

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA
RICARDO LARA

CERTIFIED COPY

TRANSCRIPTION OF PROCEEDINGS
State Farm Emergency Interim Rate Approval
Wednesday, February 26, 2025

Reported by:

CHRISTINA L. RODRIGUEZ
Hearing Reporter

Job No.:
53795 INS

1 BEFORE THE INSURANCE COMMISSIONER
2 OF THE STATE OF CALIFORNIA
3 RICARDO LARA
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15 TRANSCRIPTION OF PROCEEDINGS, taken at
16 1901 Harrison Street, 3rd Floor, Oakland,
17 California, commencing at 10:30 a.m.
18 and concluding at 11:52 p.m. on Wednesday,
19 February 26, 2025, reported by
20 Christina L. Rodriguez, Hearing Reporter.
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1 APPEARANCES:

2
3 CALIFORNIA DEPARTMENT
4 OF INSURANCE:

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Insurance Commissioner

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Chief Deputy Commissioner

KEN ALLEN
Deputy Commissioner

11 STATE FARM INSURANCE:

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MARK SCHWAMBERGER
Treasurer and Chief
Financial Officer

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Attorney

DAVID GROW
Associate General Counsel

20 CONSUMER WATCHDOG:

PAMELA PRESSLEY
Senior Staff Attorney

WILLIAM PLETCHER
Litigation Director

BEN ARMSTRONG
Staff Actuary

1 Live Proceedings, Wednesday, February 26, 2025

2 10:30 a.m.

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4
5 THE COMMISSIONER: Thank you, and good
6 morning. I want to be respectful of everyone's time.
7 Thank you for coming. We are going to begin
8 with our meeting. Again, thank you for joining me to
9 discuss State Farm's General Insurance Company's
10 request for approval of an emergency interim rate.

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

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

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

1 the back of the room to observe.

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

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

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

8 MR. SCHWAMBERGER: Mark Schwamberger, State
9 Farm General.

10 MR. GROW: David Grow. State Farm.

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

14 THE COMMISSIONER: Thank you.

15 From the Department of Insurance.

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

18 MR. MARTINEZ: Michael Martinez, Chief Deputy
19 Commissioner.

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

22 THE COMMISSIONER: Thank you.

23 And Consumer Watchdog.

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

1 Watchdog.

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

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

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

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

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

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

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

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

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

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

24 This outdated regulatory structure has
25 hindered insurers from actively reflecting the true cost

1 of doing business in California. As a result, many
2 insurers have paused writing new business and increase
3 annual renewals in recent years.

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

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

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

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

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

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

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

15 I have reviewed the recent correspondence from
16 State Farm, the Department, and Consumer Watchdog, as
17 well as State Farm's rate application from June and the
18 latest updates. After reviewing this information, I
19 have some questions for State Farm; questions that I've
20 previously posted or posed in my letter dated February
21 24th.

22 Although I call this meeting for my benefit, I
23 want to ensure that the Department and Watchdog have the
24 chance to speak at the end, and only if they've learned
25 anything new from this dialogue. You have all been in

1 communications with State Farm's June filing for several
2 months now. Today is not a debate. It is not
3 opportunity.

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

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

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

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

25 We plan to reiterate information we've shared

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

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

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

14 THE COMMISSIONER: Go ahead.

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

25 THE COMMISSIONER: Thank you. Appreciate

1 that.

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

4 MR. SCHWAMBERGER: Most of them, sir.

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

8 So what, if anything, has changed for State
9 Farm between your pending rate application filed in June
10 2024 and now that necessitates this emergency relief.

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

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

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

23 So, now, let me get to your question and give
24 you some information that is new since June of 2024. So
25 first, State Farm General's policyholders' surplus has

1 continued to decline. It's declined 300 million during
2 2024, which is a 23% decrease from year-end 2023, and it
3 currently stands just over a billion dollars.

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

11 As you think about the fires and the impact of
12 the fires, and we foreshadow into 2025. On a net basis,
13 State Farm General will take on 212 million related to
14 the fires, and then when you bring in the fair plan
15 assessment as well as our share of the fair plan losses,
16 our overall aftertax impact due to the fires is roughly
17 \$400,000,000.

18 So when we think about our year-end surplus,
19 when you think about that \$400,000,000 impact from the
20 fires, that puts us very near -- or in -- authorized
21 control level risk-based capital according to your
22 departments and the Illinois departments and the NAIC
23 risk-based capital. In addition, the ratio of our
24 premium to surplus is also considered an unusual value
25 based on the Insurance Regulatory Information Service,

1 which is an early warning indicator, and that's also at
2 an unusual value at year-end, and that will only further
3 to deteriorate based on the January fires.

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

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

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

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

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

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

3 THE REPORTER: Thank you.

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

7 THE REPORTER: They're okay. Thank you.

8 THE COMMISSIONER: Okay. Perfect.

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

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

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

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

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

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

12 THE COMMISSIONER: As we enter fire season.

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

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

24 In the absence of, you know -- I'm trying to
25 get a grasp here of the answer -- in the absence of the

1 non-wildfire catastrophic losses in 2022 and 2023,
2 how does State Farm explain the significant decrease
3 in its policyholder surplus?

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

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

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

21 So here's how I would kind of break it down.
22 We experienced a rapid increase of inflation which drove
23 increases in construction and other costs. We had a
24 litigation trends contributing to significant increases in
25 the severity of liability claims. Particularly with our

1 personal liability and policies and our commercial policies.
2 We had a changing -- and you noted this -- we had changing
3 views of wildfire risk, which was influenced by actual
4 experience, as well as model updates and looking at it
5 prospectively.

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

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

22 And I think about it this way in terms of the
23 structure: It doesn't necessarily facilitate speed.
24 It's not as responsive to short-term trends, and that's
25 what we saw with inflation and litigation and liability

1 trends. It doesn't allow, in the past, for the model
2 catastrophe exposure, and it didn't allow us to take
3 that escalating re-insurance cost and fully factor that
4 re-insurance cost into our rates.

5 THE COMMISSIONER: So then -- okay. I
6 understand that, and even with the current structure,
7 you know, State Farm received a steady rate increase of
8 6.9 in November of 2021; that was effective January
9 2022, another 6.9 in in January 2023, and a 20% increase
10 in December 2023 which is effective March 2024.

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

16 Why was that the case?

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

1 risk in line with our exposure.

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

11 So what has been going on?

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

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

1 have to stay behind exposures, so that was the comment.

2 Now -- go ahead, sir.

3 THE COMMISSIONER: No, go ahead.

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

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

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

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

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

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

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

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

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

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

5 And so again, this is an ongoing frustration with
6 me that we keep asking, you know, companies to be
7 forthwith about what is the actual rate they need and --
8 and have that dialogue and conversation as opposed to
9 simply, you know, death by 1,000 cuts here with constant
10 6.9's; right?

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

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

23 MR. LARA: Fair enough. And has State Farm
24 provided adequate documentation to the Department to support
25 the current rate increase request for each of the line of

1 business? I know this is a point of contention for the
2 intervener and -- and for the Department.

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

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

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

16 MR. GROW: Yeah.

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

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

25 And also wanted to acknowledge that at one point,

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

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

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

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

25 So insurers generally will respond to all of the

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

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

13 MR. LARA: Vanessa, give me --

14 MS. WELLS: Yes.

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

18 MS. WELLS: Right.

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

22 MS. WELLS: Right.

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

1 well --

2 MS. WELLS: Yes.

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

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

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

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

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

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

25 MS. MCKENNEDY: I don't have control -- there we

1 go. You asked whether State Farm had satisfactorily
2 responded to all of the Department's questions, and I think
3 the answer is actually, no, we are not currently satisfied
4 that State Farm has proven it is entitled to an overall
5 rate increase at the level that they've requested in their
6 rate applications.

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

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

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

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

1 and fully investigate.

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

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

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

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

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

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

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

5 And a lot of the issues that they're talking
6 about today, which they say are not now related to Variant
7 6 but they're using to support, like, the urgency and the
8 emergency, are things that we did ask about: Reports on
9 their risk-based capital issues, all of -- things related
10 to the reinsurance, underlying actuarial reserve reports,
11 and everything, we were told, was confidential.

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

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

23 MR. LARA: Okay.

24 MS. PRESSLEY: -- responded to.

25 MR. LARA: Thank you.

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

2 MR. LARA: Okay.

3 MS. PRESSLEY: Yeah.

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

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

13 MR. LARA: Thank you. I appreciate that.

14 MS. WELLS: Thank you.

15 MR. SCHWAMBERGER: Commissioner?

16 MR. LARA: Go ahead.

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

22 It's the reason we're sitting here today asking
23 for this interim break under our prior filling, which is
24 under Variant 6, which is why the opening statement, which
25 is: What has changed since June 2024, it's the

1 significant and continued depletion of State Farm's
2 capital, putting it in an even more precarious position
3 relative to risk-based capital, relative to the ability to
4 stand another event.

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

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

16 MR. LARA: Understood.

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

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

1 MR. LARA: It's understood.

2 MR. SCHWAMBERGER: So anyway --

3 MS. LARA: Understood.

4 MR. SCHWAMBERGER: And I -- I appreciate that. I
5 know you do, but I just don't believe that --

6 MR. LARA: No, I understand.

7 MR. SCHWAMBERGER: -- you made that clear about
8 the --

9 MR. LARA: Thank you. And just -- and in the spirit
10 of trying to move fast --

11 MR. SCHWAMBERGER: Yes.

12 MR. LARA: -- I want to be able to get to these
13 questions. So other than -- other than the rate
14 interest -- the -- the rate increases, you know, I -- I
15 think this is what we -- we are really curious about.
16 What are -- what are the other plans for State Farm to
17 address its financial challenges?

18 For example, would State Farm's parent company,
19 State Farm Mutual Automobile Insurance Company, be willing
20 or able to provide financial support to State Farm, as it
21 has in similar situations? I know this -- you know, this
22 happened in other states, for example.

23 MR. SCHWAMBERGER: Yeah. Go ahead, Keesha.

24 MS. MITRA: So -- yeah, let -- let me just jump in
25 here really quickly. So just for fundamental

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

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

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

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

22 I think that's the purpose of the interim rate
23 request. That would give us that type of a positive sign,
24 both to the rating agencies and to any potential investors
25 including State Farm Mutual, and so that's -- that's the

1 emergency basis of this, because it would help, at least
2 me building a case to go to the Mutual board to ask for
3 consideration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 here in large part because we want to be in the California
2 market.

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

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

15 And we want to put ourselves in a financial
16 position where we would have to minimize that moving
17 forward, and that's what this interim rate would help us
18 do, and I think, you know, obviously we -- we want to
19 support the California market. We've been here for almost
20 100 years. We want to be here for 100 more, but we've got
21 to be able to have this -- our State Farm General survive
22 this financial piece in order for that to happen.

23 MR. LARA: So, Don, let me -- let me follow up with
24 that and maybe ask my question differently, as I -- I
25 appreciate your honesty because -- so if I were to approve

1 this interim rate increase, would you commit to
2 non-renewing your existing customers?

3 MR. SCHWAMBERGER: To not -- not renew?

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

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

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

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

1 catastrophe risk of other states.

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

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

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

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

24 Many of them understand the risk of where they
25 live and understand what is happening. They see it and

1 read the papers, but it's the anxiety of losing their
2 coverage, yet having to pay more without the certainty of
3 being able to keep their coverage puts their entire family
4 budget in turmoil because, you know, people need time to
5 budget this out.

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

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

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

1 of this -- this fear.

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

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

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

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

1 the California market.

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

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

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

24 So I think we absolutely share those interests;
25 it's probably the mechanism by which you get there is

1 maybe what there's been disagreement in this room
2 collectively in the past.

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

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

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

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

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

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

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

19 We don't have that time. I mean, we're -- we're
20 at a point where we're in a critical state, and we -- you
21 know, I hear from the same -- I hear from customers. I
22 hear from our agents. We have almost 1,900 agents, almost
23 7,000 of their employees in this state.

24 And we don't like to part with our customers. We
25 share that concern. We want to take care of our

1 customers. Our ability to put State Farm General in --
2 into financial stability allows us to do that, and that's
3 why this interim rate is so important.

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

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

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

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

22 So, please, I ask that you avoid reiterating
23 points you've already shared, including any objections
24 submitted and served. We've read those already, and I've
25 seen those, and -- or anything mentioned in previous

1 communications to me, as I've also received all the
2 letters from all of the parties involved.

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

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

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

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

25 So that's where your staff is coming from, if

1 that helps you. Is there anything you wanted to add,
2 Michael?

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

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

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

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

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

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

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

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

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

8 I appreciate the experiences that folks had in
9 2015 and 2016 -- I wasn't part of that process -- and the
10 difficulty in doing a rate process on an expedited basis,
11 but I'll also say I've done plenty of complicated federal
12 court litigation in the country on expedited basis when
13 the court sets aggressive deadlines.

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

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

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

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

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

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

15 MR. PLETCHER: Yeah.

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

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

23 MR. PLETCHER: I believe we had a couple follow-up
24 questions that are -- Ben just had to step out for just a
25 moment, so if we could, you know, perhaps continue the

1 meeting and then return to him as soon as he -- I assume
2 he will return quickly.

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

5 MR. PLETCHER: Okay.

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

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

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

19 MR. ARMSTRONG: Yeah.

20 MR. LARA: You're on.

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

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

1 \$400 million share of the FAIR Plan assessment, but they
2 have a 20 percent market share. Just curious if you guys
3 have a little more color around of why that is presented
4 as a lineup?

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

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

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

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

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

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

24 MR. ARMSTRONG: Yeah, yeah. So it's -- it's the
25 combination of State Farm's share of the FAIR Plan losses,

1 and then also the assessment?

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

5 MR. ARMSTRONG: Right.

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

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

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

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

23 (Simultaneous cross-talk.)

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

1 It'll be up by Friday morning.

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

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

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

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

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

24 We haven't seen that based on data pulled from
25 ten plus years of annual statements. It really looks like

1 the reinsurance -- reinsurance agreements with State Farm
2 Mutual has been structured to benefit the parent company
3 and didn't see much, if any, recoveries to State Farm
4 General. So I'm curious if you could provide some context
5 around that and discuss this significant benefit from the
6 totality of the reinsurance program.

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

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

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

25 So back in the 2017 fires, if you would look at

1 our 2019 Schedule P Part 1(a), you would definitely see
2 the significant reinsurance recoveries from the program
3 that allowed State Farm General to stay viable, so to
4 speak, until that subrogation recovery from PG&E could
5 come into play.

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

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

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

1 in those years.

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

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

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

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

18 MR. SCHWAMBERGER: All of it.

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

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

24 MR. ARMSTRONG: Okay. Thank you.

25 MR. LARA: Great. Do you want any further

1 clarification or --

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

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

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

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

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

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

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

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

23 As you know, my decision I will make will face
24 intense scrutiny. I'm going to be criticized for both
25 acting, and I'm going to be criticized by not acting, and

1 my decision will always be based on the facts and my
2 obligation to protect consumers in our market.

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

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

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

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

25 (Concluded at 11:52 a.m.)

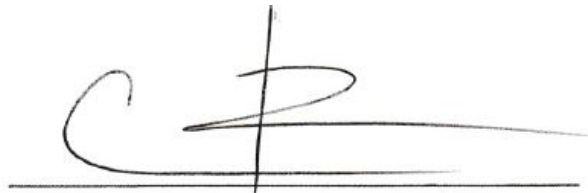
1 HEARING REPORTER'S CERTIFICATE

2
3 I, Christina L. Rodriguez, Hearing Reporter in
4 and for the State of California, do hereby certify:

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

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

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

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23 Hearing Reporter

24 CHRISTINA L. RODRIGUEZ
25

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