



RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

February 14, 2025

VIA EMAIL

Dan Krause
Mark Schwamberger
Keesha-Lu Mitra
State Farm Insurance Companies
1201 K Street, Suite 1200
Sacramento, CA 95814

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Dear Mr. Krause, Mr. Schwamberger and Ms. Mitra:

On February 3, 2025, State Farm General Insurance Company (State Farm) submitted a letter request to the Insurance Commissioner (Commissioner) seeking approval for an Emergency Interim Rate on four lines of business based on the concern over their “swift capital depletion.” In the request, State Farm seeks an increase for the following, effective May 1, 2025: 22% for Non-Tenant homeowners, 15% for Tenants (Renters), 15% for Tenants (Condominium Unitowners), and 38% for Rental Dwelling. Under the strict review laid out by Proposition 103, the burden is on State Farm to show why this is needed now. State Farm has not met its burden, as I discuss below.

Brief Overview of California Rate Approval Process

In November 1988, California voters passed the Insurance Rate Reduction and Reform Act, better known as Proposition 103, which provides the Commissioner with broad authority over insurance rates, guarantees public rate hearings, and expressly precludes the Commissioner from approving rates that are “excessive, inadequate, unfairly discriminatory or otherwise in violation” of the Insurance Code. Proposition 103 also instituted a system of prior rate approval that requires every property and casualty insurer seeking to change its rates in California to obtain the Commissioner’s prior approval. (Ins. Code, § 1861.01, subd. (d).)

The burden is on the insurer to demonstrate and support its rate requests. In the rate change application, insurers must provide the Commissioner with the technical and analytical information necessary to obtain prior approval of an insurer’s rate request. Consumer groups

may also participate in a rate change application by intervening under Proposition 103. When an insurer requests a rate increase that exceeds 7% and there is an intervenor, the Commissioner must notice a public rate hearing except when the parties have agreed to a settlement. The Insurance Code and its accompanying regulations permit the settlement of rate proceedings without a rate hearing. In addition to the aforementioned procedure, the Commissioner has the authority to grant interim relief from plainly invalid rates. (*20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, 245; *Calfarm Insurance Company v. Deukmejian* (1989) 48 Cal.3d 805, 824-25.)

Factual Background

In late 2023, I announced my Sustainable Insurance Strategy which included an ambitious package of regulatory reforms focused on streamlining and improving the Department of Insurance (Department) rate review process in order to strengthen the resiliency and sustainability of California's insurance market. To that end, my Department implemented regulations to improve the rate application process with faster rate filing approval times to create more certainty in the insurance market; implemented regulations that introduce climate risk management tools in rate making such as the use of catastrophe models and incorporating the net cost of reinsurance; and enacted intervenor reforms to ensure transparency and accountability for groups that intervene in insurer rate filings. These reforms were completed in 2024.

During this time frame, State Farm alerted the Department to concerns regarding its financial condition. On March 20, 2024, State Farm informed the Department that its capital position had severely deteriorated in 2022 and 2023, despite the fact that it had paid no significant wildfire claims for several years. State Farm acknowledged it had limited writings for California consumers in areas at higher risk of wildfires for many years. In fact, State Farm ceased writing new policies in California in May 2023. And State Farm non-renewed 30,000 homeowners policies in March 2024 – many in areas of high risk including communities affected by Southern California wildfires. Finally, State Farm acknowledged in a letter to the Department in March 2024 announcing those non-renewals that “rate increases alone would likely be insufficient to restore SFG’s financial strength.” Throughout the above period, the Department approved multiple rate increases for State Farm, including 6.9% in November 2021 (effective January 2022), 6.9% in January 2023 (effective June 2023), and 20% for homeowners and condominiums in December 2023 (effective March 2024). This 20% increase was intervened by Consumer Watchdog (Watchdog), who participated in and approved the settlement of this rate increase and requested compensation for such participation.

State Farm currently has three rate applications filed with the Department since June 27, 2024, seeking increases in the four lines of business noted in the present request for an emergency rate increase, as follows: 30% for Non-Tenant homeowners, 41.8% for Tenants (Renters/Condominium Unitowners) and 38% for Rental Dwelling. These applications included a variance rarely utilized unless an insurer's solvency is at issue, and Watchdog has filed a

petition to intervene in these applications. These applications raise serious questions about State Farm's financial condition, and are still pending before the Department.

Present Request for Emergency Interim Rate

Now, State Farm has requested an emergency interim rate approval. When insurers request a rate change, only the Commissioner has the authority to approve it. However, the Commissioner may receive recommendations from the Department and from public participants such as intervenors, regarding the rate application. Therefore, on February 5, 2025, Watchdog submitted a preliminary response to State Farm's letter disapproving of State Farm's request for an emergency interim rate. On February 7, 2025, the Department submitted to the Commissioner a stipulation and proposed order to provide State Farm with interim rates subject to refunds with interest pending a final decision of the legality of the rate in a rate hearing. Watchdog then submitted a second letter on February 7, 2025, seeking a full rate hearing regarding State Farm's pending applications in lieu of approving an interim rate.

As the elected head of the Department, my primary responsibility is to the people of California. This situation highlights the voters' wisdom in having an independent, elected Insurance Commissioner making decisions to uphold market integrity in response to evolving threats, which today include climate change, rising global reinsurance costs, and a tightening national property insurance market. My commitment to the sustainability of California's insurance market is evident through the implementation of crucial reforms. My strategy addresses years of inaction and neglect, including the long-overdue adoption of catastrophe modeling and reinsurance in ratemaking. Californians suffer when insurance is not widely available, facing fewer options and higher costs. To balance availability, market strength, and sustainability challenges, I have mandated that insurance companies offer policies in high-risk wildfire areas, thereby supporting some of our most climate-vulnerable consumers. I also need to ensure that the affordability of insurance does not come at the price of solvency. In my tenure as Commissioner, I have introduced and implemented unprecedented policy changes aimed at better protecting consumers during the recovery and rebuilding process after catastrophic events.

This leads to State Farm's present emergency request. In examining the information before me, I have additional questions and request the following information:

- What, if anything, has changed for State Farm between June 2024 and now that necessitates emergency relief?
- In the absence of non-wildfire catastrophic losses in 2022 and 2023, how does State Farm explain the significant decrease in its policyholder surplus?
- What has State Farm done to prevent its surplus from further deterioration between May 2023 to present besides shed policyholders through ceased writings and non-renewals?

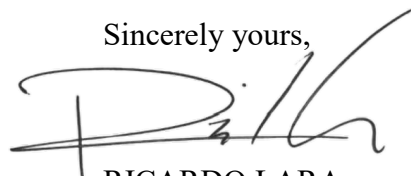
- Has State Farm provided adequate documentation to the Department to support the current rate increase request for each line of business?
- Other than rate increases, what other plans does State Farm have to address its financial challenges? For example, would State Farm's parent company, State Farm Mutual Automobile Insurance Company, be willing or able to provide financial support to State Farm as it has in other similar situations?
- What is State Farm doing to manage and restore its financial position given its statement that rate increases alone will not be sufficient?
- How would granting an emergency rate impact State Farm's business decisions to pause writing of new residential coverage and non-renew policies?

The Commissioner has the authority to approve an interim rate increase, as well as discretion in administering the process. However, the burden is on State Farm to demonstrate that interim relief is warranted under the circumstances. State Farm contends that the recent Los Angeles wildfires have put "tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rate agency) measures of financial strength and claims-paying ability." State Farm's financial condition is of utmost concern for its California customers, and a rate hearing on State Farm's pending applications may be necessary to answer serious questions about its financial condition.

My goal is to make sure policyholders do not have to pay more than is required. In light of the recent Los Angeles wildfires, State Farm's customers need real answers about why they are being asked to pay more and what responsibility the company's leadership is taking to get its financial house in order. State Farm customers who are already paying higher premiums or experiencing policy non-renewals should not be further impacted without these questions being answered. All Californians know from the past 10 years that the risks of wildfire are real and growing. We have experienced first-hand the ravages of a changing climate. We are clear-eyed about the work needed to protect our communities. Our decisions must be guided by transparent data and an honest reckoning with the challenges we all face together.

Based on the foregoing, I request that State Farm, the Department and intervenor Watchdog appear in person before me at an informal conference on February 26, 2025 in the Department's Oakland office at 10:30 a.m. State Farm should be prepared to address the issues raised above. I look forward to our meeting.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Ricardo Lara", with a large, sweeping flourish extending upwards and to the right.

RICARDO LARA
California Insurance Commissioner

cc: Michael Martinez, Chief Deputy Commissioner
Teresa Campbell, Deputy Commissioner, Legal Branch
Nikki McKennedy, Assistant Chief Counsel, Rate Enforcement Branch
William Pletcher, Consumer Watchdog
Pamela Pressley, Consumer Watchdog
David Grow, State Farm
Diane Bauer, State Farm
Vanessa Wells, Hogan Lovells