February 3, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

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

Commissioner Lara,

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. As the largest insurance group in the state, we appreciate all you and your staff are doing to help consumers navigate the aftermath of last month's horrific Los Angeles wildfires. Thousands of State Farm agents, agent team members and employees are on the ground and assisting customers virtually in the wake of this tragedy. As of February 1st, State Farm General Insurance Company[1] (SFG) has received more than 8,700 claims and has already paid over $1 billion to customers. We know we will ultimately pay out significantly more, as these fires will collectively be the costliest in the history of the company. Although reinsurance will assist us in paying what we owe to customers, the costs of these fires will further deplete capital from SFG. Last year, one rating agency downgraded SFG and, with further capital deterioration as a result of the fires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage. With nearly three million policies in force, including more than one million homeowners customers, SFG needs your urgent assistance in the form of emergency interim approval of additional rate to help avert a dire situation for our customers and the insurance market in the state of California.

Nearly a year ago, we shared with you that *"the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings."* (See attached March 2024 letter.) As you are aware, SFG has three rate applications, for four lines of business, that have been pending since last summer.[2] We are requesting that you take emergency action to help protect California's fragile insurance market by immediately approving interim rate increases on these filings, with rates to be effective May 1, 2025, in the following amounts: 22% for Non-Tenant Homeowners, 15% for Tenants – Renters, 15% for Tenants – Condominium Unitowners, and 38% for

[1] As a reminder, SFG is almost exclusively a California insurer, with homeowners insurance being its largest line of business. State Farm products written by affiliates of SFG – such as State Farm branded auto and life insurance – are not the subject of this letter.

[2] See SERFF Filings SFMA-123139896, filed 6/27/2024 for +30.0% for Non-Tenant (Homeowners); SFMA-134139931, filed 6/27/2024 for +52.0% for Tenants – Renters and +36.0% for Tenants – Condominium Unitowners; and SFMA-134139850, filed 7/5/2025 for +38.0% for Rental Dwelling (RDP). We note that these three applications were all originally based on Variance 6, a solvency-related adjustment to what is otherwise the maximum permitted premium under the rate regulations. Because of the upward impact of the Los Angeles fires on the maximum permitted premium, it's possible that SFG's rate increases for some lines may ultimately be supportable without Variance 6, but the financial condition that led to its invocation has only worsened.

Rental Dwelling (RDP). Because all three applications are for rate increases above 7%, and all three have an intervenor, ordinarily they can only be approved after a hearing (if one is requested by the intervenor) or via a three-way settlement. Hearings are historically very rare because of the uncertainty and length of the process, with the last SFG rate hearing not resulting in a final rate order until about 17 months after the notice of hearing was issued. Even resolution through settlement can be very difficult and usually takes months. An emergency *interim* rate approval would allow SFG to start collecting additional premiums much more quickly and possibly begin rebuilding its risk-bearing capacity. A *final* approved rate would subsequently be determined by you after a full hearing, if a settlement can't be reached first. If the final rate (whether after hearing or by settlement) is lower than the interim rate, refunds would be issued by SFG for the difference for any period during which the interim rates were in effect. The interim amounts SFG is requesting are smaller (for most lines) than the full rate need we originally applied for, in the hope that this will facilitate a speedy emergency approval. There is simply too much at stake for SFG's customers and the broader market if any rate increase has to wait on a full hearing or other resolution in the normal course.

While the California Department of Insurance (CDI) has recently approved several smaller SFG rate filings and made progress on your Sustainable Insurance Strategy, the fact is that SFG's capital position continued to deteriorate even *before* the latest fires. By year-end 2024, SFG's Policyholder Protection Fund – i.e. surplus, or capital available to pay claims – was approximately a quarter of what it was in 2016, and its surplus relative to the risk it supports dropped nearly eighty-five percent by one measure, putting the company below certain minimum regulatory Risk-Based Capital requirements. (See attached illustration of SFG's financial deterioration.) Over the nine-year period ending with 2024, SFG will pay $1.26 in claims and expenses for every $1.00 collected in premium, resulting in over $5 billion in cumulative underwriting losses. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals $2.8 billion over this same nine-year period. Meanwhile, SFG's attempts over that same period to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success. This was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties.[3]

In order to better preserve its claims-paying capacity under these circumstances, SFG made the difficult decision in May 2023 that it would stop writing any new policies in California, and in March 2024 that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused. Any of these homeowner policies which had pended non-renewals in Los Angeles County that were on the books on January 7th will have an option to renew with SFG. The high concentrations of risk covered by SFG in the fire footprint will generate a direct loss many times larger than the company's pre-event surplus. SFG's already stressed financial position will be further weakened, even after accounting for billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance

[3] For example, intervenors succeeded in convincing the prior commissioner to order SFG to reduce dwelling insurance rates 7% and issue a $100M+ refund after SFG filed in 2014 for a 7% increase (an annual difference of more than $150M). SFG's legal position in the dispute was later vindicated, but not until 2022 (when the California Supreme Court denied review of the Court of Appeal's decision in SFG's favor).

Company ("State Farm Mutual") as the primary reinsurer. State Farm Mutual provides the majority of SFG's reinsurance cover. External reinsurer capacity to underwrite significantly greater portions of SFG's massive risk portfolio at a reasonable price (or possibly, at any price) does not exist. These fires reinforce why reinsurance is a critically important part of SFG's claims-paying capacity, now and into the future, allowing SFG to write or retain significantly more property insurance in areas with significant risk such as wildfires than would otherwise be possible. The situation also reinforces SFG's absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have 'engineered' its weakened financial condition – that is irresponsible and simply not true.

The importance of our ask for your immediate help to protect all Californians cannot be overstated. The magnitude of expected claims payments for the Los Angeles fires, along with SFG's participation in FAIR Plan losses[4], puts tremendous strain on the company's already-diminished surplus and very significant pressure on internal and external (regulatory and rating agency) measures of financial strength and claims-paying ability, which must necessarily include the potential for *additional* catastrophic loss events in the future. Last March, SFG's financial strength rating was downgraded by AM Best[5] and SFG triggered a regulatory Company Action Level Event after failing to meet the NAIC's Risk-Based Capital ratio requirements based on its year-end 2023 financial position. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile.

As the Insurance Commissioner, you can have a very significant impact on SFG's ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Ordinarily, the conditional nature of such a rate approval (i.e. the possibility of refunds if the final approved rate is lower than the interim rate) might not be enough to prevent much more significant and necessary actions by SFG or to assuage solvency regulators and the rating agencies. In this case, however, the enormous losses generated by the Los Angeles fires will soon flow into the CDI rating template and will clearly demonstrate that the interim amounts SFG has requested are supportable.[6] This then is primarily a

[4] SFG is required to book its share of FAIR Plan losses on its financial statements, regardless of whether an assessment is issued. SFG's participation rate for dwelling losses (commercial losses are treated separately) is expected to be around 16%.

[5] The downgraded financial strength rating is below what is acceptable to some mortgage lenders as appropriate insurance cover for mortgage collateral. This had limited impact on SFG policyholders because the company continued to receive an acceptable rating from another rating agency. Additional downgrades have the potential to force hundreds of thousands of SFG policyholders to seek insurance from another company or the FAIR Plan.

[6] We request that the full hearing for final rate amounts be based on fully-updated rate templates using data from the first quarter of 2025. For purposes of determining the interim rates requested, we have calculated an updated rate indication using the standard rate templates included in the filings by changing two inputs: 1) using a 5/1/2025 effective date and 2) a new catastrophe provision that incorporates wildfire loss estimates up through the most recent fires. The following table shows the initial indication prior to the adjustments, the updated indication, and the interim rate request.

Line of Business	**Filed CDI Template Indication (without using Variance 6)**	**Updated CDI Template Indication**	**Interim Rate Increase Request**
Non-Tenant Homeowners	-10.0%	+21.8%	+22.0%
Tenants – Renters	+7.9%	+16.6%	+15.0%
Tenants – Condominium Unitowners	+5.1%	+20.0%	+15.0%
Rental Dwelling	+10.5%	+42.0%	+38.0%

question of timing, and of what could happen to SFG's customers and the larger market if SFG has to wait months for additional premiums to begin flowing to possibly halt the decline of, or even begin to rebuild, SFG's Policyholder Protection Fund.

You have noted your desire to have an insurance market where insurers want to invest and protect more Californians. In addition to your other efforts, immediate approval of additional and appropriately supported rate for SFG (even on an interim basis) sends a strong message that the state is serious about reforming its insurance market and allowing insurers to collect sufficient premiums to protect Californians against the risk of loss to their homes. When insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market.

We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. Having said that, your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

Sincerely,

Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company

Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company

Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
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Attachments:

- March 20, 2024 letter from State Farm General to Commissioner Lara
- Illustration of State Farm General financial deterioration