARMSTRONG: Okay. Cool. Thank you. Another one is about the RBC requirements. Is there numerical support for that that you can provide? I mean, obviously that's this new data, 2024.

MR. SCHWAMBERGER: Yeah. And I think that's important, too, to respond to the prior accounting about new data. This is not from lack of sharing in the past. This is data that is just going to be published tomorrow, so you've always had the ability to look at our annual statement, which is publicly available, look at the five-year historical. And you know what our RBC ratio is. You don't need to report, so I think that's the same thing here is, our -- our file will be available tomorrow.

MR. ARMSTRONG: Okay. Is that, like, going to be available through the website?

(Simultaneous cross-talk.)

MR. SCHWAMBERGER: Yeah, yeah. We'll -- yeah, we'll file because -- I apologize. Friday. Today is Wednesday.

It'll be up by Friday morning.

MR. ARMSTRONG: That's great. Okay. So I'll make a note of that. And then so other than reinsurance, are there any agreements between State Farm General and its affiliates, primarily State Farm Mutual, and any evaluations for reasonable -- reasonableness on those?

MR. SCHWAMBERGER: There are many other agreements, you know, cautionary agreements, is -- is probably the primary one. That would probably be the primary one.

MS. WELLS: Just to add -- add to the question of reasonableness, I believe everybody in this room knows that those affiliate agreements have to be submitted to the Domestic Regulator, and I think many of them are also submitted to California as well as commercially domiciled.

MR. LARA: Correct. Thank you for that clarification.

MR. ARMSTRONG: Thanks, Vanessa. And then I think I had a couple more. Yeah, so there's a statement in your letter from yesterday saying that over the last ten years, and including reinsurance recoveries projected for the recent wildfires, that State Farm General has benefitted significantly from the totality of its reinsurance program.

We haven't seen that based on data pulled from ten plus years of annual statements. It really looks like the reinsurance -- reinsurance agreements with State Farm Mutual has been structured to benefit the parent company and didn't see much, if any, recoveries to State Farm General. So I'm curious if you could provide some context around that and discuss this significant benefit from the totality of the reinsurance program.

MR. SCHWAMBERGER: So the first thing I would say is, just to be clear, I would -- just me, I disagree that this reinsurance program is not arm's length fair and reasonable, and the charges that State Farm Mutual charges for the rate of insurance provided for State Farm General simply aren't available in the external market.

So the price that State Farm General pays for the coverage provided is less than we can otherwise get in the external market, and the amount of coverage provided is also simply not available. So with that said, I know that you guys have in the past looked at Schedule P Part 1(a) to do your analysis.

I think you choose to do it on a pay-basis versus an incur basis, which doesn't necessarily paint the whole picture. I think the other thing, based on your analysis of paid, some of the -- some of those numbers you've chosen to use, you know, they don't really reflect the fact that subrogation recoveries take time.

So back in the 2017 fires, if you would look at our 2019 Schedule P Part 1(a), you would definitely see the significant reinsurance recoveries from the program that allowed State Farm General to stay viable, so to speak, until that subrogation recovery from PG&E could come into play.

So I would just say that Use and Incurred would probably be more appropriate, which leads me into my -- to my point. So you're correct, over -- over a period of time from 2000 -- by the way, let me be clear here. You're correct in terms of up until 2017, State Farm General did pay more reinsurance premiums than the recoveries it had from 2017.

But obviously reinsurance is there not to be working capital but to be there for, you know, less frequent severe events. So when you bring into account the 2000 -- or the January 2025 fires, State Farm General will have recovered $5.5 billion more in recoveries than they paid in premium. So that --

MR. ARMSTRONG: What about the 2017 and 2018 results? Because I believe that the numbers that we cited were pulled from the 2023 annual statement, which would have included the subrogation recoveries and still the reinsurance agreement benefits State Farm Mutual to the detriment of State Farm General, and those would qualify as a high severity low frequency event with the wildfires in those years.

MR. LARA: Again, we don't want to get into these repeat arguments, but just be clear for your questions on the microphone so we can capture it, please. Go ahead.

MR. SCHWAMBERGER: You know, my -- my reference to '17 and '18 was really more about the significant subrogation coverage which came later, so the rate insurance projection definitely provided support to State Farm Mutual in '17 and '18, ultimately subrogation.

But let me come back and be very clear. When you go from 2017 through January fires -- and, again, these are based on our initial estimates, our current estimates that we will put in our statements -- State Farm General has benefited to the tune of $5 billion from this reinsurance program.

MR. PLETCHER: But how much of that is from the 2025 fires?

MR. SCHWAMBERGER: All of it.

MR. ARMSTRONG: So -- so we're just talking about the one event?

MR. SCHWAMBERGER: Correct, yeah. Low frequency, high severity event is what the catastrophe reinsurance is meant to cover.

MR. ARMSTRONG: Okay. Thank you.

MR. LARA: Great. Do you want any further clarification or --

MS. WELLS: No. I was just going to point out that the discussion had gotten into prior issues known, that we know we have to sit down and we're going to have to address them. That was all.

MR. LARA: Correct. Duly noted. Understand. Okay.

MR. PLETCHER: Just one more final thing that we wanted to bring up just in terms of the discussion of other state subsidies to California. If there were to be some sort of assistance from the parent company, State Farm Mutual, since that would be coming out of surplus, that's not a current policyholder premium transaction.

In other words, it isn't like policyholders in other states that are currently paying premiums that would go directly to State Farm General as part of this assistance. It would be the -- the surplus position that the parent company has built up to the tune of $134 billion over a period of multiple years, so I just think it's an unfair characterization to say that it's a multistate subsidization when really it's -- it's just the parent company as -- as a legal entity.

MR. LARA: Got it. Thank you. Would you like to -- okay. Great. Thank you. Again, I want to appreciate your time. I want to keep you all to the hour that we posted, and thank you for participating.

I found this very, very truthful discussion enlightening for me. Just -- I wanted just want to close out with some reflections from, you know -- and to make sure you leave this room understanding that I recognize that my decision will impact millions of Californians, including current State Farm customers and -- and those seeking insurance around the state.

In -- in my roll, I'm going to prioritize the consumer needs to ensure a stable and sustainable insurance market. And therein lies the difficult, often, balance that insurance commissioners across the country deal with on a daily basis, balancing a robust market with effective oversight, holding insurance companies accountable while ensuring that Californians have access to the insurance options that they need and that they deserve.

This approach really defines my work, and I will not -- I'm not going to be rushed into a decision, especially -- and be very clear for all the parties here, this decision is not going to be rushed and -- by insurance interest, misinformation, or any political attacks or pressures.

As you know, my decision I will make will face intense scrutiny. I'm going to be criticized for both acting, and I'm going to be criticized by not acting, and my decision will always be based on the facts and my obligation to protect consumers in our market.

And I will carefully review the information discussed today before reaching a conclusion or a path forward. I understood, again, and I'll reiterate that a hearing is still an option, and so we're not putting anything off the table.

We just want to make sure that I get all the information first from all of you. And thank you for your correspondence, and thank you for taking the time to enlighten me on the ongoing situation with State Farm and the need for emergency rate. I appreciate everybody who came today and made an effort to have this conversation. So this concludes the meeting, and thank you so much.

MR. PLETCHER: Thank you very much. Just real quickly, among the things that you consider, we sent in a memo this morning around 8:00 a.m. I just wanted to make sure that that would be something that you would consider as well. We sent it all the parties, not -- not just to you.

MR. LARA: I have not seen it myself, but I will definitely take into consideration all the correspondence from all the parties. Thank you. Appreciate your time. Thank you. This concludes the meeting.

(Concluded at 11:52 a.m.)

HEARING REPORTER'S CERTIFICATE

I, Christina L. Rodriguez, Hearing Reporter in and for the State of California, do hereby certify:

That the foregoing transcript of proceedings was taken before me at the time and place set forth, that the testimony and proceedings were reported stenographically by me and later transcribed by computer-aided transcription under my direction and supervision, that the foregoing is a true record of the testimony and proceedings taken at that time.

I further certify that I am in no way interested in the outcome of said action.

I have hereunto subscribed my name this 26th day of February.

Hearing Reporter

CHRISTINA L. RODRIGUEZ