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**BEFORE THE INSURANCE COMMISSIONER
 OF THE STATE OF CALIFORNIA**

)	File Nos. PA-2024-00011,
)	PA-2024-00012, PA-2024-00013
)	
In the Matter of the Rate Application of)	
)	
)	
STATE FARM GENERAL INSURANCE)	
COMPANY,)	
)	
Applicant.)	
)	
)	
)	

PROPOSED DECISION APPROVING STIPULATION

Appearances: Hogan Lovells US LLP for State Farm General Insurance Company, by Attorney Katherine Wellington, Attorney Michael Maddigan, Attorney Jordan D. Teti, and Attorney Johanna Cassel-Walker; The California Department of Insurance, by Attorney Nikki S. McKennedy, and Attorney Duncan Montgomery; Consumer Watchdog by Attorney William Pletcher, Attorney Pamela M. Pressley, and Attorney Ryan Mellino.

Before Karl-Fredric J. Seligman, Administrative Law Judge, Administrative Hearing Bureau (AHB).

INTRODUCTION

On February 3, 2025, State Farm General Insurance Company (SFG, State Farm, or Applicant) submitted what it described as a request for an *emergency interim rate approval* to Insurance Commissioner Ricardo Lara, seeking rate increases of 22% for homeowners, 15% for renters/condo, and 38% for rental dwelling policies, citing severe

capital depletion, particularly after coming under strain because of the January 2025 Los Angeles wildfires. The request for an *emergency interim rate approval* was highly unusual, as the law provides that premium rates for certain classes of insurance be approved in advance through a process managed by the California Department of Insurance's Rate Enforcement Bureau (CDI or Department), the regulatory unit responsible for ensuring prior approval compliance on behalf of the Commissioner.¹

At the time of the request for an *emergency interim rate approval*, SFG had three pre-existing rate applications pending with CDI, filed in June and July 2024, each representing significant rate increases across multiple insurance lines:

1. **File No. 24-1271/PA-2024-00011:** 30% increase for Homeowners Non-Tenant HO-3 policies.
2. **File No. 24-1273/PA-2024-00012:** 41.8% increase for Overall Renter/Condo Tenant policies.
3. **File No. 24-1330/PA-2024-00013:** 38% increase for Rental Dwelling policies.²

Independent parties advocating for consumer interests may intervene in the rate approval process separately from the Department.³ Consumer Watchdog (CW, Watchdog, or Intervenor) had already done so in these cases, filing petitions to intervene in July and August 2024, which had been approved by the Commissioner.

After Applicant submitted the request for the *emergency interim rate approval*, the Department and State Farm reached an agreement on rate increases proposed by SFG. On March 17, 2025, CDI filed a Notice of Hearing with AHB on the Applications,⁴ which

¹ Ins. Code, § 1861.01, subd. (c); Cal. Code Regs., tit. 10, § 2644.1; *Amwest Surety Ins. Co. v. Wilson* (1995) 11 Cal.4th 1243, 1259.

² Hereinafter, the aforementioned rate application filings shall be collectively referred to as the "Applications."

³ Ins. Code, § 1861.10, subd. (a); Cal. Code Regs., tit. 10, § 2662.2, subd. (a).

⁴ Cal. Code Regs., tit. 10, § 2654.1, subd. (c).

also included a February 7, 2025, Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rates, memorializing the proposed terms of an understanding between SFG and CDI regarding the request for the *emergency interim rate approval*.

On April 4, 2025, CDI filed a Supplement to the Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination on the Legality of the Rate, which is viewed by the Department and State Farm as an enhancement to the original terms of their arrangement.⁵ Consumer Watchdog refused to join the initial agreement and opposes consideration of the Proposed Interim Rate Stipulation or the implementation of the rate changes proposed in the Applications prior to a full rate hearing.⁶

Under the terms of the Proposed Interim Rate Stipulation, both interim rate adjustments and financial stabilization measures were incorporated. Specifically, the agreement permits the rate increases State Farm requested pending the results of a full rate hearing, except that the Homeowners Non-Tenant HO-3 line would see a 17% increase instead of the originally proposed 21.8%.⁷ Additionally, SFG committed to refraining from new block nonrenewal programs through the end of 2025. Any charges later found to be excessive would be refunded to policyholders with interest. SFG also expressly acknowledged the Commissioner's authority to mandate such refunds and

⁵ Hereinafter, the February 7, 2025, Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, along with the April 4, 2025, Supplement to February 7, 2025 Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, shall be collectively referred to as the "Proposed Interim Rate Stipulation."

⁶ The Commissioner had previously met with the parties in person on February 26, 2025, and again by video conference on March 11, 2025, to discuss the request for the request for the *emergency interim rate approval* and the February 7, 2025, Stipulation and Request for Interim Rate Order. These discussions culminated in an order dated March 14, 2025.

⁷ Hereinafter, the "Interim Rates."

committed to maintaining detailed records of affected policyholders, with any refunds to be issued within 120 days following a final determination.

As an additional financial stabilization measure, SFG agreed to secure a \$400 million surplus note from its parent company to reinforce its solvency. The Interim Rates would remain temporary and subject to a full hearing process, preserving the possibility of refunds if warranted.

In California, an insurer may set for itself whatever rate it chooses, provided the rate is neither excessive nor inadequate.⁸ The Department determines whether rates are excessive or inadequate based on the aggregate earned premium the rates are expected to generate.⁹ In simpler terms, through his staff the Commissioner determines both the maximum and minimum permitted earned premium through use of a regulatory formula.

A rate is considered excessive if it exceeds the maximum permitted earned premium and inadequate if it falls below the minimum permitted earned premium.¹⁰ If the Department finds a proposed rate excessive, it will be rejected, and it will instead indicate the highest rate that would not be considered excessive.¹¹ The insurer must then adopt the Department's *indicated rate* or risk outright rejection of its application. A party seeking relief from the maximum and minimum permitted earned premium calculations may request one or more variances to obtain an alternate rate.¹²

The Department has long encouraged the resolution of rate applications.¹³ However, in the absence of a voluntary agreement, an outstanding application with a proposed rate

⁸ Cal. Code Regs., tit. 10, § 2641.1 et seq.

⁹ Cal. Code Regs., tit. 10, § 2643.3, subd. (a).

¹⁰ Cal. Code Regs., tit. 10, § 2644.1.

¹¹ *Ibid.*

¹² Cal. Code Regs., tit. 10, § 2644.27.

¹³ *Association of California Ins. Cos. v. Poizner* (2009) 180 Cal.App.4th 1029, 1040.

adjustment exceeding 7% of the existing approved rate for a personal line or 15% for a commercial line is subject to a full rate hearing for resolution.¹⁴ Consumer Watchdog opposes the Proposed Interim Rate Stipulation on multiple grounds, arguing that it unlawfully bypasses this prior approval process, which it contends will not support a rate increase for State Farm's Applications when applied. Other key aspects of CW's objection include claims that the stipulation and settlement agreement review process has been undermined and that the terms of the Proposed Interim Rate Stipulation are inherently unfair to consumers.

A hearing was held on the Proposed Interim Rate Stipulation to determine whether it should be approved or rejected. If the Commissioner approves it, the Interim Rates would be allowed to take effect. After carefully considering the evidence and arguments presented by the parties, the ALJ concludes that approval is warranted for the reasons discussed below.¹⁵

PROPOSED INTERIM RATE STIPULATION¹⁶

The Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate is set forth in its entirety as follows:¹⁷

1. The Parties stipulate and agree that the Commissioner has lawful authority to approve an interim rate pending a final determination of the legality of the rate. (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824-825 ("The power to grant interim relief is necessary for the due and efficient administration of Proposition 103[.]"); *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 245.)

¹⁴ Ins. Code, §§ 1861.05, subd. (c), 1861.08; Gov. Code, § 11410.10; Cal. Code Regs., tit. 10, §§ 2654.1 - 2655.10, 2661.1, subd. (i); *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 1038.

¹⁵ Updated financial information for SFG was unavailable for the hearing on the Proposed Interim Rate Stipulation. Additionally, the parties have informed the ALJ that they will not be ready for a full rate hearing with updated financial data until at least October 2025, deviating from the Commissioner's initial directive regarding financial evidence and scheduling for these matters.

¹⁶ Cal. Code Regs., tit. 10, § 2656.3, subd. (b).

¹⁷ Recitals omitted.

2. The Parties stipulate and agree that, following a rate hearing in this matter, the Commissioner has lawful authority in this proceeding to require Applicant to pay refunds with interest to its policyholders for the difference between the interim rate and the final approved rate if the Commissioner ultimately determines in a final rate order that the interim rate order was excessive. The Parties further stipulate and agree that if Applicant fails to comply with the Commissioner's final rate order, the Commissioner can and will appropriately enforce compliance including without limitation the potential assessment of penalties for noncompliance. The Parties do not intend, by this Stipulation, to in any way impact the right of a Party to seek a stay of a final order pursuant to California Insurance Code § 1858.6.
3. The Parties stipulate and agree that an interim rate order, subject to refunds with interest following a rate hearing, by the Commissioner shall not be considered a final order or decision within the meaning of Insurance Code section 1861.09.
4. This Stipulation is made solely to reach a compromise among the Parties. Other than the Parties' agreement regarding the factual issue of an appropriate interim rate subject to refunds with interest for the Applicant pending a final determination of its legality and the applicability of provisions of law regarding the Commissioner's lawful authority, the Parties' agreement to this Stipulation shall not represent any agreement regarding any of the other matters at issue in this rate proceeding.
5. Based upon the Applications including the information regarding Applicant's concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, the preliminary information provided by Applicant regarding the devastating impacts of the Palisades/Eaton Fires on Applicant's financial condition, and Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance of a final rate order, and without agreeing with the Applicant's data, assumptions, or methodologies as set forth in the Applications or the Updated Information for purposes of a rate hearing to determine a final rate order, the Department agrees that Applicant has made a preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be entitled to a rate increase. Accordingly, the Department believes and thereon alleges that based upon

information currently available, an interim rate increase, subject to refunds with interest pending a final determination by the Commissioner of its legality, is appropriate in this instance and would be lawfully issued in support of the due and efficient administration of Proposition 103 by the Commissioner as well as in furtherance of the Governor's Executive Order N-13-23 and the Commissioner's recent Proclamation. The Department further believes and thereon alleges that this Stipulation is in the public interest, in order to maintain maximum availability of homeowners insurance options in California, and that taken as a whole it is fundamentally fair, adequate, and reasonable.

6. Accordingly, based upon all of the foregoing, the Applications, the Interim Rate Request, the Updated Information, Applicant's currently in-effect rates, and such other information and representations provided by Applicant, the Parties stipulate and agree that Applicant shall implement an overall interim rate increase, subject to potential refunds with interest following a full rate hearing and final determination of the legality of the rate by the Commissioner, to be implemented with an effective date of May 1, 2025 for new and renewal business, as follows:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+21.8%
24-1273	Overall Renter/Condo Tenant	+15%
24-1330	Rental Dwelling	+38%

7. Additionally, Applicant stipulates and agrees that it will maintain appropriate records of all policyholders charged an interim rate through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds with interest if necessary following a full rate hearing on the Applications. If the Commissioner ultimately determines that the interim rate in effect during the pendency of the rate hearing was excessive and that Applicant is required to issue any refunds with interest, Applicant agrees that (1) it will not contest the Commissioner's authority in this proceeding to issue an order requiring refunds with interest; and (2) it will issue such refunds with interest as soon as practical but in

any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, subject to any stay issued pursuant to Insurance Code section 1858.6. Additionally, Applicant agrees that it will report in writing to the Department once any and all such refunds with interest have been paid, and that such report shall be publicly available.

8. Moreover, Applicant stipulates and agrees that, after an interim rate has been ordered but before a full rate hearing has been completed and the Commissioner has issued a final rate order, Applicant will not withdraw the currently pending Applications, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn after an interim rate has been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant stipulates and agrees that it will issue refunds with interest of the entirety of the premiums collected pursuant to the Commissioner's interim rate order, as soon as practical but in no event later than 180 days following the withdrawal.
9. The Department asserts that at the rate hearing on the Applications to determine whether the requested rates and stipulated interim rate are supportable and not excessive, inadequate, and/or unfairly discriminatory, and should be approved as a final rate order of the Commissioner, Department staff will examine and offer evidence and recommendations regarding, without limitation, whether, based upon the updated data through the first quarter of 2025, or another mutually agreed-upon stipulated updated data cut-off date, the Commissioner should enter findings and an order that Applicant's requested rates are reasonable and not excessive, inadequate, unfairly discriminatory, or otherwise in violation in Proposition 103, as well as such other issues as may be raised in a Notice of Hearing or during a rate hearing on the Applications.
10. The Parties stipulate and agree that for purposes of a full rate hearing on the Applications, Applicant shall update the Applications with a complete set of rate-setting data through the end of the first quarter of 2025, or another mutually agreed-upon date as may be approved by an administrative law judge.
11. The Parties stipulate and agree that the Commissioner shall retain jurisdiction for the purpose of enforcing the

provisions and terms of this Stipulation and the Order requested thereon.

12. The undersigned represent and warrant under penalty of perjury under the laws of the State of California that they have full and complete authority to enter into and bind the party on whose behalf they are signing to all of the terms of this Stipulation. Based on all of the foregoing, the parties respectfully request that the Commissioner issue an Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, based upon the terms of the Stipulation as set forth above to resolve the above-described legal and factual issues.

Additionally, the Supplement to February 7, 2025 Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate is set forth in its entirety as follows:¹⁸

Applicant Will Obtain Capital if the Interim Rate Is Granted

1. Applicant stipulates and agrees that if and when the Commissioner enters an order approving the interim rates as set forth herein, it will obtain capital from its parent company, State Farm Mutual Automobile Insurance Company ("State Farm Mutual"), in the form of a surplus note of \$400 million.
2. Accordingly, the Parties supplement the terms of the prior Stipulation by stipulating and agreeing as an additional term that, should the Commissioner approve the interim rates as set forth herein, Applicant shall obtain a surplus note of \$400 million from State Farm Mutual.

The Parties Also Supplement the Terms of the Prior Stipulation by Stipulating to a Reduced HO3 Interim Rate and to No New Nonrenewal Program Through 2025

3. Applicant maintains that it would be contrary to prudent management of the company and fiscally irresponsible to agree and stipulate to cease its currently implemented and ongoing nonrenewal program that was initiated in March 2024 in the lines represented by the Applications identified in the table below, and therefore reports that it will complete that program by year-end 2025. However, the Department believes that the Commissioner may be able to

¹⁸ Recitals omitted.

offset the potential rate impact of these non-renewals by decreasing the requested interim rate in the Homeowners Non-Tenant HO-3 line from 21.8% to 17.0%, subject to further investigation and proof regarding the ultimate rate as part of the full rate hearing process.

4. The Department further believes that the reduction of the HO-3 interim rate to 17.0% may either over- or underestimate the potential rate impact, if any, of these nonrenewals, and therefore intends to fully investigate and determine the actual rate impact, if any, of these nonrenewals during the full rate hearing process, as well as the overall appropriate rate indication. Applicant believes that it will address the potential rate impact, if any, of the non-renewals in the anticipated amended rate Application.
5. Accordingly, the Parties revise the prior Stipulation as set forth herein and stipulate and agree that Applicant shall implement an overall interim rate increase, subject to potential refunds with interest following a full rate hearing process and final determination of the legality of the rate by the Commissioner, to be implemented with a revised effective date of June 1, 2025 for new and renewal business, and with a decrease in the agreed-upon interim rate for the Non-Tenant Homeowners HO-3 line from 21.8% to 17.0%, so that the overall stipulated and agreed-upon interim rates by the Parties are as follows:

File No.	Application Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+17.0%
24-1273	Overall Renter/Condo Tenant	+15%
24-1330	Rental Dwelling	+38%

6. Additionally, the Parties stipulate and agree that Applicant shall not initiate any new block nonrenewal program(s) in the lines represented by the Applications through year-end 2025.
7. The Parties stipulate and agree that the Commissioner shall retain jurisdiction for the purpose of enforcing the provisions and terms of this Supplemental Stipulation and

the Order requested thereon as well as on the prior Stipulation.

8. The undersigned represent and warrant under penalty of perjury under the laws of the State of California that they have full and complete authority to enter into and bind the party on whose behalf they are signing to all of the terms of this Supplemental Stipulation. Based on all of the foregoing, the parties again respectfully request that the Commissioner issue an Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, based upon the terms of the previously submitted Stipulation and this Supplemental Stipulation as set forth above to resolve the above-described legal and factual issues.

PROCEDURAL HISTORY BEFORE AHB¹⁹

On March 17, 2025, CDI filed a Notice of Hearing with Exhibits A-R, a Request for Scheduling Conference, and a Request for Discovery (Set One). Three days later, on March 20, 2025, CDI filed a letter regarding the April 8 SFG Interim Rate Hearing, and CW filed its own letter in response.

A Notice of Hearing and Assignment was served on the parties by AHB on March 21, 2025, and email communications regarding availability for conference setting for March 26, 2025 were exchanged, with responses received from the Department, SFG, and Watchdog.

On March 24, 2025, AHB served a Notice of Scheduling Conference and Order and a Notice of Hearing on the Stipulation. The following day, March 25, 2025, several documents were filed: CW's Objections to CDI and State Farm's Two-Way Stipulation to Interim Rate, CW's Appendix of Exhibits (dated March 24, 2025), and a Declaration of Benjamin A. Armstrong (dated March 24, 2025). Also on March 25, 2025, SFG filed a

¹⁹ This procedural history uses terminology that preserves words, phrases, and characterizations used by the original drafters, as is customary in legal proceedings. Some entries are described in general terms (e.g., "letter," "correspondence") when more specific characterizations were not provided in the original record or when summarizing the nature of routine procedural communications.

letter regarding the Notice of Hearing on the Stipulation, and CDI filed a letter requesting Continuance of the March 26th Conference [Only Insofar as It Relates to the June 1 Rate Hearing].

On March 26, 2025, Applicant filed correspondence requesting a Zoom link for the Scheduling Conference.

The ALJ conducted a Conference by videoconference platform on March 26, 2025.

AHB served a Notice of Continued Scheduling Conference and Order and an Amended Notice of Hearing on Stipulation and Order on March 27, 2025. Watchdog submitted a letter regarding the hearing and process on March 28, 2025.

The transcript of the March 26, 2025, Conference was filed into the record as follows:

- Transcript of Proceedings (March 26, 2025 proceedings) - March 28, 2025

On April 1, 2025: CW filed a Notice of Motion and Motion for Order Shortening Time for Applicant State Farm General Insurance Company to Respond to Discovery Requests for the April 8, 2025 Hearing on Stipulation to Interim Rate, accompanied by a Memorandum of Points and Authorities and a Proposed Order (both dated March 31, 2025). AHB served a Notice of Opportunity to Respond on the same day.

On April 2, 2025, SFG filed State Farm General Insurance Company's Notice of Defense (dated April 1, 2025). CDI filed a Statement Regarding Intervenor Consumer Watchdog's Motion for Order Shortening Time, and Applicant filed State Farm's Brief in Opposition to Consumer Watchdog's Motion for Order Shortening Time. Additionally, CDI filed the Declaration of Tina Shaw in Support of the [Stipulation for the] Hearing on

Objections to Stipulation Pursuant to 10 CCR 2656.1, and AHB served the ALJ's Order on [Granting the] Motion to Shorten Time.

AHB served an Amended Order on Motion to Shorten Time on April 3, 2025. On the same day, SFG filed several documents dated April 2, 2025: State Farm General Insurance Company's Brief in Support of Interim Rate Request and Response to Watchdog's Pre-Hearing Objections, Declaration of Jordan D. Teti (with related exhibits), Declaration of David Appel (with related exhibits), Declaration of Bryon Ehrhart, Declaration of Nancy P. Watkins (with related exhibits), and State Farm General's Motion to Strike Portions of CW's Objections to CDI and State Farm's Two-Way Stipulation to Interim Rate and for an Order Excluding Evidence.

The ALJ conducted a Conference by videoconference platform on April 4, 2025. On April 4, 2025, AHB served a Notice of Opportunity to Respond to Motion to Strike (dated April 3, 2025). Also filed on April 4, 2025 were CDI's Supplement to February 7, 2025 Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, and CW's Opposition to State Farm General's Motion to Strike Portions of Watchdog's Objection to CDI and State Farm's Two-Way Stipulation to Interim Rate and for an Order Excluding Evidence.

AHB served the ALJ's Case Management Order and a Courtroom Management Order for April 8, 2025 on April 7, 2025. Several motions were filed on the same day: CDI filed a Motion to Limit Testimony of, or in the Alternative Exclude, SFG's Retained Expert Witness Nancy Watkins Based on her Current Consulting Agreement with the Department, accompanied by a Declaration of Nikki McKennedy in support. CDI also filed its List of Witnesses and Exhibits for the Interim Rate Hearing.

CW filed three motions in limine on April 7, 2025: Motion in Limine No. 1 to Exclude Evidence Regarding State Farm General's Financial Condition, Motion in Limine No. 2 to Exclude Evidence Regarding the Supplement to the February 7, 2025 Stipulation, and Motion in Limine No. 3 to Exclude Evidence Regarding RBC Calculations. Watchdog also filed its Witness Designation, Exhibit List and Exhibits, Objections, Motion to Strike, and Notice of Motion for Sanctions Re State Farm and the Department's Untimely Submissions, as well as its Reply Brief and Supplemental Objections in Opposition to CDI and SFG's Two-Way Stipulation to Interim Rate Increase, and a Supplemental Declaration of Benjamin A. Armstrong in Support of Watchdog's Reply Brief. State Farm filed its Witness List and Exhibit List and Exhibits, and AHB served a Notice of Opportunity to Respond to the Motions Filed on April 7, 2025.

On April 8, 2025, SFG filed the Parties' Preliminary Anticipated Schedule (dated April 7, 2025), Response to Motions in Limine, Opposition to Motion for Strike and for Sanctions, and Request for Official Notice and Exhibits (Parts 1 & 2). CW filed a Motion to Exclude Testimony and Further Briefing Regarding RBC Calculations.

A formal in-person evidentiary hearing (administrative trial) on the Proposed Interim Rate Stipulation was commenced by the ALJ on April 8, 2025.²⁰ State Farm General's Motion to Strike Portions of CW's Objections to CDI and State Farm's Two-Way Stipulation to Interim Rate and for an Order Excluding Evidence was withdrawn. The ALJ granted CDI's Motion and disqualified SFG witness Nancy Watkins, also striking

²⁰ All witnesses were placed under oath.

her declaration. Applicant called Dr. David Appel to testify.²¹ The following exhibits for Applicant were also received into evidence:²²

- Exhibit IRH-SFG-101
- Exhibit IRH-SFG-103
- Exhibit IRH-SFG-104
- Exhibit IRH-SFG-105
- Exhibit IRH-SFG-106
- Exhibit IRH-SFG-107
- Exhibit IRH-SFG-108
- Exhibit IRH-SFG-109

On April 9, 2025, Applicant filed a Declaration of Nancy P. Watkins (dated April 8, 2025), and Watchdog filed a Declaration of Ryan Mellino (dated April 8, 2025) and an Updated Exhibit List (dated April 9, 2025). State Farm General also filed its Opposition to CW's Motion to Exclude Testimony and Further Briefing Regarding RBC Calculations and the Parties' Joint Exhibit List for Hearing on Proposed Interim Rate Stipulation.

The evidentiary hearing on the Proposed Interim Rate Stipulation continued before the ALJ on April 9, 2025. Applicant's witness Dr. David Appel's testimony continued,²³ after which Bryon Ehrhart²⁴ was called to testify. The ALJ again sustained the ruling excluding Nancy Watkins from testifying and struck her updated declaration. Finally, Consumer Watchdog called Ben Armstrong to testify.²⁵

On April 10, 2025, CDI filed its Opposition to CW's Motion to Exclude Testimony & Further Briefing Regarding RBC Calculations and a Declaration of Nikki McKennedy in Support. SFG filed the Parties' April 10, 2025 Revised Joint Exhibit List for Hearing on

²¹ 1 RT 114:24-166:25.

²² 1 RT 81:9-10.

²³ 2 RT 25:4-48:18.

²⁴ 2 RT 59:6-97:15.

²⁵ 2 RT 100:17-162:20.

Proposed Interim Rate Stipulation. Watchdog filed its Reply in Support of Motion to Exclude Testimony Regarding RBC Calculations and a Declaration of Ryan Mellino in Support. AHB served a Notice of Scheduling Conference.

The evidentiary hearing on the Proposed Interim Rate Stipulation continued on April 10, 2025. CDI called Tina Shaw to testify.²⁶ The parties also entered the following stipulations on the record regarding exhibits, which were confirmed by the ALJ:²⁷

This is the following charts reflects the parties exhibit list and to note where the parties have stipulated to admit a particular exhibit into the record for the hearing on the proposed interim rate stipulation. By stipulating to admit an exhibit, the parties do not waive their right to object to the improper use of a particular exhibit; nor do they waive any objections regarding whether an exhibit constitutes or contains hearsay, which shall not be sufficient in itself to support a finding; nor do they waive any arguments regarding an exhibit's relevance or weight that it may be afforded in determining whether to improve the proposed interim rate stipulation.²⁸

In addition to the exhibits listed below, the parties stipulate that all filings in the three rate applications CDI File Nos. 23-1271/SERFF -- that's S-E-R-F-F -- #134139896, No. 24-1273/SERFF #134139931, and No. 24-1330/SERFF #134139850, as posted on the systems for electronic rates and forms filing as of April 8th, 2025, are admitted into the record for the hearing on the proposed interim rate stipulation.²⁹

In addition to that exhibit, the parties have a number of conditional stipulations regarding exhibits related to the Watkins declaration for the following exhibit numbers. The parties stipulate to the admission as part of State Farm General's offer of proof, but CWD and CDI object to the

²⁶ 3 RT 23:12-103:24.

²⁷ 3 RT 110:18.

²⁸ 3 RT 107:22-108:10.

²⁹ 3 RT 108:11-18.

exhibit as part of their objections to the Watkin's testimony.³⁰

And then there are also a few exhibits which the parties stipulate to, except that Consumer Watchdog preserves its objection with respect to RBC[.]³¹

Subject to the stipulations set forth above, as applicable, the following exhibits were received into evidence.³²

CDI Exhibits:

- IRH-CDI-001 (*With CWD preserving RBC Objection*)
- IRH-CDI-002
- IRH-CDI-003

SFG Exhibits:

- IRH-SFG-101, 102
- IRH-SFG-103 (*With CWD preserving RBC Objection*)
- IRH-SFG-104 through IRH-SFG-109
- IRH-SFG-112
- IRH-SFG-114 through IRH-SFG-134
- IRH-SFG-136 through IRH-SFG-138
- IRH-SFG-140 through IRH-SFG-162
- IRH-SFG-167, 168
- IRH-SFG-172 through IRH-SFG-174
- IRH-SFG-175 (*With CWD preserving RBC Objection*)
- IRH-SFG-176 through IRH-SFG-179
- IRH-SFG-180 (Full Transcript from February 26, 2025)³³
- IRH-SFG-181 (Full record from March 11, 2025)³⁴

CWD Exhibits:

- IRH-CWD-201 through IRH-CWD-205
- IRH-CWD-207 through IRH-CWD-223
- IRH-CWD-225, 226
- IRH-CWD-227
- IRH-CWD-230 through IRH-CWD-239
- IRH-CWD-242, 243

³⁰ 3 RT 108:22-109:4.

³¹ 3 RT 109:15-17.

³² 3 RT 110:19.

³³ 3 RT 116:23.

³⁴ Id.

- IRH-CWD-245 through IRH-CWD-250
- IRH-CWD-252 through IRH-CWD-254

Exhibits (Watkins-related offers of proof):

- IRH-SFG-110, 111
- IRH-SFG-113
- IRH-SFG-135
- IRH-SFG-139
- IRH-SFG-163
- IRH-SFG-164 through IRH-SFG-166
- IRH-SFG-169 through IRH-SFG-171

On April 15, 2025, AHB sent email correspondence to the parties communicating the ALJ's desire that the record include a full and complete copy of State Farm General Insurance Company's 2024 Annual Statement.

The transcripts of the evidentiary hearing were filed into the record as follows:

- Volume I (April 8, 2025 proceedings) - April 15, 2025
- Volume II (April 9, 2025 proceedings) - April 16, 2025
- Volume III (April 10, 2025 proceedings) - April 15, 2025

The transcript of the April 4, 2025, Conference was filed into the record as follows:

- Transcript of Proceedings (April 4, 2025 proceedings) – April 18, 2025

On April 23, 2025, CW filed its Notice Identifying RBC-Related Testimony, and CDI filed its Closing Brief in Support of Order Approving Stipulation and Overruling Objections. CDI also included a Request for Notice. Applicant filed a document indicating the parties Jointly Stipulated to Including State Farm General 2024 Annual Statement in the Record (filed April 24, 2025, dated April 23, 2025). SFG filed its Post-Hearing Brief in Support of Interim Rate Request, and Watchdog filed its Post-Hearing Brief in Opposition to CDI and State Farm General's Two-Way Stipulation to Interim Rate.

On April 29, 2025, CDI filed correspondence to the ALJ requesting clarification regarding the date the record closed in the Interim Rate Hearing that occurred April 8-10, 2025, and AHB served Case Management Order No. 2.

Finally, on April 30, 2025, CDI filed a Notice of Confirmation of Stipulation and Waiver Regarding Admission of IRH-ALJ-001 and Declaration of Nikki S. McKennedy in Support, SFG filed a Notice regarding (1) CDI's Request for Official Notice in support of Closing Brief and (2) State Farm General's 2024 Annual Statement, and CW filed a Notice Confirming Stipulation to Admission of 2024 Annual Statement with Objections to CDI's Request for Official Notice. IRH-ALJ-001 was received into the record and AHB served an Order Closing Record. With the issuance of this Order, the matter was thereupon submitted to the ALJ for a decision.

MOTIONS AND PROCEDURE³⁵

Motion(s) to Exclude Financial Evidence

Denied.³⁶

Raised initially as Motion in Limine No 1, CW reiterated the request to exclude all appurtenant financial information in subsequent oral Objections and written argument.³⁷

The requested relief would effectively conclude proceedings and is therefore disfavored as an improper substitute for a dispositive motion terminating the hearing.³⁸

Moreover, CW's contention that Variance 6 was abandoned isn't compelling. There is no

³⁵ All others not addressed below are confirmed as decided on the record, or else having been considered, denied without expressing a view.

³⁶ Initially denied orally on the record without prejudice.

³⁷ This ruling is inclusive as to all similar requests however presented, including the continuing Objection allowed on the record, which is overruled.

³⁸ *Pellegrini v. Weiss*, 165 Cal.App.4th 515 (Cal.App. 6 Dist. Jul 29, 2008), review denied (Oct 22, 2008); *Blanks v. Shaw*, 171 Cal.App.4th 336 (Cal.App. 2 Dist. Feb 20, 2009), review denied (May 20, 2009).

evidence SFG willfully abandon Variance 6 or knowingly and intentionally allowed it to be. In fact, State Farm expressly confirmed that it has not done so. Most importantly, however, the Department continues to consider it a component of the Application's processing.

Motion to Exclude Evidence of Stipulation Supplement

Denied.³⁹

Raised initially as Motion in Limine No 1, CW reiterated the request to exclude all appurtenant evidence in subsequent oral Objections and written argument.⁴⁰ Similar to Motion in Limine No. 1, the requested relief would effectively hamper if not conclude proceedings and is therefore disfavored as an improper substitute for a dispositive motion terminating the hearing.⁴¹ Moreover, the supplement to the stipulation constitutes a pleading.⁴² Amendments to pleadings are liberally allowed in an administrative hearing context.⁴³

Motion to Exclude Evidence Regarding Rate Based Capital (RBC) Evidence

Granted.⁴⁴

The restriction on the use of RBC evidence is broad, and its use is intended solely for solvency monitoring outside the hearing context.⁴⁵

The proponents' attempts to carve out an exception - whether by distinguishing the source of the data or the characterization of its use - are unconvincing, as they

³⁹ Initially denied orally on the record without prejudice.

⁴⁰ This ruling is inclusive as to all similar requests however presented, including Objection(s) which are overruled.

⁴¹ *Pellegrini v. Weiss*, 165 Cal.App.4th 515 (Cal.App. 6 Dist. Jul 29, 2008), review denied (Oct 22, 2008); *Blanks v. Shaw*, 171 Cal.App.4th 336 (Cal.App. 2 Dist. Feb 20, 2009), review denied (May 20, 2009).

⁴² Cal. Code Regs., tit. 10, § 2651.1, subd. (g).

⁴³ In the Matter of the Appeal of: Calstrip Steel Corporation, Employer, 2017 WL 4103850.

⁴⁴ This ruling is inclusive as to all similar requests however presented, including the continuing Objection allowed on the record, which is sustained.

⁴⁵ Ins. Code, § 739.8.

undermine the express directive of the statute, which renders RBC legally irrelevant.⁴⁶ For example, the term “RBC Level event” originates directly from the RBC Instructions. Put simply, the ratios are RBC.

There is no question that absent the legislated proscription, RBC would be otherwise relevant and helpful in this context of this matter. Nevertheless, the ALJ must adhere to applicable sources of law, even when they appear to be unfair as applied.⁴⁷

Finally, a party may change positions or take conflicting positions in separate cases. Therefore, arguments asserting that CW’s previous position should influence the outcome are unavailing and are rejected.

Offending express references to RBC in the record are struck. However, the opinions of expert witnesses remain valid and are not disregarded solely due to the removal of explicit RBC references.⁴⁸

Objection(s) to Procedure, Motion to Strike, Sanctions

Denied, partially without prejudice.⁴⁹

CW contends that its due process rights were infringed by a hearing process not contemplated by law, late filings by other parties, the failure of other parties to adhere to statutory and regulatory requirements, and the introduction of new matters through the supplement to the initial stipulation. The Objection to the Supplement to February 7, 2025 Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final

⁴⁶ Evid. Code, §§ 350, 351.

⁴⁷ *Valero Refining Co. – Calif. v. Bay Area Air Quality Mgmt. Dist. Hearing Bd.* (2020) 49 CA5th 618, 637-644.

⁴⁸ Evid. Code, § 801, subd. (b).

⁴⁹ This ruling is inclusive as to all similar requests however presented, including in correspondence (Harvey Rosenfeld correspondence to ALJ (March 28, 2025) and in CW’s filed general and oral Objection(s) on the record, which are overruled.

Determination of the Legality of the Rate issue of the supplement to the stipulation is overruled pursuant to the discussion above.

The issue before the ALJ in this decision is limited to the Proposed Interim Rate Stipulation, and the hearing was managed accordingly. Specifically, the ALJ set a formal hearing in recognition of statutory and regulatory requirements, ensuring that procedural provisions were interpreted meaningfully to serve the hearing's purpose, even while acknowledging that this was not a full rate hearing.⁵⁰

Evidence and arguments concerning the Applicant's business decisions - including claims that its predicament is self-inflicted - are not necessarily immediately useful in evaluating the settlement. However, such considerations and arguments, along with other relevant analyses CW advanced, raise issues that the parties are now better positioned to address comprehensively in a full rate hearing.

The ALJ did not oversee the initial interactions with the parties from the outset of the request for an *emergency interim rate approval* and expresses no view thereon. However, the Intervenor is reminded that the Commissioner has recognized regulatory tools properly at his disposal.⁵¹ While their use may implicate additional considerations, their application alone - without further context - is not necessarily improper per se.

Watchdog's contentions regarding the jurisprudence surrounding the determination and limited application of "plainly invalid rates" are comprehensive and accurate.⁵² However, it is reasonable to acknowledge that the parameters of "plainly

⁵⁰ Gov. Code, § 11349, subd. (d); *Department of Industrial Relations v. Occupational Safety & Health Appeals Bd.* (2018) 26 Cal.App.5th 93, 100–101; this aspect of the ruling also addresses the Applicant's position regarding this hearing (Katherine Wellington correspondence to ALJ (March 25, 2024).

⁵¹ Ins. Code, § 1858.02, subd. (a).

⁵² *Calfarm Insurance Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824 and reinforced in *20th Century Insurance Company v. Garamendi* (1994) 8 Cal.4th 216, 245.

invalid rates” may be context-specific.⁵³ This determination may also be inextricably linked to defining the scope of implied authority and its accompanying incidental powers,⁵⁴ including the potential for problem-specific elasticity.⁵⁵

Precedent requires the ALJ to follow a regulatory formula that is subject to the explicit direction of the Commissioner, whose authority governs both its application and enforcement.⁵⁶ When the Commissioner exercises discretion, as occurred in connection with the request for an *emergency interim rate approval*, the assumption of risk that such action is *ultra vires* remains a policy decision solely within the Commissioner’s purview.

This choice necessarily forecloses the type of relief CW seeks from the ALJ here (terminating sanctions). As explained in the preceding discussion, this situation presents a dilemma wherein the ALJ cannot conclusively determine that the action exceeds the Commissioner’s authority.⁵⁷

Notwithstanding, in loosely applying parity of reasoning to the constitutional variance criteria used in confiscatory rate considerations - where a demonstration of deep financial hardship is required - the ALJ finds that State Farm General must present sufficient and credible evidence to establish a prima facie showing of extraordinary financial distress, coupled with surplus depletion that jeopardizes ongoing business operations, to justify the Interim Rates. Variance 6 must also be available to the the Applications.

⁵³ The law shall be “liberally construed.” (Stats.1988, p. A-290, § 8; *Farmers Ins. Exchange v. Superior Court* (2006) 137 Cal.App.4th 842, 852.)

⁵⁴ *Turrieta v. Lyft, Inc.* (2024) 16 Cal.5th 664.

⁵⁵ *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824, 258; *US Ecology, Inc. v. State of California* (2001) 92 Cal.App.4th 113, 132; *Dickey v. Raisin Proration Zone No. 1* (1944) 24 Cal.2d 796, 810,

⁵⁶ *In The Matter of the Rate Application of American Healthcare Indemnity Company*, File No. PA02025379, July 24, 2003, p. 9; Corrected Order Adopting Proposed Decision and Designating Portion of Decision as Precedential, (Aug. 22, 2003), p. 1.

⁵⁷ The implications vary by circumstance, and may pertain to jurisdiction, standing or ripeness.

The Department has expressly preserved the right to analyze Variance 6 at the hearing, and SFG has reinforced its continued relevance to the Applications in briefing. In this case, Variance 6 may serve as the mechanism for applying administrative equity.

The hearing process triggered a right to due process for CW.⁵⁸ However, due process is inherently flexible and requires procedural protections tailored to the specific circumstances. Given the nature of this case, the hearing was conducted under expedited time constraints to account for the conditions from which it arose.

Regulatory deadlines of the type contested are directory in nature and did not negate jurisdiction. Deciding disputes on the merits is favored. Furthermore, Intervenor failed to articulate on the record any specific prejudices it suffered that the ALJ could further accommodate. Even if procedural irregularities exist, they appear to be minor frustrations amounting to harmless error.⁵⁹

Accordingly, it cannot be concluded that due process was denied.⁶⁰

CW's complaints about ongoing obstacles to meaningful participation in this proceeding suggest that a lack of good faith by other participants may persist. While these concerns are immediately troubling, the ALJ would require further information to assess the validity of these accusations. Accordingly, these concerns may be renewed.

Administrative Notice

CDI's requests for notice were partially opposed by Consumer Watchdog. As to each request:⁶¹

1. Notice taken as an act of the executive.
2. Notice taken as a record.

⁵⁸ *Today's Fresh Start, Inc. v. Los Angeles County Office of Education* (2013) 57 Cal.4th 197, 214.

⁵⁹ *F.P. v. Monier* (2017) 3 Cal.5th 1099, 1108.

⁶⁰ *Haas v. County of San Bernardino* (2002) 27 Cal.4th 1017, 1025.

⁶¹ Evid. § 452.

3. Denied as moot.
4. Denied as moot.
5. Notice taken as a record.
6. Notice taken as a record.

FINDINGS⁶²

A formal in-person evidentiary hearing (administrative trial) was conducted from April 8-10, 2025. At the hearing, the parties were afforded the right to call, examine, and cross-examine witnesses,⁶³ to present any relevant documentary evidence, to argue their respective legal positions orally, and to file post-hearing briefs.

The Introduction and Procedural History Before AHB set forth above are fully incorporated herein.

The exhibits entered into the record at the hearing, including pre-filed declarations and other exhibits received, are fully incorporated herein to the extent that they have not been struck.

No agreement or commitment to compensate CW has been made in the Proposed Interim Rate Stipulation.⁶⁴

The ALJ finds that State Farm General must proffer sufficient and credible evidence to establish a prima facie showing of extraordinary financial distress, coupled with surplus depletion that jeopardizes ongoing business operations and the availability

⁶² For brevity and efficiency, the findings are tailored to the Proposed Interim Rate Stipulation to be decided herein. Additional facts may also be set forth in analysis, all of which also constitute findings of fact.

⁶³ A credibility determination may rest on various factors, including demeanor, plausibility, the weight of other evidence, established or admitted facts, inherent probabilities and reasonable inferences. (Gov. Code, § 11425.50(b); Evid. §§ 780, 788.) The mere fact that the witness is discredited on one point does not automatically mean the witness must be entirely discredited and therefore may be partially credible.

⁶⁴ Title 10, section 2656.1(b) of the California Code of Regulations forbids such a commitment or agreement.

of Variance 6 to the Applications in order to proceed with the Proposed Interim Rate Application.

By a preponderance of the evidence, the ALJ finds the following additional facts:

1. SFG Applications request substantial increases in three insurance lines:
 - Homeowners Non-Tenant HO-3: +30.0%
 - Overall Renter/Condo Tenant: +41.8%
 - Rental Dwelling: +38.0%

Variance 6 remains a component of these Applications;

2. State Farm's surplus decreased from \$2.24 billion in 2022 to approximately \$620 million after the January 2025 wildfires in Southern California;
3. The Applicant's 2 year decrease in surplus from 2022 to 2024 was \$1.2 billion, as evidenced by the Applicant's 2024 Annual Statement;
4. The massive drop in SFG's surplus underscores that the company is in a precariously weak position as it is a dramatic change in a relatively short period;
5. Adverse development is depleting SFG's surplus in the last 2 years, as evidenced by the Applicant's 2024 Annual Statement;
6. About 72% of State Farm's surplus drop appears to be due to adverse development, as evidenced by the Applicant's 2024 Annual Statement;
7. About 14.9% of the Applicant's adverse development is attributable to the Homeowners line, as evidenced by the Applicant's 2024 Annual Statement;

8. About 37.7% of State Farm's adverse development is attributable to the commercial/multiple peril lines, as evidenced by the Applicant's 2024 Annual Statement;
9. About 44.6% of SFG's adverse development is attributable to other lines, as evidenced by the Applicant's 2024 Annual Statement;
10. Given the reinsurance attachment point (the limit on claims exposure from multiple events in the same year) is \$375,000 million, as evidenced by the Applicant's 2024 Annual Statement, the occurrence of triggering events would nearly eliminate State Farm's existing surplus;
11. Ceded premiums are also depleting SFG's surplus, as evidenced by the Applicant's 2024 Annual Statement;
12. The January 2025 Los Angeles fires arose when SFG was already in a weakened position;
13. SFG writes about 20.7% of California's homeowners insurance market;
14. SFG's financial condition has so significantly deteriorated that it must take action to improve its financial footing;
15. The January 2025 Los Angeles wildfires caused an estimated \$7 billion in claims for SFG;
16. The Interim Rates and the \$400 million capital infusion under the Proposed Interim Rate Stipulation would improve SFG's financial condition;

17. The full rate hearing process will allow an opportunity to fully investigate and further vet SFG's financial condition and rate needs, together with the implications of non-renewals, while the Proposed Interim Rates are in place to promote a "stop gap;"
18. The California homeowners market is "currently in a crisis," which magnifies the public interest in the availability of stable insurance;
19. Applicant's current premium exposure presents potential financial risk and limits State Farm's ability to absorb losses and remain financially stable;
20. The evidence established a prima facie showing that State Farm is in extraordinary financial distress, coupled with surplus depletion that jeopardizes ongoing business operations;
21. The Department supports approval of the Proposed Interim Rate Stipulation;
22. SFG supports approval of the Proposed Interim Rate Stipulation; and
23. Consumer Watchdog opposes approval of the Proposed Interim Rate Stipulation.

REVIEW OF PROPOSED INTERIM RATE STIPULATION

In determining whether to approve or reject the Proposed Interim Rate Stipulation, the regulations provide in relevant part:⁶⁵

The administrative law judge shall reject a proposed stipulation or settlement whenever, in his or her judgment, the stipulation or settlement is not in the public interest and is not, taken as a whole, fundamentally fair, adequate and reasonable.

This standard of review is substantially a restatement of the standard courts apply when reviewing class action settlements. It is also identical to the California Public Utilities Commission's standard.⁶⁶

In reviewing the fairness of settlement agreements, the inquiry "must be limited to the extent necessary to reach a reasoned judgment that the agreement is not the product of fraud or overreaching by, or collusion between, the negotiating parties, and that the settlement taken as a whole, is fair, reasonable and adequate to all concerned."⁶⁷

In considering reasonableness, the trier of fact should consider "the strength of plaintiff's case, the risk, expense, complexity and likely duration of further litigation, the risk of maintaining class action status through trial, the amount offered in settlement, the extent of discovery completed and the stage of the proceedings, the experience and views of counsel, the presence of a governmental participant, and the reaction of the class members to the proposed settlement."⁶⁸ This list is not exhaustive and should be tailored to each case. And while the proponent of settlement bears the burden to show that it is

⁶⁵ Cal. Code Regs., tit. 10, § 2656.2, subd. (a).

⁶⁶ See *Officers for Justice v. Civil Service Commission of the City & County of San Francisco* (9th Cir. 1982) 688 F.2d 615, 625, cert. denied 459 U.S. 1217 (1983); *In Re PG&E (Diablo Canyon)* (1988) 30 Cal. P.U.C.2d 189, 222.

⁶⁷ *Dunk v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, 1801; *Reed v. United Teachers of Los Angeles* (2012) 208 Cal.App.4th 322, 336-337.

⁶⁸ *Ibid.*

fair and reasonable, there is a presumption of fairness when: (1) the settlement is reached through arm's-length bargaining; (2) investigation and discovery are sufficient to allow counsel and the trial court to act intelligently; (3) counsel is experienced in similar litigation; and (4) the percentage of objectors is small.⁶⁹ The presumption applies in this case, as there is no evidence indicating anything other than an arm's-length negotiation. Moreover, the record in this proceeding alone demonstrates a thorough evaluation of party positions and marketplace evidence.

Continuing, in the context of Proposition 103 proceedings, a fairness, adequacy, and reasonableness determination involves balancing some or all of the following factors: (1) the relative strength of each party's case; (2) the risk, expense, complexity, and likely duration of further litigation, with the attendant delay in modifying the rate; (3) the terms of the settlement; (4) the amount of discovery undertaken; (5) the current state of the proceedings; (6) the experience and views of counsel and/or the parties' managers or experts; (7) the involvement of a governmental entity; and (8) the reaction of consumers to the proposed settlement. A settlement review should not be transformed into a full hearing on the merits or a rehearsal for one, nor should the court reach ultimate conclusions on contested issues of fact and law. However, as the ALJ found appropriate in support of the Proposed Interim Rate Stipulation, the evidence presented in the hearing established a prima facie showing that State Farm is experiencing extraordinary financial distress, coupled with surplus depletion that threatens ongoing business operations. Variance 6 also remains a relevant consideration.

⁶⁹ *Dunk v. Ford Motor Co.*, *supra*, 48 Cal.App.4th at 1802.

The Insurance Code explicitly prohibits approving rates that are excessive, inadequate, unfairly discriminatory, or otherwise in violation of the Insurance Code.⁷⁰ This requirement promotes Proposition 103's principles of preventing arbitrary insurance rates and practices, promoting a competitive insurance marketplace, and ensuring that insurance remains fair, accessible, and affordable.⁷¹ Accordingly, these factors are appropriate in connection with reviewing stipulations and settlements, as the public has a vested interest in maintaining Proposition 103's core objective: ensuring that premiums are set at the lowest rate possible.⁷²

Under the terms of the Proposed Interim Rate Stipulation, State Farm is permitted to implement the requested rate adjustments, albeit with modifications. The agreement allows a portion of the rate increases the insurer sought, pending a full rate hearing—except for the Homeowners Non-Tenant HO-3 line, where the originally proposed 21.8% increase is reduced to 17%. This adjustment aims to balance affordability for policyholders while ensuring necessary revenue for SFG.

However, the rate increases themselves shift a significant portion of the financial burden onto policyholders, raising concerns about whether they fully purport with the spirit of Proposition 103's mandate that rates must not be excessive or unfairly discriminatory. Given that the homeowners line comprises a large component of SFG's book of business, addressing financial concerns through Interim Rates is the only practical means of stabilization.

⁷⁰ Ins. Code, § 1861.05, subd. (a).

⁷¹ *State Farm Mutual Automobile Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029, 1041, as modified (June 9, 2004).

⁷² *Proposition 103 Enforcement Project v. Charles Quackenbush* (1998) 64 Cal.App.4th 1473, 1491, as modified (July 10, 1998).

To further protect consumers, State Farm has committed to refraining from implementing new block nonrenewal programs through the end of 2025. Additionally, any charges later deemed excessive will be refunded to policyholders with interest, with the Commissioner retaining full authority to mandate such refunds. Detailed records of affected policyholders will be maintained, ensuring accurate tracking. Refunds will be processed within 120 days of a final determination to provide timely redress.

As a financial stabilization measure, State Farm will secure a \$400 million surplus note from its parent company to reinforce its solvency. This provision enhances the insurer's ability to meet obligations and maintain long-term viability. While the interim rates remain temporary and subject to further review, the stipulation seeks to balance consumer protections with the need for financial stability.

Again, the Proposed Interim Rate Stipulation shifts the burden of recapitalizing State Farm onto policyholders - an unfortunate but necessary consequence given the circumstances. While not an ideal approach, it is permitted under Variance 6, here also allowing the insurer to implement rate increases while maintaining the possibility of future refunds. Despite its challenges, the agreement prioritizes market stability, ensures continued access to coverage, and upholds regulatory oversight.

While the Interim Rates are subject to future revision and the important refund provision, continued scrutiny is necessary to ensure that the increases are justified at the lowest reasonable level. In other words, the requirement for a full rate hearing is paramount to making this arrangement meaningful, as rigorous actuarial analysis remains essential in confirming rate justifications and ensuring compliance with Proposition 103's prohibitions against excessive or inadequate rates.

Moreover, a full rate hearing serves as a critical signal to the marketplace that emergency rate requests of the type State Farm advanced are serious will undergo rigorous scrutiny. Applicants seeking such measures must be prepared to substantiate their claims through the hearing process, reinforcing the importance of transparency, evidence-based decision-making, and Commissioner's regulatory oversight.

Delays in regulatory intervention always carry the risk of outside litigation, which can undermine efforts to keep premiums fair and competitive, affecting both State Farm and consumers. While the likelihood of prolonged legal disputes remains uncertain, such challenges would inevitably increase costs and extend uncertainty.

CW opposes the Proposed Interim Rate Stipulation, asserting that the standards for approval cannot be met without first demonstrating the burden for a rate increase. Consequently, CW urges the ALJ to reject the Proposed Interim Rate Stipulation, contending that the case should proceed solely to a full rate hearing. Consumer Watchdog supports its position with an analysis emphasizing that full actuarial calculations are required and that no rate can be approved outside the statutory and regulatory framework unless deemed "plainly invalid" - a threshold it contends SFG has not met. The ALJ declines to adopt CW's approach and addressed it in the discussion on Motions above.

Although Consumer Watchdog is unwilling to support approval, the observations presented support finding that the terms of the Proposed Interim Rate Stipulation are reasonable and fair to all parties, given the specific and very difficult circumstances of this case. Furthermore, the Proposed Interim Rate Stipulation serves the best interests of California consumers and the public. Taken as a whole, it represents a fundamentally fair,

adequate, and necessary measure - effectively functioning as a rescue mission to stabilize State Farm's financial condition while safeguarding policyholders.

CONCLUSION

For all the reasons discussed above and based on the facts as set forth in this proposed decision, together with the declarations, exhibits and all the evidence in the record, the Proposed Interim Rate Stipulation, taken as a whole, is fundamentally fair, adequate, and reasonable.

Accordingly, the ALJ accepts the Proposed Interim Rate Stipulation and recommends its adoption to the Commissioner. The Proposed Interim Rate Stipulation terms are adopted as part of this Proposed Decision, and are set forth above


ORDER

1. The Proposed Interim Rate Stipulation is APPROVED;
2. Upon adoption by the Commissioner, the parties shall meet every term or obligation set forth in the Proposed Interim Rate Stipulation; and
3. Jurisdiction is retained to ensure compliance with the Proposed Interim Rate Stipulation, this Order, and to proceed to a full rate hearing.

This proposed decision is submitted based on the entire record in this proceeding, and I recommend its adoption as the decision of the Insurance Commissioner of the State of California.

IT IS SO ORDERED.

Dated: May 12, 2025



KARL FREDRIC J. SELIGMAN
Administrative Law Judge
Administrative Hearing Bureau
California Department of Insurance

DECLARATION OF SERVICE BY EMAIL

Case Name/No.: **In the Matter of the Rate Application of:
STATE FARM GENERAL INSURANCE COMPANY
FILE NO. PA-2024-00011, PA-2024-00012 AND PA-2024-00013**

I, **FLORINDA CRISTOBAL**, declare that:

I am employed in the County of Alameda, California. I am over the age of 18 years and not a party to this action. My business address is State of California, Department of Insurance, Administrative Hearing Bureau, 1901 Harrison Street, 3rd Floor, Oakland, California, 94612.

I am readily familiar with the business practices of the Oakland Office of the California Department of Insurance for collection and processing of correspondence for mailing with the United States Postal Service. Said ordinary business practice is that correspondence is deposited with the United States Postal Service that same day in Oakland, California.

On May 13, 2025 following ordinary business practices, I caused a true and correct copy of the following document(s):

PROPOSED DECISION APPROVING STIPULATION

to be placed for collection and mailing at the office of the California Department of Insurance at 1901 Harrison Street, 3rd Floor, Oakland, California, with proper postage prepaid, in a sealed envelope(s) addressed as follows:

(SEE ATTACHED PARTY SERVICE LIST)

In addition, on _____, I also faxed a copy of said document to all parties where indicated to the fax number which is printed under each address on this Declaration.

I declare under penalty of perjury that the foregoing is true and correct, and that this declaration was executed at Oakland, California, on May 13, 2025.

May 13, 2025
DATE


F. CRISTOBAL

PARTY SERVICE LIST

FILE NO. PA-2024-00011, PA-2024-00012 AND PA-2024-00013

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