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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Application of: **STATE FARM GENERAL INSURANCE COMPANY,** Applicant.	File No. PA-2015-00004 **ORDER ADOPTING REVISED PROPOSED DECISION** (Cal. Ins. Code § 1861.08, Cal. Govt. Code § 11517)

This matter came for hearing before John H. Larsen, Administrative Law Judge (hereafter "ALJ") of the Administrative Hearing Bureau. On October 7, 2016, the Commissioner received the attached Revised Proposed Decision.

Now, therefore, pursuant to the provisions of California Insurance Code Section 1861.08(c) and California Government Code Section 11517(c)(2)(A), IT IS SO ORDERED that the attached Revised Proposed Decision is hereby adopted by the Insurance Commissioner as his Decision in the above entitled matter.

It is further ordered that the entirety of this Decision is designated precedential pursuant to Government Code section 11425.60, subdivision (b).

It is so ordered.

DATED: November 7, 2016.

Dave Jones

DAVE JONES
Insurance Commissioner

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REVISED PROPOSED DECISION

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Introduction

On December 4, 2014, State Farm General Insurance Company (Applicant or SFG) applied for an increase in its homeowner's insurance lines in California of 6.9% to be effective July 15, 2015.[1]

I. California Prior Approval Under Proposition 103

In 1988, Californians authorized the Insurance Commissioner to regulate homeowner's insurance rates by passing Proposition 103. This initiative replaced an open competition system of insurance rates in favor of a prior approval system.[2] The initiative provided that no rate shall be approved or remain in effect which is excessive, inadequate, or unfairly discriminatory.

> In considering whether a rate is excessive, inadequate or unfairly discriminatory, no consideration shall be given to the degree of competition and the commissioner shall consider whether the rate mathematically reflects the insurance company's investment income.[3]

The California Supreme Court upheld Proposition 103 and its regulations in 1994.[4]

When a rate is approved, it is projected to be in effect for a one-year rating period.[5] So theoretically, an insurer may apply for an insurance rate change every year. But in practice, rates remain in effect until the insurer files another rate application – sometimes many years later. Under the Commissioner's prior approval regulations, an insurer may set for itself whatever rate it chooses, provided the rate is neither excessive nor inadequate.[6]

Using a consistent methodology, the Commissioner determines whether rates are excessive or inadequate based on the aggregate earned premium the rates are expected to

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[1] Rate application number 14-8381.
[2] *20th Century Co. v. Garamendi* (1994) 8 Cal.4th 216, 300.
[3] Ins. Code §1861.05, subd. (a).
[4] *20th Century v. Garamendi, supra*, 8 Cal.4th at p. 282.
[5] Cal. Code Regs., tit. 10, § 2642.5.
[6] Cal. Code Regs., tit. 10, § 2641.1 et seq.

produce.[7] Insurance is a promise to provide compensation in the event a specific loss event occurs during a defined period in the future. Consequently, the costs associated with an insurance product are not known at the point of sale and must be estimated.[8] Such costs are uncertain or unpredictable. But such costs become more predictable the more they are aggregated among large groups of individuals.[9]

The rate review process involves estimating various industry-specific factors used to set maximum premiums. These factors go into a regulatory formula that establishes a range of rates from a minimum to a maximum permitted earned premium.[10] The maximum permitted earned premium is determined by the following formula:[11]

$$\frac{(\textit{losses} + \textit{defense and containment costs}) \times (\textit{1-fixed invest. income factor}) - \textit{ancil. income}}{1.0 - \textit{efficiency standard} - \textit{profit factor} + \textit{variable investment income factor}}$$

Many of these factors are determined on a national, industry-wide basis using consolidated or group data. This is true of factors determining the amount of investment income in the above formula. In addition, the leverage factor, surplus ratio, and reserve ratio are calculated using consolidated data as published in AM Best's Aggregates and Averages.[12] Along with the projected yield, these factors impute an amount of surplus to determine an insurer's investment income. Insurers, the California Department of Insurance (CDI) and other parties in a rate

[7] Cal. Code Regs., tit. 10, § 2643.3, subd. (a).
[8] Werner & Modlin, Basic Ratemaking (Casualty Actuarial Society 2010), p.1.
[9] Cooter & Ulen, Law and Economics (6th ed. 2012), §X.D., p. 47.
[10] The formulas for calculating the maximum and minimum earned premiums are identical, with the exception of the applicable profit factor. The maximum profit factor is applied to determine the maximum premium, while the minimum profit factor is applied to determine the lower end of permitted premiums.
[11] Cal. Code Regs., tit. 10, § 2644.2.
[12] Cal. Code Regs., tit. 10, § 2644.17, subd. (b) and § 2644.21.

hearing use this formula to calculate the maximum permitted earned premium with the assistance of a template and online instructions.[13]

By definition, a rate is excessive if it is higher than the maximum permitted earned premium.[14] If the Commissioner finds a proposed rate is excessive, the rate shall not be used. Instead, the Commissioner shall indicate the highest rate that would not be excessive.[15]

Parties requesting relief from the maximum permitted earned premium may request one or more variances, which results in an alternate rate. The burden of proving, by a preponderance of the evidence, every fact necessary to show that its rate is not excessive, inadequate or unfairly discriminatory rests with the insurer.[16]

II. Rate Review Process

Rate applications are framed, in part, using an effective date upon which the rate is projected to become effective. The filing of a rate application sets in motion a lengthy review by the Department of Insurance.[17] The Application must include all data referred to in Insurance Code section 1861.05, subdivision (b); the requirements of Insurance Code section 1861.01 through 1861.16; and California Code of Regulations sections 2641.1 through section 2644.28; and any other supporting information the Commissioner may require. All information provided

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[13] Exhibits (Exh.) 1 and 377. References to the transcript of the hearing are "Tr." followed by the page number(s), and where line references are used, a ":" followed by the line number(s). For example, a reference to Tr. 35:14-18 is to page 35, lines 14-18 of the transcript. Exhibits are referred to by the numbers assigned to them in the Exhibit Lists filed by the parties.

[14] Cal. Code Regs., tit. 10, § 2644.1.

[15] *Ibid.*

[16] Cal. Code Regs., tit. 10, § 2646.5; *In the Matter of the Rate Application of American Healthcare Indemnity Company*, PA-2002-25739, pp. 10-11.

[17] Exh. 377-1: Every insurer wishing to introduce new, or change existing, rules, rates or forms, or to introduce a new program, must complete a Prior Approval Rate Application (Application), and, if applicable, a Prior Approval Rate Template (Rate Template) and a Standard Exhibits Template, in compliance with the California Code of Regulations and file it with the Commissioner.

to the Commissioner for the purpose of regulating insurance rates is available for public inspection.[18]

Applications are deemed approved sixty days after public notice unless (1) a consumer requests a hearing, (2) the Commissioner decides to hold a hearing, or (3) the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines, in which case the Commissioner must hold a hearing upon a timely request.[19]

Summary of Findings

Having considered the evidence and arguments, the Administrative Law Judge concludes Applicant's proposed rate increase of 6.9% is excessive. Instead, the rate formula supports an overall decrease in Applicant's homeowners insurance rates by 7.0% retroactive to July 15, 2015, at the rate of 2.25 percent per annum. By subline, the rate formula supports decreases in Applicant's homeowners insurance in the following percentages: 5.37% for non-tenant homeowners, 20.39% for renters, and 13.81% for condominium unit owners. Applicant failed to prove by a preponderance of the evidence it was entitled to a leverage factor variance or that the rates indicated by the rate formula would be confiscatory.

Procedural History

On December 4, 2014, SFG applied for an increase in its homeowner's insurance lines in California of 6.9% to be effective July 15, 2015.

On January 26, 2015, Consumer Watchdog (CW) and Consumer Federation of California (CFC) filed Petitions for Hearing and Petitions to Intervene, which were granted on February 10, 2015.

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[18] Ins. Code § 1861.07 (referring to information provided pursuant to Article 10, Insurance Code §1861.01-1861.16.)
[19] Ins. Code § 1861.05, subd. (c).

On February 11, 2015, Applicant waived the sixty-day deemed approved date.[20] On April 30, 2015, Applicant filed a revised rate application and submitted additional data to complete it. The California Department of Insurance (CDI) issued and served a Notice of Hearing on the revised application on June 22, 2015. On July 13, 2015, State Farm filed a Notice of Defense to the Notice of Hearing.

On July 14, 2015, Administrative Law Judge (ALJ) John H. Larsen noticed a scheduling conference including a proposed hearing schedule based on presenting data through the end of second quarter of 2015. Subsequently, the parties stipulated to cut-off the update of data and to use 2014 as the recorded period for SFG's application. In addition to revising some initial document submission deadlines, the ALJ adopted the parties' stipulation regarding the data cut-off period at a status conference on July 24, 2015.

On July 24, 2015, State Farm submitted a second revised rate application with additional variances and a revised effective date of April 15, 2016. On July 31, 2015, ALJ Larsen held a scheduling conference during which the ALJ adopted the parties' proposed hearing dates along with deadlines for filing discovery motions, direct written testimony, and motions to strike. In addition, the ALJ heard arguments regarding objections to Applicant revising the effective date of its rate application. Based on arguments made in the parties' Joint Scheduling Conference Statement and at the scheduling conference, the ALJ sustained CDI's and Intervenors objections and ordered the hearing to proceed with the July 15, 2015 effective date, as publicly noticed by CDI.

[20] Ins. Code § 1861.05, subd. (c).

On September 8, 2015, Intervenors CW and CFC filed Motions to Compel Discovery alleging SFG failed to produce relevant and necessary documents. Following a hearing, the ALJ granted in part, and denied in part, CW's motions.[21]

On September 21, 2015, SFG lodged the written direct testimony of Dr. David Appel, Jim Larson, Minchong Mao, Karen Terry and Nancy Watkins.[22] CDI, CW and CFC moved to strike portions of the direct testimony. After hearing oral argument on the motions on October 9, 2015, the ALJ issued orders granting in part, and denying in part, the motions to strike. Notably, the ALJ's Order found that SFG's testimony regarding the use of SFG's individual, as opposed to consolidated annual statement, constituted impermissible relitigation, pursuant to California Code of Regulations, title 10, section 2646.4(c).[23]

On September 16, 2015, the parties filed a Joint Statement of Undisputed Facts. The parties updated the Joint Statement on October 8, 2015 and November 13, 2015.

On or about October 19, 2015, CDI filed written direct testimony of Dr. Rachel Hemphill and Isabel Spiker; CW filed written direct testimony of Allan Schwartz; and CFC filed written direct testimony of Mark Priven.

On October 23, 2015, Applicant moved to strike certain pre-filed testimony and exhibits of the three other parties. Following responses and oral argument, the ALJ issued Final Rulings on Applicant's Motion to Strike Pre-filed Direct Testimony and Exhibits on November 10, 2015.

In accordance with the parties' Protective Order, CDI, CW and CFC filed objections to SFG's confidentiality designations. On October 27, 2015, Applicant moved to seal Confidential Hearing Exhibits. Following the parties responses and oral argument on November 6, 2015, the

[21] Final Rulings and Order on Motion to Compel Discovery by Consumer Watchdog, issued September 17, 2015. CFC withdrew its motion to compel.
[22] Ms. Mao's testimony was later withdrawn after the parties stipulated to a modeled Fire Following Earthquake (FFEQ) provision.
[23] Final Rulings and Order on Motions to Strike Applicant's Direct Testimony, issued October 14, 2015.

ALJ issued a ruling deferring resolution of the confidentiality issue until the end of the evidentiary hearing.

The evidentiary hearing commenced on November 16, 2015 and cross-examination of pre-filed direct testimony continued until November 23, 2015.

All parties filed rebuttal testimony on December 2, 2015. The ALJ heard motions to strike portions of the rebuttal testimony on January 5, 2016. The evidentiary hearing reconvened on January 6, 2016 and the parties conducted cross-examination on the rebuttal testimony until January 13, 2016. Prior to the cross-examination of rebuttal testimony, each witness was given an hour for surrebuttal.

On February 4, 2016, SFG filed a renewed Motion to Seal exhibits and testimony. On February 12, 2016, CDI, CW and CFC filed responses in opposition. On February 17, 2016, SFG filed a Further Memorandum Concerning Waiver or Judicial Estoppel Concerning Application of Insurance Code section 1861.07. On February 18, 2016, SFG filed a Motion for Leave to Submit Surrebuttal Testimony. After a hearing on these motions on February 19, 2016, the ALJ issued final rulings on the admission of the remaining exhibits. The ALJ denied the motions to submit surrebuttal testimony and to confidentially seal exhibits and testimony. However, the ALJ stayed the ruling unsealing documents until the effective date of the Commissioner's decision in this matter during which time exhibits and testimony designated conditionally confidential remain filed under seal.[24]

During the evidentiary hearing, the ALJ ordered the parties to jointly submit rate calculations. On February 19, 2016, the parties filed 23 different rate template calculations.

[24] Final Rulings on Motion to Seal, Admission of Exhibits, Closing Evidentiary Hearing and Briefing, issued March 3, 2016.

The parties filed post-hearing opening briefs on April 11, 2016 and reply briefs on May 18, 2016. Requests for official notice were filed throughout the hearing. The ALJ ruled on these requests on May 27, 2016 along with motions to strike portions of post-hearing briefs. On June 6, 2016, the parties filed redacted post-hearing briefs in accordance with the May 27, 2016 ruling on official notice.

On June 1, 2016, SFG, CDI, and CW resubmitted rate calculations clarifying disputed values in them. Subsequently, the ALJ ordered the parties to file additional rate calculations using specific values for the catastrophe adjustment factor. After CDI and SFG submitted letters clarifying their approaches to weighting catastrophe load ratios, the ALJ specified one approach to weighting and ordered the filing of additional rate template calculations in Excel format with catastrophe adjustment factor worksheets. On June 6, 2016, the parties jointly submitted their final rate calculations. On June 9, 2016, the ALJ closed the record. And on July 6, 2016, the ALJ submitted a Proposed Decision to the Commissioner.

On August 8, 2016 the Commissioner declined to adopt the ALJ's Proposed Decision and referred the matter to ALJ Larsen to obtain additional evidence and argument regarding whether Applicant should be required to pay interest on amounts to be refunded, in the event Applicant is required to do so, and which interest rate, if any, would be appropriate.

As a result, ALJ Larsen opened the record and ordered the parties to meet and confer to define issues in dispute, submit evidence and legal argument in response to the Commissioner's referral order, and appear for a hearing. In response, the parties filed opening briefs on August 29, 2016 and appeared on September 2, 2016. On September 2, 2016, the ALJ admitted exhibits relevant to an appropriate interst on refunds. On September 12, 2016, the ALJ ordered the parties to appear at a pre-briefing conference. And on September 20, 2016, the parties filed reply briefs including argument regarding dates for accruing interest as requested by the ALJ. In conclusion, the ALJ reclosed the record on September 26, 2016.

Disputed Issues

The parties disputed two factors used to determine the maximum permitted earned premium produced by the regulatory formula and two variances from the maximum permitted earned premium. The parties also disputed whether refunds may be ordered retroactively to the effective date.[25] More specifically, the parties disputed the following questions:

1. What is Applicant's Catastrophe Adjustment Factor pursuant to California Code of Regulations, title 10, section 2644.5?
2. What is Applicant's projected yield pursuant to California Code of Regulations, title 10, section 2644.20, subdivision (a)?
3. Does Applicant qualify for a leverage variance pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(3)?
4. Does Applicant qualify for a confiscation variance pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(9)?
5. If the current rates are excessive, should refunds be ordered retroactively with simple interest to the effective date of July 15, 2015 and at what interest rate?[26]

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[25] The parties stipulated to granting variances pursuant to Cal. Code Regs., tit. 10, § 2644.27, subd. (f)(7) and 2644.27, subd. (f)(8) for the non-tenant homeowners subline due to policies renewing to higher deductibles; Exh. 1-80; Tr. 450:1-17; Hearing on Motion to Compel dated September 29, 2015 Tr. pp 7:1-10:1. The parties also stipulated to granting a variance under California Code of Regs., tit. 10, § 2644.27, subd. (f)(2)(a) to adjust the efficiency standard by +0.5% overall. Second Supplemental Joint Statement of Undisputed Issues, dated November 13, 2015.

[26] Along with the parties' Joint Statement of Undisputed Issues, the parties filed exhibits providing the undisputed ratemaking data needed to calculate the maximum permitted earned premiums for each subline of homeowner's insurance using the ratemaking template.

Summary of Parties' Contentions

Applicant seeks an increase in its California homeowners insurance rates due, in part, to the potential for increased wildfire insurance losses in California. To quantify an increase based on this potential, Applicant proposes adjusting its historical catastrophe losses upwards to reflect what Applicant sees as a positive trend in its wildfire losses.

To ensure Applicant has sufficient surplus funds to pay homeowners insurance claims stemming from wildfires and fires following earthquakes, Applicant maintains a portfolio of liquid assets. Applicant objects to using the consolidated assets of the State Farm Group to calculate State Farm General's projected yield.

A ratio of insurers' premium to its surplus, called the leverage factor, is imputed to insurers as part of determining their maximum permitted earned premium. The leverage factor is determined using national, industry-wide data from consolidated statements. Applicant argues it is entitled to a variance from this factor due to a greater perceived risk from its concentration of homeowners insurance business in California. Applicant bases this and many other arguments on its view that SFG operates separately from the State Farm Group. Applicant also seeks to delay the effective date of its new rates to avoid refunding rates retroactively.

With regard to Applicant's catastrophe losses in California, no other parties agree that Applicant's catastrophe loss data reveals an upwards trend through 2014, the period through which the parties agreed to analyze Applicant's data. With regard to Applicant's projected yield, CDI, CW and CFC also agree the Regulations clearly require Applicant's projected yield to be calculated using Applicant's consolidated annual statement.

CDI contends Applicant does not qualify for the leverage factor variance based on Applicant's concentration of business in California. CDI, CW and CFC further contend the investment risk of Applicant's California business is not riskier than the homeowners line as a whole countrywide. Lastly, CDI and CFC concur with CW's position that the Commissioner must apply an indicated rate decrease retroactively to July 15, 2015 and refund rates.

Background

The ALJ finds by a preponderance of evidence the following background facts:

I. The State Farm Group

The State Farm Group (State Farm) refers collectively to State Farm Mutual Automobile Insurance Company (State Farm Mutual) and its subsidiaries and affiliated property and casualty insurance companies.[27] As its full name indicates, State Farm Mutual started as an automobile insurer and continues to write auto insurance throughout the U.S., including California. In addition to writing automobile insurance, State Farm Mutual is the holding or parent company that owns and directly controls its subsidiaries as the lead or managing entity of the group.[28] Collectively, the State Farm Group operate in all states.[29] The group form of organization is typical of most large insurers in California and the U.S.[30] The term mutual refers to the fact that State Farm Mutual is owned by its policyholders.[31]

[27] Exh. 43-2.
[28] Exh. 10-124, Group Code 00176, Column 11.
[29] Exh. 43-7.
[30] Schwartz Pre-Filed Rebuttal Testimony (PRT), 28.
[31] Tr. 2408.

Property and Casualty Affiliates Within the State Farm Group

Operating in California During the Period From 1990 through 2014

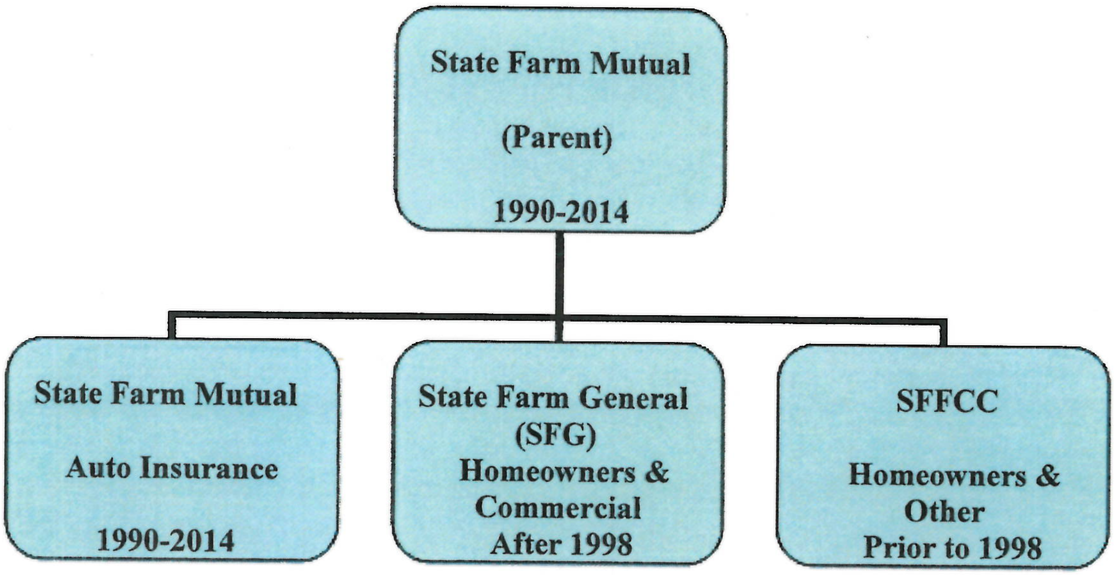

Figure 1

The State Farm Group is the largest homeowners insurance company in the U.S. based on premium.[32] The State Farm Group includes eight affiliated property and casualty carriers including SFG and State Farm Fire and Casualty Company (SFFCC).[33] The State Farm Group's significant size, geographic diversification, market share, and exclusive independent agency force give it distinct advantages over competitors. State Farm companies benefit from tremendous brand-name recognition, cost-efficient exclusive agents, strong customer loyalty and diversified financial service capabilities.[34] The total countrywide direct earned premium shown on this rate application for 2014 equals $57 billion.[35] Of that figure, $5.2 billion, or 9.2%, was earned from Applicant's California homeowner's insurance.

[32] Schwartz PRT, 28:6-11.
[33] Exh. 43-5 – 43-6.
[34] Exh. 43-8.
[35] Exh. 1-21.

State Farm Mutual is headquartered in Bloomington, Illinois where departments, boards and committees combine resources to underwrite, monitor, and evaluate risks divided among State Farm Mutual's affiliates. State Farm Mutual employees provide affiliates with actuarial, underwriting, claims handling, legal, enterprise risk management, and investment services.[36] These and other services are provided through a shared services agreement.[37] The public is familiar with State Farm's brand, logo and marketing, whereby independently licensed agents cross-sell personal insurance lines, including auto, homeowners and life insurance throughout the country.[38] State Farm Mutual affiliates facilitate cross-selling insurance lines by offering discounts to State Farm policyholders who also buy another State Farm policy, for example, a homeowners policy and an auto policy.[39]

A trend in the U.S. system of state-based insurance regulation has been to regulate insurers operating in a group on a group basis. Changes in insurance regulation are coordinated through the National Association of Insurance Commissioners (NAIC) that develops model laws and regulations for adoption by states. Laws that regulate transactions and risks shared within groups are conceptualized as "windows" and "walls." Regulatory walls are designed to protect the capital of the insurer from other exposures within its group with windows through which group activity can be scrutinized to assess their potential impact on the ability of insurers to pay claims.[40]

Following the global financial crisis in 2008, U.S. insurance regulators enhanced the regulatory system by strengthening group capital assessment, broadening the Holding Company System Annual Registration statements to include financial statements of all affiliates, and

[36] Larson Pre-filed Direct Testimony (PDT), 7:24-8:2; Tr. 912.
[37] Hemphill PDT, 33-34.
[38] Exh. 43-5.
[39] Hemphill PDT, 33.
[40] Exh. 421.

requiring risk to be reported on an enterprise or group basis.[41] The NAIC establishes model frameworks for assessing insurer risk.[42] Following the NAIC framework, California requires insurers to perform risk management at all levels of a group as a supplement to a legal-entity view, when an insurer is part of a group.[43]

The NAIC calculates and publishes a variety of ratios used to assess insurance investment risk. For example, for the property and casualty lines, the NAIC publishes ratios of net premium to surplus to measure the adequacy of policy holder surplus.[44]

State Farm Mutual's enterprise risk management is sophisticated and more advanced than other U.S. personal line insurers. State Farm Mutual's employees manage State Farm's most significant risks using computer models to test the ability to pay claims under the stress of catastrophic conditions. With this information, State Farm Mutual develops strategies to mitigate risks.[45] For example, by adjusting capital and reinsurance,[46] State Farm manages to avoid depleting surplus even during record catastrophe loss years, such as 2011.[47]

The U.S. insurance industry's rating organization, AM Best, describes State Farm as "well diversified and gives it a superior rating of A++ for financial strength.[48] This rating encompasses the financial data included in Applicant's consolidated annual statement and reflects State Farm's strong risk adjusted capitalization, liquidity, favorable earnings, and its dominant business profile. As a result of diversification and other risk management strategies,

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[41] Exh. 421; Tr. 1089-1090.
[42] The NAIC Own Risk Solvency Assessment (ORSA) Guidance Manual dated July, 2014, p. 1-2. On May 27, 2016, the ALJ took official notice of this manual, which is available on the NAIC website.
[43] Insurance Code section 935.1 et seq. including section 935.4 requires the insurance group of which the insurer is a member to regularly conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual. ORSA Guidance Manual dated July, 2014, p. 6. Tr. 2476:7-9.
[44] Exh. 907.
[45] Exh. 43-8, 44-2, and 44-7.
[46] Exh. 44-12.
[47] Exh. 43-15.
[48] Exh. 43-3, 9.

AM Best reports that State Farm is able to accept volatility in its markets in exchange for higher profits from its above average holdings in equities.[49] The State Farm affiliates holding a significant part of their asset portfolio in stocks includes SFFCC and State Farm Mutual, who holds 40% of its assets in stocks.[50]

State Farm is a family of insurance and financial services companies that together serve tens of millions of customers in the U.S. According to NAIC instructions, State Farm is required to file a consolidated or combined annual statement with state regulators because it has the ability to exercise control over its affiliates based on the one or more of the following criteria:

1. Similar types of affiliated insurance companies in a holding company system that have direct or indirect ownership between them; or
2. Those affiliated companies that have intercompany reinsurance between them; or
3. Those affiliated companies that have intercompany pooling arrangements between them.[51]

State Farm Mutual has control over SFG by virtue of its 100% direct ownership and intercompany reinsurance.[52] State Farm Mutual's ownership of SFG is reflected in the inclusion of SFG's assets in State Farm Mutual's combined annual statement.[53]

Prior to 1998, State Farm homeowner's insurance in California was sold through SFFCC.[54] In 1998, State Farm Mutual reconfigured SFG to write only property and casualty insurance by transferring all SFFCC's California homeowner's business to SFG and ceding business written or assumed by SFG in other states to SFFCC.[55] This served to reduce the

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[49] Exh. 43-9.
[50] Exh. 701; Larsen PDT, 8:3-10.
[51] Exh. 13-1.
[52] Larson PDT, 9.
[53] Exh. 14-1.
[54] Tr. 1760:16-25.
[55] Exh. 44-4. Tr. 1760:16-25.

exposure of other State Farm affiliates to catastrophe losses in California. State Farm Mutual similarly reconfigured its subsidiaries in Florida and Texas.[56]

From 1990 through 2014, State Farm Mutual and SFFCC wrote separate lines of property and casualty insurance in California.[57] SFFCC wrote homeowners insurance in California before 1998 and other property and casualty insurance after 1998. In addition to leading the State Farm Group, State Farm Mutual wrote automobile insurance in California and the U.S. throughout this period.[58]

II. State Farm General Insurance Company (SFG)

SFG has been incorporated since 1962 and is wholly owned by State Farm Mutual.[59] The value of State Farm Mutual's ownership of SFG is equivalent to SFG's surplus. Accordingly, changes in SFG's surplus change in an equal amount on the consolidated annual statement of State Farm Mutual.[60]

SFG is headquartered in Bloomington, Illinois where it is managed by State Farm Mutual's employees.[61] SFG's board of directors and board committees consist entirely of employees of State Farm Mutual, some of whom are also members of State Farm Mutual's board of directors.[62] Under a shared services agreement, State Farm Mutual employees provide legal, risk management, and any other services SFG needs to serve SFG's policyholders.[63] As a result, SFG has no employees of its own.[64]

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[56] Larson PDT, 3:15:24.
[57] Exhs. 43-5, 43-6, 44-4.
[58] Exh. 186-187.
[59] Exh. 44-4.
[60] Exh. 10-4, line 2901; Tr.1093-1094, 2225-2241, 2420-2422.
[61] Exh. 44-4 and 44-20.
[62] Tr. 2278; Spiker PDT, 9:19-28.
[63] The description of enterprise risk management and other services State Farm Mutual provides SFG is almost identical in AM Best's credit reports on SFG and State Farm Mutual. Exh. 43-9 and 44-7.
[64] Tr. 327-328, 923:1-7, 924.

For example, Karen Terry, is an actuary who holds the titles of Assistant Vice-President and Assistant Secretary-Treasurer as an officer for State Farm Mutual, SFG, and SFFCC. She also supervised the preparation of SFG's rate application.[65] Jim Larson is an Assistant Vice President for accounting for State Farm Mutual and an Assistant Secretary-Treasurer of SFG.[66]

After reconfiguring SFG's business in 1998, State Farm Mutual transferred $2.5 million in capital to SFG plus additional amounts that totaled $1.9 billion by the end of 2014. Capitalizing SFG to write only homeowners and commercial property lines in California served to segregate the State Farm's Group's exposure to California's property insurance losses.[67] In 2014, SFG's $5.2 billion in direct earned premium represented 99.3% of its direct earned premium in California and 9.2% of the total direct earned premium earned countrywide by the State Farm Group.[68]

SFG is currently the largest writer of homeowners insurance in California with 20% of the market.[69] SFG's personal homeowners line includes sublines for non-tenant homeowners, renters and condominiums. SFG does not write personal earthquake insurance. SFG's homeowners insurance comprises 70% of SFG's mix of business. The remaining 30% is commercial insurance, which includes coverage for earthquakes.[70]

SFG's exposure to California's catastrophic earthquakes and fires has not resulted in underwriting losses in the five years reported in AM Best's 2014 credit report. During this time, underwriting performance has been better than the industry average. AM Best attributes this to the superior business profile of the State Farm Group. Its business profile provides a below average expense structure, cost efficient marketing, and claims handling through an exclusive

[65] Terry PDT, 1; Tr. 447.
[66] Larson PRT , 1.
[67] Tr. 1032.
[68] Exh. 1-21.
[69] Terry PDT, 32:1-4.
[70] Tr. 489-497.

agency sales force. In addition, AM Best credits State Farm's management of affiliates, such as SFG, for improving underwriting performance by reducing exposure in higher catastrophe risk areas.[71]

State Farm Mutual provides several other benefits to SFG to mitigate the impact of potential losses or to enhance SFG's ability to pay them. State Farm Mutual provides SFG with the majority of its catastrophe reinsurance protection with the remainder being provided by third-party reinsurers.[72] State Farm Mutual provides SFG with a liquidity pool and a half a billion dollar line of credit to avoid the cost of selling investments at a bad time, if the need arises.[73] The liquidity of SFG's investments is sound because SFG's surplus is invested 100% in bonds.[74] As a result of SFG's diversified portfolio of fixed term investments, SFG was able to avoid losses from the 2008 recession.[75] All of these factors comfortably support AM Best's superior rating of A+.[76]

Discussion

Turning back to the contentions of the parties, the ALJ now provides an analysis of the pertinent law and facts leading to conclusions necessary for calculating Applicant's maximum permitted earned premium.

I. Maximum Permitted Rate Without A Variance

To calculate the maximum permitted earned premium without any variances, the Commissioner must determine two factors in dispute: the Catastrophe Adjustment Factor and Applicant's projected yield.

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[71] Exh. 43-11.
[72] Exh. 44-9; Tr. 898-905.
[73] Tr. 905-907, 928-931, 2291-2292; Exh. 8-2; Larson PRT, 4.
[74] Larson PDT, 7:24-8:2.
[75] Tr. 916:7-917:7.
[76] Exh. 44-12 and 423.

A. Catastrophe Adjustment Factor

Central to the determination of the maximum permitted earned premium is an estimation of Applicant's projected losses. Projected losses are determined using the insurer's historical losses per exposure adjusted by several factors, including a catastrophe adjustment.

In terms of property/casualty ratemaking methodology, catastrophes are relatively infrequent events or natural phenomena that cause large aggregate losses.[77] If an insurer includes catastrophic losses in the ratemaking analysis, the indicated rates may increase immediately after a year with large losses and may decrease after a year following no catastrophic losses. Due to this extreme volatility, catastrophe losses generally require separate and different treatment from other losses in ratemaking.

California regulators and actuaries remove catastrophe losses from ratemaking data to avoid distorting the ratemaking analysis. To evaluate catastrophe losses over time, the removed catastrophe losses are divided by a common exposure unit. Ultimately, the removed catastrophe loss data is replaced with a factor representing average expected catastrophe losses - the Catastrophe Adjustment Factor.[78]

The parties disagree over six aspects of calculating the Catastrophe Adjustment Factor:[79] 1) the ratio used to express catastrophe experience per year known as the CAT load ratio; 2) the number of years used to calculate the Catastrophe Adjustment Factor;[80] 3) whether and to what degree a catastrophe trend should be applied;[81] 4) treatment of the 1991 Oakland Hills Fire;[82] 5)

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[77] Actuarial Standard of Practice 39: Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking, para. 2.2.
[78] In this application, the parties stipulated to 2014 as the recorded period required by Cal. Code Regs., tit. 10, § 2242.6.
[79] Hemphill PDT, 4.
[80] Appendix A-13, column 1.
[81] See Appendix A-13, column 3.
[82] The catastrophe load ratio, the number of years of data, and the treatment of the Oakland Hills Fire are all reflected in the column 2 of the catastrophe adjustment factor worksheets in Appendix A-13.

how the catastrophe ratios should be weighted, if at all;[83] and 6) the method of determining all three forms or sublines.[84] Since components of the Catastrophe Adjustment Factor are determined by the same regulation, the ALJ makes findings regarding a common set of facts before analyzing each disputed component separately.

1. Applicable Law

Non-catastrophe projected losses are adjusted by a loss trend factor separately from the catastrophe losses.[85] Projected losses are the insurer's historic losses per exposure, adjusted by catastrophe adjustment, by loss development, and by loss trend.[86]

The catastrophe adjustment is determined by Regulation section 2644.5, which states in full:

> In those insurance lines and coverages where catastrophes occur, the catastrophic losses of any one accident year in the recorded period are replaced by a loading based on a multi-year, long-term average of catastrophe claims. The number of years over which the average shall be calculated shall be at least 20 years for homeowners multiple peril fire, and at least 10 years for private passenger auto physical damage. Where the insurer does not have enough years of data, the insurer's data shall be supplemented by appropriate data. The catastrophe adjustment shall reflect any changes between the insurer's historical and prospective exposure to catastrophe due to a change in the mix of business.

2. Findings of Fact Regarding Catastrophe Adjustment Factor

The ALJ finds by a preponderance of evidence the following facts regarding Applicant's catastrophe data relevant to calculating the Catastrophe Adjustment Factor.

Prior to 1992, Applicant defined a catastrophe as an event causing more than 300 claims and causing more than $300,000 in losses. Sometime after 1992, Applicant altered its definition

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[83] See Appendix A-13, column 5.
[84] Hemphill PDT, 4.
[85] Cal. Code Regs., tit. 10, § 2644.4, subd. (b).
[86] Cal. Code Regs., tit. 10, § 2644.4, subd. (a), § 2644.5, § 2644.6, and § 2644.7.

to an event causing more than 500 claims and totaling more than $500,000 in losses across all lines of insurance in California.[87] Applicant does not know when it changed its catastrophe threshold because it does not have "raw" data from 1980-1989.[88] Nor does Applicant have catastrophe data prior to 1980. Applicant used this fixed-dollar threshold to remove and separately analyze its catastrophe loss data.

As shown in Figure 2 below, Applicant's average historical homeowners catastrophe losses in California fall into three categories: fire - 50.5%, wind and rainstorms - 23.5%, and other extended coverage (OEC), which is typically triggered by water and freeze damage – 25.1%.[89] Although wildfires account for roughly 50% of the Applicant's homeowner's insurance losses they account for less than 15% of the catastrophe occurrences.[90]

State Farm's Catastrophe Losses by Peril

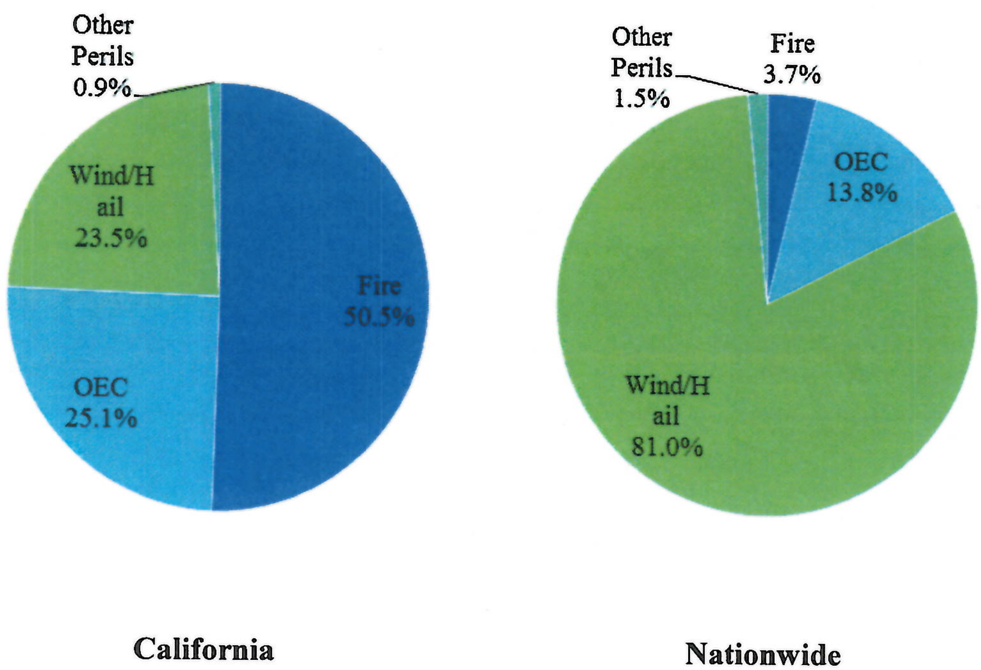

Figure 2

[87] Tr. 1786.
[88] Exhibit 413-4, 5; Tr. 2060-2062, 2069-2074, 2154-2155.
[89] Exh. 317; Tr. 107.
[90] Terry PDT, 9:18-20.

From 1990 to 2014, Applicant's annual catastrophe losses have generally remained at or below $100 million per year. Notable exceptions are three spikes in losses that exceeded $200 million in one year.[91] The losses in those years resulted from the Oakland Hills Fire in 1991, fires in San Diego and San Bernadino counties in 2003, and a fire in San Diego County in 2007.

Catastrophes in other states differ in their type of peril, frequency, and severity from those in California. Countrywide, excluding hurricanes, the largest catastrophic homeowners losses are due to wind and hail damage. Such losses account for 80.9% of State Farm's countrywide homeowners losses with fire losses accounting for only 3.7 %.[92]

Wildfire insurance losses in California are attributed to a variety of factors, including construction materials, vegetation surrounding homes, and the availability and effectiveness of fire suppression or fire-fighting. While Fires in California are often caused by lightning, humans are responsible for the fires that burn the majority of areas in California.[93]

While wildfires caused relatively low losses to structures insured by Applicant from 2011-2014, thousands of acres of uninhabited, public land burned during the same time period.[94] For example, the 2013 Rim Fire burned 257,314 acres in Tuolumne County without causing significant damage to structures.[95] Research into the risks and causes of fires in California is ongoing and complex due, in part, to shifts in housing growth patterns to the wildland urban interface (WUI) and back to urban areas. Because published research on wildfire risk is not based on recent data, conclusions regarding the shifting nature of wildfire exposure are difficult to form.[96]

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[91] Exh. 106.
[92] Exh. 105; Tr. 369-373,
[93] Exh. 108.3-2.
[94] Exh 108.1-7 through 108.1-10.
[95] Tr. 1988, 2002-2004; On May 27, 2016, the ALJ took official notice of the California Department of Forestry Large Fire Lists for 2007, 2011, 2012, 2013, and 2014, which are available on the Department of Forestry's website.
[96] Exh. 108.1-2; Tr. 1807-1818.

Prior to 1990, Applicant did not keep specific data on its wildfire exposure. In 1990, Applicant began developing data on its wildfire exposure on a zip code level and later in relation to a home's latitude and longitude.[97] Applicant bases its wildfire risk levels on definitions provided by the California Department of Forestry and Fire Protection (Cal Fire) in 2005.[98] In general, the risk of wildfires is moderate in urban areas and desert regions and high in the Sierra Nevada and Southern California foothills.[99]

By at least 1998, Applicant began to reduce its California wildfire risk by conducting surveys and inspecting homes. As a result, policyholders could be non-renewed for non-compliance with wildfire underwriting eligibility requirements. Once zip codes with a significant wildfire risk were identified, Applicant began restricting all new homeowners business in these areas with some accommodations to existing homeowners. In 2014, Applicant restricted its homeowners business further in 245 zip code areas.[100] As a result of these restrictions, the distribution of Applicant's homeowners insurance policies exposed to high wildfire risk decreased.[101]

Applicant's 1980 to 1989 data is deficient in important respects. State Farm does not know what its catastrophe threshold was during that time. Prior to 1990, Applicant aggregated data by combining all sublines together. And in 1990, State Farm changed its method of recording data from an accident-year basis to a calendar year basis.[102]

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[97] Tr. 1692-1697.
[98] Tr. 1697-1698.
[99] Exh. 109-5.
[100] Exh. 320, 424; Tr. 74, 203.
[101] Exh. 109-3, 109-4, 512, Tr. 1699-1707, 1742.
[102] Accident-year catastrophe data represents all the loss transactions made for catastrophes that occurred during a given 12-month period, irrespective of the year in which the loss transaction occurred, the claim was made, or the policy was issued. Calendar year catastrophe data represent all the catastrophe loss transactions – such as claim payments, allocated loss adjustment expenses, or changes in reserves – that occur during a 12-month period, irrespective of the year in which the catastrophe occurred, the year the loss was reported, or the year in which the policy was issued; Exh. 1, 503; Tr. 787-793, 1691-1696, 2154-2155.

Catastrophe load ratios are commonly calculated by either dividing annual catastrophe (CAT) losses by an exposure unit known as the "amount of insurance years" or AIY or by dividing catastrophe losses by non-catastrophe losses. The resulting catastrophe load ratios are abbreviated as CAT/AIY or CAT/non-CAT ratios. Figure 3 below shows how catastrophe losses, non-catastrophe losses, and AIY varied from 1990 to 2014.[103]

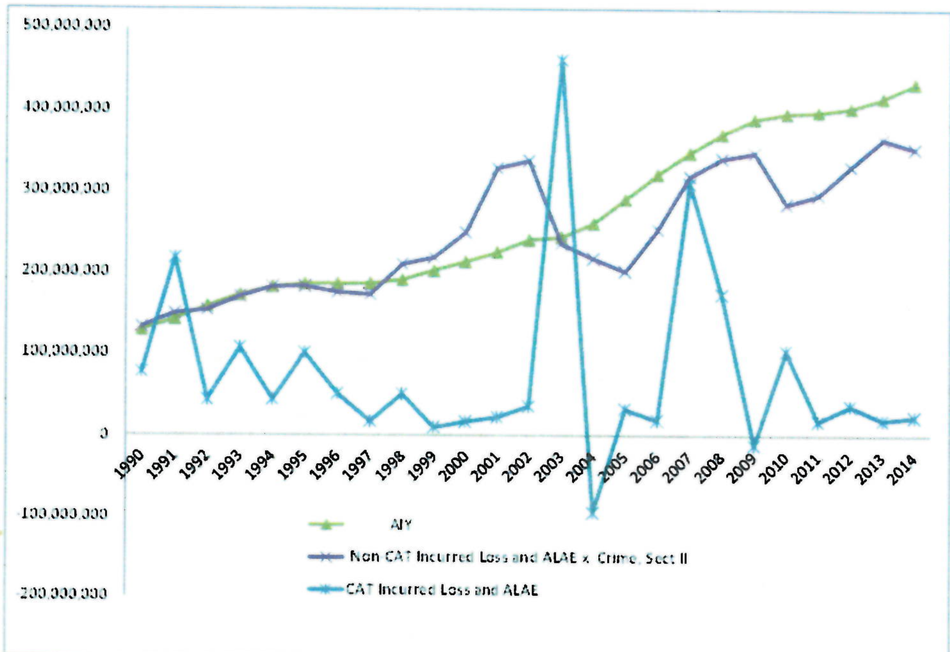

Figure 3

Applicant adjusted its historical catastrophe data in several ways before calculating catastrophe adjustment factors. First, In 2014, Applicant increased its homeowners insurance deductibles on some California policies.[104] Accordingly, Applicant removed losses from its data during the years when deductibles were lower.[105]

Second, in 1997, Applicant revised its guaranteed cost replacement provision. Previously, some homeowners policies provided for replacement cost of the dwelling even if the actual

[103] Exh. 1-70, 106; Hemphill PDT, 19:25, 20; Terry PDT, 23:26-24:7; Tr. 52:16-18.
[104] Watkins PDT, 20:19-24.
[105] Tr. 71-73.

replacement cost exceeded policy limits. In 1997, Applicant changed that provision from an unlimited guarantee to a 20% limit beyond the policy coverage. Consequently, Applicant adjusted its historical catastrophe losses to reflect the changes in these coverage limitations.

Lastly, as a result of the large numbers of underinsured homeowners from the 1991 Oakland Hills Fire, Applicant began improving its methods of calculating the ratio of insurance coverage purchased to the replacement value of the property known as insurance-to-value (ITV).[106] As a result, Applicant removed amounts from its losses that were paid to Oakland Hills Fire policyholders due to the unique circumstances of that event.[107] Applicant did not adjust its data to take into account wildfire underwriting restrictions.[108]

3. Contentions Regarding the Catastrophe (CAT) Load Ratio

a. Applicant's Proposed Catastrophe CAT Load Ratio

Applicant proposes using the CAT/AIY ratio over the CAT/non-CAT ratio, excluding crime and liability losses for the following reasons: (1) strong upward and downward trends in non-CAT losses exist for all forms that do not appear to relate to catastrophe losses, and (2) the trend in AIY is much smoother and more consistent than the trend in the non-CAT losses.[109]

b. CDI's Proposed Catastrophe Load Ratio

The California Department of Insurance (CDI) proposes using a CAT to non-CAT load ratio excluding crime and liability losses primarily because CDI argues that Applicant's CAT/AIY ratios are subject to distortion due to changes Applicant implemented in insurance to value (ITV) over time.[110]

[106] Hemphill PDT, 20:25-26-21:17; Terry PDT, 24:19-25:1, 25:18-20; Tr. 46, 364-368.
[107] Watkins PRT, 47:22-48:6; 49, Tr. 1771.
[108] Tr. 451:13-22.
[109] Watkins PDT, 19:12-17.
[110] Hemphill PDT, 7:15-18 and 19:22-28; CDI's Post-Hearing Opening Brief, 26-33.

4. Analysis and Conclusions Regarding Catastrophe Load Ratio

The methodology for determining average catastrophe loading is provided in general actuarial terms in Regulation section 2644.5. Section 2644.5 does not determine how catastrophe losses should be evaluated over time or averaged. However, the parties agree that catastrophe losses must first be expressed as a ratio annually and then averaged. But the parties disagree on which exposure unit to use to divide Applicant's annual catastrophe losses.

For guidance, actuaries frequently turn to Actuarial Standards of Practice (ASOPs) and statements of principles of the Casualty Actuarial Society (CAS). The Statement of Principles Regarding Property and Casualty Insurance Ratemaking states that "the determination of an appropriate exposure unit or premium basis is essential," and "it is desirable that the exposure unit vary with the hazard and be practical and verifiable."[111]

Essentially, Applicant and CDI disagree over whether Applicant's changes in ITV over the experience period impacted AIY and whether such changes distort Applicant's CAT/AIY ratios.[112] The ALJ does not find sufficient evidence to measure the impact of Applicant's ITV changes on AIY or how such changes might have distorted CAT/AIY ratios over time.[113] Qualitatively, the CAT/AIY ratio fits the data better because the AIY trend in the data from 1990 through 2014 is much smoother and more consistent than the trend in the non-catastrophe losses.[114]

Even assuming Applicant's ITV changes impacted Applicant's CAT/AIY ratio, no methodology for determining the catastrophe load is perfect or without disadvantages.[115] As CFC noted, the non-catastrophe loss exposure base is potentially distorted as well. For example, water

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[111] Watkins PDT, 18:24-19:6; Tr. 56; Hemphill PDT, 6:22-27.
[112] SFG's Post-Hearing Opening Brief, 62:15- 67:7; CDI Post-Hearing Opening Brief, 27:11-33:7.
[113] Tr. 48-49, 77, 206-207, 284-285, 2009-2010, 2014-2015.
[114] Watkins PRT, 53-55; Tr. 62:23-63:14.
[115] Hemphill PDT, 24:15-20; Tr. 45, 50-53, 274:2-11.

leaks which account for a significant percentage of non-catastrophe losses, excluding theft and liability, would not vary with catastrophe losses from wildfires.[116]

CFC found AIY to be an appropriate exposure base, and CW uses it in its analysis.[117] Accordingly, based on all the reasons above, the ALJ concludes that the CAT/AIY ratio is most actuarially sound in accordance with the regulations for this rate application.

5. Analysis and Conclusions Regarding the Number of Years of Experience

Regulation section 2644.5 requires the catastrophe adjustment factor to be based on at least 20 years of reliable data. Applicant calculated the Catastrophe Adjustment Factor using experience from 1990-2014 (25 years) and from 1980-2014 (35 years). Initially, all parties considered using 25 to 35 years of data, but closer examination revealed flaws in the 1980-1989 data.[118]

Based on the evidence presented, the ALJ concludes 25 years should be used. First, during these years, Applicant used a different catastrophe threshold.[119] Second, the first ten years of data included less information on wildfire risk and other policy level data. Third, prior to 1990, Applicant aggregated its data by combining all three sublines so factors cannot be calculated for each subline independently prior to 1990. And fourth, this data is in the form of accident-year data instead of the calendar year data used for the next 25 year. Accordingly, the ALJ concludes the 25 years of data from 1990-2014 data is the most actuarially sound and most reliable.

[116] CFC's Post-Hearing Opening Brief, 6:25-7:7.
[117] CFC's Post-Hearing Opening Brief, 6:8-13; 5-8; CW's Post-Hearing Opening Brief, 11; Tr. 800
[118] CDI's Post-Hearing Opening Brief, 33-35; CFC's Post-Hearing Opening Brief, 8-10.
[119] Tr. 2154-2155.

6. Analysis and Conclusions Regarding Weighting Catastrophe Data

The Regulations do not specifically call for weighting catastrophe data. However, section 2644.5 requires the catastrophe adjustment factor to reflect changes between the insurer's historical and prospective exposure to catastrophes due to changes in the mix of business. The facts demonstrate, Applicant changed its mix of business in recent years by changing deductibles, replacement cost provisions, and wildfire underwriting restrictions. Giving more weight to Applicant's recent years reflects the recent changes in Applicant's mix of business in the catastrophe adjustment factor pursuant to section 2644.5.

When calculating a catastrophe adjustment factor, actuaries may give all years of data equal weight, give more weight to years with a higher volume of exposure using a dollar weighted average, or give more recent years greater weight, as the Applicant and CFC did.[120] CDI advocated different weighting methodologies depending on whether the 1991 Oakland Hills Fire is considered a 1 in 50 year event.[121] CDI's actuary explained that the straight-average method results in giving older, high-catastrophe years more weight and thereby overstates catastrophe losses and indicated rates. A straight average for 25 years would result in each year getting equal weight. Methods that give weight to more recent low catastrophe years would reduce catastrophe loads and result in lower indicated rates.

To gives its more recent years higher weight, SFG weighted its 2014 catastrophe load 6.5%, gradually decreased the weight to 3% in 1999, and applied the 3% weight for the remaining years back to 1990.[122] CFC generally accepted Applicant's weighting methodology,

[120] Hemphill PDT 24:15-20; CDI's Post-Hearing Opening Brief, 36-37.
[121] CDI's Post-Hearing Opening Brief, 36-37.
[122] Watkins PDT, 29-30; Exhs. 76-2 and 77-2, column 5; Hemphill PDT, 7:23-8:2, 22:14-23:4; Terry PDT, 25:13-20; SFG's weights are shown in Exhibit 77-2, columns 5;

but used a narrower range, from 5% in 2014 down to 3.1% in 1990.[123] CW did not dispute the weighting approaches.

By weighting some years higher than 5%, SFG's weighting approach weights the most recent years higher than the weight that would be afforded a straight average of 20 years. If each year is weighted equally for 20 years, each year would be weighted 5% (100% divided by 20 years). And SFG's approach is not uniform because it is flat for the first ten years.

The ALJ finds CFC's weights to be the most actuarial sound. First, CFC's approach does not weight any year more than 5%. Second, the weights are applied evenly over the 25 year period. And third, CFC applies more weight to recent years to reflect recent changes in Applicant's mix of business in accordance with section 2644.5. Accordingly, the ALJ uses CFC's weights to calculate Applicant's Catastrophe Adjustment Factor.[124]

7. Treatment of the 1991 Oakland Hills Fire

a. CDI's Proposed Treatment of the Oakland Hills Fire

CDI proposes reducing the impact of the 1991 Oakland Hills Fire by spreading it over a 50-year period because it is an anomalous 1 in 50 year event.[125] CDI defines a 1 in 50 year event as an event with a 2% probability that the event will cause losses of that magnitude or higher in any given year on an industry-wide basis.[126] In addition, CDI contends Applicant's losses were inflated by Applicant paying claims over the amount of policy limits to a degree that is unlikely to reoccur.[127] CW agrees with CDI's position.[128]

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[123] Priven PDT, 20:6-7; CFC's Post-Hearing Opening Brief, 12-13; Exh. 502, column 5.
[124] Appendix A-13, column 5.
[125] CDI's Post-Hearing Opening Brief, 37-39.
[126] Hemphill PDT, 17:4-22.
[127] Hemphill PDT, 18:25-19:12.
[128] CW's Post-Hearing Opening Brief, 15.

b. SFG's Contentions Regarding the Oakland Hills Fire

Applicant argues the Oakland Hills Fire should not be treated as a 1-in-50 year event because Applicant adjusted its losses downward 31% by removing losses that would not normally be incurred,[129] and applying industry data to support any adjustment due to the Oakland Hills Fire is not supported by the regulation.[130] CFC takes the position that given Applicant's method of weighting its data, making additional adjustments for the Oakland Hills Fire is unnecessary.[131]

c. Analysis and Conclusions Regarding Oakland Hills Fire

Applicant removed losses from the Oakland Hills Fire and weighted more recent years. This tempered the impact of the Oakland Hills Fire.[132] The ALJ notes Applicant's losses due the Oakland Hills Fire (shown in Figure 3 in 1991) are less than the spikes in losses from other fires (shown in Figure 3 in 2003 and 2007). The ALJ also does not find regulatory support for CDI's use of industry-wide data to further adjust Applicant's data. Accordingly, the ALJ finds the adjustments Applicant made to its losses from the Oakland Hills fire are actuarially sound in accordance with section 2644.5.

8. Catastrophe Trend Factor

a. Applicable Law

Section 2644.5 states that "where the insurer does not have enough years of data, the insurer's data shall be supplemented by appropriate data." Section 2644.5 further states that "the catastrophe adjustment shall reflect changes between the insurer's historical and prospective exposure to catastrophe due to a change in the mix of business."

[129] Tr. 1770-1771.
[130] SFG's Post-Hearing Opening Brief, 68.
[131] CFC's Post-Hearing Opening Brief, 2, 13.
[132] Tr. 547-549: "The impact of comparing a 1-in-43-year treatment of Oakland Hills versus a 1-in-50-year treatment of Oakland Hills is ultimately only a .2 percent difference on the rate indication or the indicated change per the template."

b. Applicant's Proposed Catastrophe Trend Factor

Applicant initially proposed a catastrophe trend factor of 2%.[133] But during the evidentiary hearing, Applicant's actuary proposed an alternative trend based on three trend intervals. Applicant proposed a 2% trend for the period from 1990 to 2007, a 0% trend from 2007 to 2014, and a -0.8% trend from 2014 to 2016.[134] Applicant cites the following reasons for applying trend factors to its catastrophe data: 1) as costs increase more events will exceed the definition of a catastrophe and be classified as a catastrophe producing what Applicant called a leveraging effect;[135] 2) changes in the distribution of business in catastrophe-prone areas; and 3) changes over time in the nature of exposure underlying the catastrophic data.[136] Applicant bases its argument for trending catastrophe loss data and its trend selections on national catastrophe data and Cal Fire data.[137]

c. CDI and CW Catastrophe Trend Factor Contentions

CDI disagrees that a catastrophe trend is required and even observable in Applicant's California catastrophe data.[138] CW agrees with CDI that no trend is contemplated by the regulations.[139]

CDI contends Applicant's California data is 100% credible and may not be supplemented under the Regulations. Even assuming Applicant were permitted to supplement its California data, CDI and CW contend Applicant's countrywide and non-insurance fire data is irrelevant and inappropriate to use in selecting a catastrophe trend.

[133] Watkins PDT, 28:19-23.
[134] Watkins PRT, 59; Tr. 1955-1956; SFG's Post-Hearing Opening Brief, 59:18-61:5
[135] Terry PDT, 26:10-15; Terry PRT, 9-10.
[136] Watkins PDT, 19:25-21:4; Watkins PRT, 3-16; Terry PDT, 25:21-26:1; Tr. 1673:23-1674:15.
[137] Watkins PDT, 21:5-29:2.
[138] CDI's Post-Hearing Opening Brief, 9.
[139] CW's Post-Hearing Opening Brief, 15.

d. CFC's Proposed Catastrophe Trend Factor

CFC contends Applicant's California catastrophe data is partially credible but supplements it with different data than Applicant. CFC supplemented Applicant's California catastrophe data with data from an industry service known as Fast Track. As a result, CFC proposes a catastrophe trend factor of negative 4.1%.[140]

e. Analysis and Conclusions Regarding Catastrophe Trend Factor

i. The Regulations Do Not Contemplate Trending Catastrophe Losses

The Regulations explicitly require trending non-catastrophe losses.[141] Regulation section 2644.5 does not contemplate trending catastrophe losses. Instead, catastrophic losses in the recorded period are replaced by a loading based on a multi-year, long-term average of catastrophe claims. Actuarial Standard of Practice (ASOP) 39 gives a reason for this. Catastrophe losses are removed from non-catastrophe data in projecting losses because "historical insurance data used to determine a provision for catastrophe losses will often extend over much longer time periods than data used in most other ratemaking procedures."[142] Considered together, these regulations preclude the trending of catastrophe losses based on the principle that the expression of one thing in a statute ordinarily implies the exclusion of other things (expressio unius est exclusio alterius).[143] But this principle of statutory construction is not applied invariably.

Applicant contends instead that catastrophe trend factors must be applied to catastrophe loss data because the last sentence of section 2644.5 states that the catastrophe adjustment "shall reflect any changes between the insurer's historical and prospective exposure to catastrophe due

[140] CFC's Post-Hearing Opening Brief, 48.
[141] Cal. Code Regs., tit. 10, § 2644.4, subd. (a) and (b).
[142] Exhibit 903: Actuarial Standard of Practice 39, para. 3.3.1.e.
[143] *In re J.W.* (2002) 29 Cal.4th 200, 209.

to a change in the mix of business." Applicant also contends ASOP 39, paragraph 3.3.1.c contemplates applying catastrophe trend factors to catastrophe loss data.[144] But nothing in Regulation section 2644.5 suggests using ASOP 39 to determine a catastrophe adjustment factor.

Applicant's reliance on this vague portion of section 2644.5 is not persuasive, especially since changes in Applicant's business can be reflected in catastrophe data in other ways considered in this case. For example, Applicant has already adjusted its loss data to reflect changes in deductibles and replacement cost coverage. Even assuming the Regulations or ASOPs permit trending catastrophe loss data, the ALJ does not find Applicant's trending of catastrophe loss data to be persuasive, as described below.

ii. Applicant's Countrywide Data is Not Relevant to Determine a California Catastrophe Trend

Applicant relies on State Farm's countrywide catastrophe data to support a 2% positive trend arguing Applicant's California data alone lacked full credibility.[145] CDI, CW, and CFC argue that Applicant's countrywide data is not relevant because the frequency, severity, and type of catastrophe losses in other states differ significantly from those in California.[146]

The ALJ concludes Applicant's countrywide data is irrelevant. ASOP 25 states that related experience should be similar in frequency, severity, and other characteristics.[147] The frequency and severity of catastrophe losses countrywide, which are dominated by wind and hail

[144] ASOP 39, paragraph 3.3.1.c recommends considering making adjustments to historical insurance data to reflect conditions likely to prevail during the period in which the rate will be in effect. Such adjustments should take into account the impact of changes in the exposure to loss, including coverage differences, the underlying portfolio of insured risks, population shifts, and other considerations. Watkins PDT, 19:24-20:25.
[145] Watkins PDT, 20:24-21:4, 28:19-22; Terry PDT, 25:21-26:9; Tr. 93-98, 398-399.
[146] Hemphill PDT, 12:13-16, Tr. 546, 720-721; CFC's Post-Hearing Opening Brief, 32-36; CW's Post-Hearing Opening Brief, 12-14.
[147] Exhibit 395: Actuarial Standard of Practice (ASOP) 25: Credibility Procedures, section 3.3.

losses, are fundamentally different than the catastrophe losses in California caused by wildfires and a lower percentage of wind, rainstorms, and freezes as shown in Figure 2 above.[148]

iii. Cal Fire Loss Data is Not Relevant

Section 2644.5 requires at least 20 years of data to be sufficient and states that an insurer may supplement data only when it lacks sufficient data as defined by Regulation. In this case, Applicant has 25 years of catastrophe loss ratios to average and as such is not permitted by the Regulations to supplement its data.

Assuming again that trending catastrophe loss ratios is appropriate, neither Regulation section 2644.5 nor various ASOPs support using Cal Fire data.[149] Cal Fire data is not similar to or reasonably related to Applicant's insurance data.[150] For example, Applicant's Cal Fire data does match the frequency and severity of Applicant's water-related data as required by ASOP 39.[151] Nor does Applicant's use of Cal Fire data meet the standards of external and internal consistency required by ASOP 23.[152] And Applicant's use of Cal Fire data to supplement catastrophe loss data is by no means "common," as required by ASOP 13. As a result, Cal Fire data is not relevant and appropriate data for this purpose, regardless of any statistical characteristics it may have.[153]

iv. Evidence of a Leveraging Effect Due To a Fixed-Dollar Threshold is Unsupported

Applicant argues for adjusting its catastrophe load ratios upwards because its fixed-dollar catastrophe definition allegedly impacts its catastrophe data.[154] Applicant defines a catastrophe as an event causing more than 500 claims totaling over $500,000 in losses across all its lines of

[148] Tr. 864, 1864.
[149] CFC's Post-Hearing Opening Brief, 36-45; CW's Post-Hearing Opening Brief, 12-14.
[150] CW's Post-Hearing Opening Brief, 12-13.
[151] CDI's Post-Hearing Opening Brief, 24-26, CFC's Post-Hearing Opening Brief, 32, 40-41.
[152] CFC's Post-Hearing Opening Brief, 37.
[153] CFC's Post-Hearing Opening Brief, 41; Priven PRT, 13-18; Tr. 804-808, 866.
[154] CFC's Post-Hearing Opening Brief, 46-48.

business. Based on that definition, Applicant concludes that "it makes sense that over time as costs increase more events will exceed this threshold and be classified as a catastrophe, thus producing an increasing trend in the catastrophe data."[155] Applicant also adds that "as catastrophe data dates back to 1980, such events would be more prevalent in the older data, given the impact of inflation moving forward."[156]

The ALJ is not persuaded by Applicant's argument regarding the possibility of a leveraging effect, in part, because Applicant based its position on insufficient and inaccurate data.[157] For example, later testimony revealed that Applicant's catastrophe definition was likely lower prior to 1992 when a leveraging effect might have its greatest impact.[158]

v. A Positive Trend in Applicant's Overall Catastrophe Losses is Unsupported

Applicant focuses its argument for a positive catastrophe trend on a potential change in its mix of business due to wildfire losses. However, as Applicant's actuary testified, the "changes over time in the nature of exposure underlying the catastrophic data" is only a potential driver of a catastrophe trend.[159] Californians are well aware that after several years of extremely dry weather, the risk of wildfires across the State has increased.[160] To justify an insurance rate increase though, a potential increased risk must be quantified and evaluated in relation to Applicant's mix of business. This is reasonable because actual losses due to wildfires are dependent on a variety of factors that unevenly distribute losses on private and public property in urban and rural areas depending on an insurer's actual mix of business.[161]

Applicant's outside actuary also noted that a balance needs to be struck "between

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155 Terry PDT, 26:10-15.
156 Terry PRT, 10:17-19.
157 Tr. 209-210,452, 782-787, 2097-2098, 2170-2171.
158 Exhibit 413-4, 5; Tr. 2060-2062, 2069-2074, 2154-2155.
159 Tr. 402:14-403:12, 696.
160 Watkins PDT, 27:20-27.
161 Exh. 108.1, 108.2, and 108.3; Tr. 1817-1818, 1910-1918.

ignoring new evidence and over-reacting to it."[162] Applicant's arguments react to the potential for increased wildfire losses in wildfire-prone areas but ignore potential changes in areas with lower wildfire risk and ignore the other 50% of its losses not involving fires. If a potential for increased wildfires exists during dry years, one can reasonably infer that a potential exists for decreased losses from wind, rain, and cold weather during the same dry years.

The primary driver of catastrophe losses is not the potential for change, but actual changes "in the distribution of business in catastrophe prone areas,"[163] which would be dependent on growth in the number and value of insured properties in the wildland-urban interface.[164] This further supports the finding that the data most relevant to the catastrophe adjustment is Applicant's actual California catastrophe data, which includes 20% of the California homeowners insurance market.[165]

Considering changes in Applicant's business in California's high wildfire prone areas, Applicant's data does not support a positive trend. In fact, Applicant's alternate trend based on California data is not entirely positive. Using California data only, Applicant proposes a 2% trend for the period from 2000-2007, a 0% trend for the period from 2007-2014, and a negative 0.8% trend for the period from 2014-2016, which is the period of the effective date of Applicant's proposed new rates.[166] The ALJ does not find this trend selection of multiple intervals to be actuarially sound or to comply with section 2644.5 because it consists of three intervals of short duration and the overall period of multiple trends is less than the 20 years required by section 2644.5.

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[162] Watkins PRT, 19:15 – 22.
[163] CFC's Post-Hearing Opening Brief, 14:24-15:2; Tr. 402:24-403:3.
[164] Tr. 246-247.
[165] CDI's Post-Hearing Opening Brief, 21.
[166] Watkins PRT, 59.

CDI, CW, and CFC argue that if any catastrophe trend should be applied to Applicant's catastrophe data, it should be negative. Some parties attribute this negative trend to Applicant's effort to restrict underwriting in wildfire prone areas.[167]

CFC argues that a negative 4.1% trend should be applied to Applicant's catastrophe data based on California Fast Track data. California Fast Track consist of insurance statistics prepared for the insurance industry. However, the ALJ does not find California Fast Track data to be sufficiently similar to California catastrophe data to be relevant and reliable for this purpose.

In sum, Applicant's 25 years of volatile, catastrophe loss data is too short of time to provide reliable, appropriate data to discern a trend as Applicant's actuary noted in the beginning of her analysis.[168]

9. Methodology for Calculating Catastrophe Adjustment Factor for Each Subline

Applicant calculates catastrophe adjustment factors for each of its three sublines by first calculating the catastrophe adjustment factor for all forms combined.[169] Next, Applicant allocates the catastrophe adjustment factor to each form separately using a method Applicant calls its "Beta Method." Applicant calculates a "beta factor" for each form by comparing the catastrophe experience of individual forms countrywide to the catastrophe experience for all homeowners policy forms combined countrywide. [170] To estimate this relationship, Applicant only uses the most recent ten years of data (2005-2014).

Applicant's method of estimating catastrophe adjustment factors for each subline is problematic and unnecessary. First, the California data is more relevant than countrywide data. Second, Applicant uses only the last 10 years of data (2004-2014) to allocate the factors, which

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[167] Tr. 1731-1754, 2715-2717.
[168] Watkins PDT, 21:21-24.
[169] Non-tenant homeowners, condominiums, and renters.
[170] Exhibit 1-71; Terry, PDT, 27:20-22; Tr. 128:25-131, 210:23-211:14, 214-216.

include less than the 20 years required by section 2644.5. Accordingly, the ALJ uses available California data to independently calculate the Catastrophe Adjustment Factor for each subline of homeowners insurance.[171]

10. Applicant's Catastrophe Adjustment Factors

Based on the conclusions above, the ALJ finds Applicant's catastrophe adjustment factors for each homeowners insurance subline to be those shown in Appendix A, page 12.

B. Projected Yield

An insurer's projected yield is an independent variable of the ratemaking data used to calculate investment income factors, federal income tax factors, and profit factors, all of which are used to calculate the maximum permitted earned premium.[172]

1. Applicable Law

Regulation section 2644.20, subdivision (a) specifies the exact method of calculating the projected yield:

> "Projected yield" means the weighted average yield computed using the insurer's actual portfolio and yields currently available on securities in US capital markets. The weights shall be determined using the insurer's most recent **consolidated statutory annual statement**, and shall be computed by dividing the insurer's assets in each separate asset class shown on page 2, lines 1 through 9 of the insurer's consolidated statutory annual statement, by the total of lines 1 through 9. The yields for each asset class shall be based on an average of the most recent available 3 complete months, as of the date of filing. [emphasis added]

The current definition of the projected yield became operative on April 3, 2007. Prior to 2007, section 2644.20, subdivision (a) determined an "imbedded yield" calculated using other factors.[173]

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[171] CFC's Post-Hearing Opening Brief, 11-12; CDI's Post-Hearing Opening Brief, 35-36.
[172] Cal. Code Regs., tit. 10, § 2644.19 and § 2644.18.
[173] "Projected yield" means the insurer's imbedded yield in the most recent year for which investment results have been reported, plus an average of the insurer's realized capital gains over the most recent five years. Imbedded yield shall be calculated as the insurer's net investment income, excluding capital gains, divided by the average of the

2. Contentions

Applicant contends that using Applicant's consolidated annual statement instead of SFG's individual annual statements conflicts with the Insurance Code and other statutes and is unconstitutional.[174]

CDI, CW, and CFC contend that section 2644.20, subdivision (a) unambiguously requires Applicant to use data from its group or consolidated annual statement and that the relitigation ban of section 2646.4, subdivision (c) prohibits Applicant from presenting evidence otherwise.[175]

3. Findings of Fact Regarding Applicant's Projected Yield

Using Applicant's consolidated annual statements, the parties agree that the projected yield calculated in accordance with section 2644.20, subdivision (a) is 5.68% or 5.84% depending on which annual statement, filing date, and yields are used.[176]

Applicant's consolidated annual statement contains the assets used to determine the weights to be applied to the average yields for each asset class shown on Applicant's consolidated annual statement.[177] The yields for each asset class are determined by undisputed sources determined by the Regulations.[178]

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insurer's start of year and end surplus and reserves for the most recent year for which investment results have been reported. Rule Making File No. RH05042749, Proposed Regulation Text, page 15.

[174] SFG's Post-Hearing Opening Brief, 4-25.

[175] CDI's Post-Hearing Opening Brief, 52.

[176] Hemphill PDT, 4-6; Hemphill PRT, 4-8; Exh. 384; and Tr. 1382-1383, 1402-1410.

[177] The NAIC version of the annual statement for the State Farm Group is shown in Exh. 14. The version filed in California is shown in Exh. 10.

[178] Hemphill PRT, 5-6.

4. Analysis and Conclusions of Law Regarding Applicant's Projected Yield

a. Regulation Section 2644.20, Subdivision (a) is Not Ambiguous

Section 2644.20, subdivision (a) defines the projected yield as the weighted average yield computed using two components of data: 1) the insurer's actual portfolio and 2) yields currently available on securities in U.S. capital markets. Section 2644.20, subdivision (a) does not define weighted average, but the parties agree on how a weighted average is calculated based on annual statements and current yields. Section 2644.20, subdivision (a) describes how each component of data is used to calculate the weighted average yield.

For the sake of simplicity, consider the yields first. The instructions for calculating the yields are found in the last sentence of section 2644.20, subdivision (a) where it states, "the yields for each asset class shall be based on an average of the most recent available 3 complete months, as of the date of filing." The source of this data is provided in the Regulations.[179]

Returning to the weights, section 2644.20, subdivision (a) provides that the "weights shall be determined using the insurer's most recent consolidated statutory annual statement." The weights are multiplied by the corresponding asset category to mathematically reflect Applicant's investment income in accordance with Insurance Code section 1861.05, subdivision (a). Thus, section 2644.20, subdivision (a) is not ambiguous with regard to a given consolidated statement and yields.

[179] Tr. 1408-1409; CDI's Post-Hearing Opening Brief, 52-55.

b. The Regulation Requires Using State Farm Mutual's Consolidated Annual Statement to Calculate Applicant's Projected Yield

Applicant argues the consolidated annual statement cannot mean the combined annual statement of State Farm Mutual, in part, because the term "insurer's actual portfolio" allegedly conflicts with the mandate to use the insurer's consolidated statement.[180] The ALJ finds no conflict between the terms "insurer's actual portfolio" and "consolidated statutory annual statement" because Applicant's consolidated annual statement is Applicant's actual portfolio on a group basis.[181]

Using Applicant's consolidated statement to calculate Applicant's projected yield and investment income is consistent with how other parts of the Regulation use group data. For example, consolidated statements are aggregated on an industry-wide basis to determine the leverage factor and other factors used to determine investment income.[182] Determining Applicant's projected yield using consolidated or group data is also consistent with State Farm Mutual's continued ownership and control, exemplified by State Farm Mutual's reconfiguration of SFG in 1998.[183]

Applicant's argument that it should be viewed as an individual affiliate for the purpose of determining the projected yield relies on general language and other arguments taken out of context.[184] For example, Applicant relies heavily on the statement in Insurance Code section 1861.05, subdivision (a) that "the commissioner shall consider whether the rate mathematically

[180] SFG's Post-Hearing Opening Brief, 5-9.
[181] The terms "actual portfolio" distinguish the current definition of projected yield in 2644.20, subdivision (a) from the previous version which defined the projected yield as an "imbedded yield." The ALJ took official notice of the previous version of section 2644.20, subd. (a) in Regulation File: REG-2007-0046, from March 19, 2008 through May 5, 2008, including the Notice of Informal Workshop dated March 19, 2008, Proposed Text, pages 1, 3 and 15-19.
[182] Cal. Code Regs., tit. 10, § 2644.17, subd. (b); CW's Post-Hearing Reply Brief, 5:13-7:10; Exh. 14-7.
[183] CW's Post-Hearing Opening Brief, 40; CDI's Post-Hearing Opening Brief, 39-50.
[184] CDI's Post-Hearing Opening Brief, 6-7.

reflects the insurance company's investment income." This statement only requires that the calculation of an insurer's investment income be mathematically accurate. Section 1861.05, subdivision (a) does not determine which statement shall be used when an insurance company is a group. Such details are resolved by Regulation section 2644.20, subdivision (a) as discussed above.

CDI presents extensive authority for the term "insurer" encompassing insurers operating within a group for the purpose of ratemaking,[185] including general provisions of the Insurance Code which require the term insurer to include more than one insurer.[186] CDI also cites to analogous standards in the Insurance Code for treating insurers independently, which Applicant does not meet.[187] In addition, the NAIC ORSA Guidance Manual, incorporated in California's ORSA Act, states that an insurer or insurers refers to "an insurer and/or an insurance group of which the insurer is a member."[188]

c. Relitigation of the Projected Yield is Not Permitted

The ALJ previously rejected Applicant's piecemeal relitigation of the Regulations.[189] Nevertheless, the same arguments are briefly recalled here.

i. Using Applicant's Consolidated Statement Does Not Conflict with Other Laws

Applicant argues that using its consolidated statements to calculate the projected yield constructs a pooling agreement in conflict with the Holding Company Act. As Applicant noted, one of the many purposes of the Holding Company Act is to regulate the transfer or

[185] CDI's Post-Hearing Opening Brief, 39-52.
[186] CDI's Post-Hearing Reply Brief, 1.
[187] Insurance Code section 1861.16, subd. (c)(1); CDI's Post-Hearing Opening Brief, 46-50.
[188] ORSA Guidance Manual dated July, 2014, p. 1, which the ALJ took official notice of on May 27, 2016. Insurance Code section 935.4 requires the insurance group of which the insurer is a member to regularly conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual.
[189] Final Rulings and Order on Motions to Strike Applicant's Direct Testimony, issued October 14, 2015.

commingling of assets between affiliates within a group.[190] But none of the provisions of the Holding Company Act are relevant to ratemaking, which considers the operation of insurers within insurance groups, such as State Farm.

Regulation section 2644.20, subdivision (a) is part of a statutory scheme regulating rates within an industry composed in large part of national, group insurers. The relevant law requires insurers operating within a group to perform risk management on an enterprise or group basis. The use of consolidated statements to calculate the projected yield is consistent with the regulatory framework within which insurers may transfer assets between affiliates in compliance with regulations as State Farm Mutual undoubtedly did when it reconfigured SFG in 1998.

Whether Applicant has a pooling agreement, reinsurance contracts, or shared service agreements between its affiliates is Applicant's choice. Applicant's choice not to have a pooling agreement does not invalidate or modify section 2644.20, subdivision (a).

ii. Using Applicant's Consolidated Statement Is Not An Unconstitutional Taking

Applicant argues that using its consolidated statement to determine Applicant's projected yield is constitutionally invalid because section 2644.20(a) amounts to reaching out and taking the assets of companies not writing California homeowners insurance. The "taking" Applicant refers to is the use of Applicant's consolidated statement which includes the stock holdings of State Farm Mutual. Using the consolidated statement for SFG's rates would result in a higher yield and lower rates because while SFG is invested in lower yielding bonds, State Farm Mutual's portfolio includes higher yielding equities.

The ALJ does not find this argument persuasive for a number of reasons. First, the ALJ is not persuaded that Applicant's membership within the State Farm Group must be ignored.

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190 SFG's Post-Hearing Reply Brief, 13-14.

Such an argument ignores the fundamental nature of insurance whereby the cost of insurance is more predictable the more people are insured. Furthermore, none of the cases cited by Applicant take into account the insurance ratemaking context wherein risk is diversified across states and surplus is imputed based on industry-wide averages.[191]

Second, Applicant's argument that using Applicant's consolidated statement impacts State Farm affiliates outside of California is misleading because it ignores the operation of State Farm Mutual and its other affiliates within the state. SFG and SFFCC wrote homeowners insurance and collected premiums in California before State Farm Mutual transferred SFFCC's homeowners business to SFG. As Applicant's actuary noted, no distinction was made regarding the data of these two corporations from 1990-1998 because they were and continue to be controlled by State Farm Mutual despite their corporate status.[192]

Finally, on a related theme, requiring the use of consolidated financial data treats members of a group the same in the aggregate. SFG's projected yield may be higher due to the inclusion of State Farm Mutual's stock holdings in the calculation of its projected yield. But the same consolidated statement would lower the yield for State Farm Mutual's automobile insurance line by including the lower yielding bonds of SFG in rates for State Farm Mutual's auto insurance in California.

d. Applicant's Projected Yield is Determined Using Applicant's Most Recent Consolidated Statutory Annual Statement

Section 2644.20, subdivision (a) states that the weights used to determine the Projected Yield "shall be determined using the insurer's most recent consolidated statutory annual statement" and that "the yields for each asset class shall be based on an average of the most

[191] Appel PDT, 15:23-17:6; SFG's Post-Hearing Opening Brief, 19-22; CW's Post-Hearing Reply Brief, 1-2, 4-7, 40.
[192] Tr. 1689:19-1690: 20.

recent available 3 complete months, as of the date of filing." In this matter, Applicant initially filed a rate application on December 4, 2014 and filed an updated version on August 7, 2015. Applicant's updated application includes its 2014 annual statement. The parties disagree over which filing date to use to determine the most recent yields and over which consolidated statutory annual statement to use – the 2014 statement or the 2013 statement.[193]

The requirement of using the most recent consolidated annual statement is independent of the filing date of the rate application. Accordingly, the ALJ finds that the 2014 statement must be used because it is the most recent complete statement in the record and it coincides with the recorded period used by the parties.

Section 2644.20, subdivision (a) states that "the yields for each asset class shall be based on an average of the most recent available 3 complete months, as of the date of filing." The evidence used in this matter was filed on August 7, 2015. The most recent yields as of the date of the August 7, 2015 filing are the yields as of June 2015. This results in using more recent yields, which is generally preferred by the Regulations, when possible.[194]

The parties agree that the projected yield based on the later, more recent set of financial data is 5.84%. Accordingly, the ALJ finds the projected yield for Applicant's August 7, 2015 rate application to be 5.84%.

C. Maximum Permitted Earned Premium

Having considered the parties' evidence and arguments, the ALJ concludes that State Farm's proposed rate increase of 6.9% is excessive. Instead, absent a variance, the rate formula supports an overall decrease in Applicant's homeowners insurance rates of 7.0%. By subline, the rate formula supports decreases in Applicant's homeowners insurance in the following

[193] CW's Post-Hearing Opening Brief, 18-19.
[194] Cal. Code Regs., tit. 10, § 2642.6 and 2655.8, subd. (b).

percentages: -5.37% for non-tenant homeowners, -20.39% for renters, and -13.81% for condominium unit owners.[195]

II. Variances

Applicant seeks two variances to modify the maximum permitted earned premium. Among other requirements, requests for variances from the maximum permitted earned premium must:[196]

(i) identify each and every variance request;
(ii) identify the extent or amount of the variance requested and the applicable component of the ratemaking formula;
(iii) set forth the expected result or impact on the maximum and minimum permitted earned premium that the granting of the variance will have as compared to the expected result if the variance is denied; and
(iv) identify the facts and their source justifying the variance request and provide the documentation supporting the amount of the change to the component of the ratemaking formula.

A. Variance (f)(3) – Leverage Factor Variance

1. Applicable Law

Applicant requests a leverage factor variance pursuant to Regulation section 2644.27, subdivision (c)(1). The leverage factor is the ratio of an insurer's earned premium to its average surplus, as determined by Regulation section 2644.17.[197]

The Commissioner calculates leverage factors for each insurance line annually based on industry-wide data.[198] The industry-wide leverage factors are "calculated using the consolidated underwriting and investment exhibit as published in Best's Aggregates and Averages."[199]

An insurer may apply the leverage factor variance only if:

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[195] The rates indicated by the formula were calculated using the calculations reviewed and submitted jointly by the parties on February 19, 2016 with one modification. In the template calculation filed as Scenario 4, the ALJ changed the projected yield from 5.68% to 5.84%, which is attached as Appendix A.
[196] Cal. Code Regs., tit. 10, § 2644.27, subd. (b).
[197] Cal. Code Regs., tit. 10, § 2644.17, subd. (a); Exh. 908.
[198] Cal. Code Regs., tit. 10, § 2644.17, subd. (b).
[199] *Ibid.*

> [T]he insurer either writes at least 90% of its direct earned premium in one line or writes at least 90% of its direct earned premium in California and its mix of business presents investment risks different from the risks that are typical of the line as a whole. Cal. Code Regs., tit. 10, § 2644.27, subdivision (f)(3).

Accordingly, an insurer must demonstrate: 1) it writes at least 90% of its direct earned premium in one insurance line <u>or</u> demonstrate its California direct earned premium divided by its total direct earned premium countrywide is at least 90%, and 2) its mix of business presents investment risks different from those normally presented by the insurance line as a whole.

The amount by which a leverage factor variance changes the leverage factor is predetermined by Regulation section 2644.27, subdivision (b). If a leverage factor variance is granted, the leverage factor is adjusted by multiplying it by 0.85, and the surplus ratio (section 2644.22) is divided by 0.85. The net effect of granting the leverage factor variance is to provide a higher return for insurance lines perceived to have a higher risk. The industry-wide leverage factor for each line of business is based on the national insurance industry premium divided by the national surplus, which may be "modified for lines of business subject to catastrophes."[200]

2. Contentions Regarding the Direct Earned Premium Threshold

Applicant contends that it writes 90% of its direct earned premium in California. Applicant argues that it meets this threshold by comparing its direct earned premium in California to SFG's total nationwide direct earned premium rather than to the State Farm group's total direct earned premium. Applicant supports its argument based on principles of statutory construction and doctrines of corporate separateness.[201]

[200] Cal. Code Regs., tit. 10, § 2644.17, subd. (b); Tr. 428:9-14, 2505; CW's Post-Hearing Opening Brief, 19-22.
[201] SFG's Post-Hearing Opening Brief, 29-32.

There is no dispute Applicant's direct earned premium for its homeowners line in California compared only to SFG's total direct earned premium is over 90%.[202] Instead, CDI, CW, and CFC argue Applicant's direct earned premium in California should be compared to the State Farm Group's total direct earned premium. Using such a comparison, Applicant's concentration of direct earned premium in California is only 9.2%.

CDI and CFC argue that the calculation of Applicant's direct earned premium must be based on Applicant's group statement because 1) investment matters including the projected yield and both parts of the leverage factor variance must use a consistent methodology, 2) State Farm is highly diversified, and 3) Applicant's business in California is owned, controlled and managed by State Farm Mutual.[203]

3. Analysis and Conclusions Regarding the Direct Earned Premium Threshold

The parties agree that the purpose and effect of the leverage factor variance is to provide greater surplus for higher risk.[204] The first part of the leverage factor variance test provides a threshold for measuring risk due to a concentration of insurance business or the lack of diversification in one line or in one state.[205] The question is whether Applicant's direct earned premium should be compared to SFG's total national direct earned premium or the total direct earned premium of the State Farm Group using Applicant's consolidated annual statement.

a. Using Applicant's Consolidated Annual Statement is Consistent with the Calculation of the Leverage Factor

Regulation section 2644.17 requires leverage factors to be calculated "using the consolidated underwriting and investment exhibit" aggregated industry-wide by AM Best. This

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[202] There is no dispute that Applicant does not satisfy the direct earned premium test based on the amount of insurance written in one line because Applicant doesn't write more than 90% of its premium in one line.
[203] CDI's Post-Hearing Opening Brief, 55-60.
[204] CW's Post-Hearing Opening Brief, 20; Terry PDT, 99.
[205] Appel PDT, 16:23-17:6; Exh. 734.

exhibit is part of Applicant's consolidated annual statement containing Applicant's group financial data.[206] Thus, using Applicant's consolidated statement to evaluate Applicant's direct earned premium concentration is consistent with the calculation of the leverage factor itself.

Using Applicant's consolidated statement to evaluate Applicant's direct earned premium threshold on a group basis is also consistent with using Applicant's consolidated statement to determine Applicant's projected yield as discussed above. This is significant because both figures are used to determine Applicant's investment income. By doing so, the direct earned premium test for the leverage factor variance follows the mandate to use a consistent methodology.[207]

b. Using Applicant's Consolidated Statement Provides A Meaningful Evaluation of Applicant's Diversification

As discussed in section I.B.4.b, the meaning of the term insurer encompass insurers operating within groups. The Court must review the risk posed by an insurer's concentration of business or its lack of diversification at a level relevant to the insurer's actual risk profile and risk management practices. As required by statute, Applicant performs risk management at the group level, and the actual risk faced by State Farm's California affiliate is mitigated by the diversity and the protections State Farm Mutual provides.[208] The ORSA manual requires insurers to perform risk management at the group level because groups offer diversification benefits that lower risk.[209] To now measure the concentration of State Farm's California homeowners' insurance business relative only to its individual California affiliate, SFG, would not provide an

[206] Exh. 14-6.
[207] Cal. Code Regs., tit. 10, § 2643.1.
[208] CDI's Post-Hearing Reply Brief, 15-16; Tr. 1199-1202.
[209] ORSA Guidance Manual dated July, 2014, p. 8-10, which the ALJ took official notice of on May 27, 2016; Insurance Code section 935.4 requires the insurance group of which the insurer is a member to regularly conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual; CW's Post-Hearing Reply Brief, 13-15.

accurate picture of the diversification of investment risk consistent with how the industry diversifies risk and aggregates and allocates surplus across states.

In any case, the ALJ is not persuaded the Commissioner intended the leverage factor variance to allow a group insurer to circumvent the leverage factor by strategically configuring a subsidiary to act as an individual insurer only. Thus, a group-level review using Applicant's consolidated statement is necessary for a meaningful review of the risk posed by Applicant's concentration of business in California.

c. Doctrines of Corporate Separateness are Irrelevant to Ratemaking

To avoid reviewing the concentration of Applicant's business in California on a group basis, Applicant invokes doctrines of corporate separateness. The cases cited by Applicant for this doctrine explain the limited purposes for which corporate doctrines are relevant.[210] The doctrine of corporate separateness may shield State Farm Mutual from being sued because SFG is adequately capitalized for its losses. But such doctrines do not address the level of risk to aggregate relevant to insurance ratemaking.

The incorporation of SFG occurred long before State Farm's homeowners insurance business in California was transferred solely to SFG in 1998 by State Farm Mutual and did not lessen the diversification of Applicant's business. Applicant provides no authority for using doctrines intended to limit the liability of corporations to limit the data relevant to insurance ratemaking.[211] And no rule exists to recognize whether Applicant operates independently with respect to relevant elements of the rate equation or not.[212]

[210] *Mesler v. Bragg Management Co.* (1985) 39 Cal.3d 290, 300 [the separate personality of the corporation is a statutory privilege … that must be used for legitimate business purposes and must not be perverted].
[211] In this context, Justin Grodin's Shakespearean maxim may very well apply." What's in a name: That which we call a rose By any other name would smell as sweet." *Mesler v. Bragg Management Co.* (1985) 39 Cal.3d 290, 310.
[212] SFG's Post-Hearing Reply Brief, 4.

d. Applicant Does Not Satisfy the Direct Earned Premium Threshold

The direct earned premium threshold must be determined on a group level because writing insurance within a group provides diversification benefits that lower risk. Of the $57 billion in Applicant's countrywide direct earned premium declared on its 2014 rate application, the $5.2 billion earned in California amounts to a concentration of direct earned premium of only 9.2%.[213] This figure reflects the concentration of Applicant's business in California and the diversification afforded to it by its group. Accordingly, the ALJ finds that Applicant writes less than 90% of its direct earned premium in California.

4. Contentions Regarding Applicant's Investment Risk

Since Applicant fails to demonstrate its direct earned premium threshold exceeded 90%, the analysis of this variance could stop here. But given the extensive record regarding Applicant's investment risk, the ALJ summarizes the arguments and findings regarding its risk below.

The parties do not dispute that the most rational interpretation of the line as a whole is the homeowners line countrywide. Using the countrywide "line as a whole" as a comparison, Applicant argues that it satisfies the second prong of the leverage factor variance based on a combination of the same factors it contends satisfy the first part of the leverage factor variance: 1) its "concentrated exposure in a single state," 2) its concentration in the homeowners line, and 3) the remainder of its California property and casualty business that is exposed to losses from earthquakes and wildfires.[214]

CW disputes Applicant's assertions and contends Applicant has failed to meet its burden because: "1) all the evidence points to a conclusion that State Farm, the largest homeowners

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[213] Exh. 1-21.
[214] Appel PDT, 14-17; SFG's Post-Hearing Opening Brief, 33-34.

insurer both in California and in the United States, has a mix of business that is less risky than other insurers; 2) the sole piece of evidence State Farm finally relied upon at the hearing to prove it is more risky than the line as a whole – exhibit 25 – does not provide a valid and complete comparison and, even if it did, when evaluated appropriately and consistently with actuarial principles, it shows State Farm's mix of business is less risky than average; 3) State Farm's constantly changing story regarding the leverage variance undermines its position; 4) State Farm's preferred method of using countrywide data (which it did not present) again shows that State Farm is less risky than the line as a whole; and 5) even if it is found that State Farm is more risky, which it is not, State Farm has failed to show that this is because of its mix of business, which is required by the variance."[215]

Among other arguments, CDI contends that Applicant does not satisfy the second part of the leverage factor variance because 1) Applicant's investment risk must be independently evaluated from the first part on a group basis, and 2) its lack of geographic diversification is insufficient to demonstrate SFG is riskier than the line as a whole. CDI argues further that Applicant must be evaluated on a group basis overall because insurer means the group in this context, Applicant is highly diversified, and Applicant manages risk on a group basis.[216] CFC joins CW and CDI in their conclusions.[217]

5. Analysis and Conclusions Regarding Applicant's Investment Risk

As an initial matter, the ALJ finds the two parts of the leverage factor test function independently. If a concentration of direct earned premium or lack of diversification is established in the first part, an insurer must still provide evidence its business is riskier than the

[215] CW's Post-Hearing Opening Brief, 21-22.
[216] CDI's Post-Hearing Opening Brief, 55-66.
[217] CFC's Post-Hearing Opening Brief, 49-52.

line as a whole because not all insurers meeting the concentration threshold would necessarily be more risky.[218]

The second part of the leverage factor variance is not directly impacted by whether the insurer is viewed as part of a group or not. However, since the term "insurer" in the leverage factor variance applies to both parts, the entire leverage factor variance must be evaluated consistently as SFG and CDI agree.[219] Furthermore, the second part of the leverage factor variance supports evaluating Applicant's investment risk at the group level because SFG has not received investments from any person or entity other that State Farm Mutual who wholly owns SFG. Accordingly, the ALJ evaluates the second part of the leverage factor variance on a group basis.

a. Line as Whole

The ALJ agrees with the parties that the "line as a whole" is the homeowners line countrywide because countrywide insurance data is used to calculate the leverage factor.[220] The industry-wide leverage factor is calculated using the consolidated annual statements and published by AM Best.[221] This factor allocates the countrywide surplus to each insurance line in the property and casualty industry in the U.S.

b. Applicant's Mix of Business

The second part of the leverage factor variance requires a comparison of Applicant's mix of business to the line as a whole. Applicant defines mix of business inconsistently.[222] Whereas Applicant's experts opined that its mix of business comprised its homeowners line in California

[218] Terry PDT, 30:20-27.
[219] CDI's Post-Hearing Reply Brief, 14:22-27.
[220] Appel PRT, 2:8-3:11; Hemphill PRT, 21:9-16; SFG's Post-Hearing Opening Brief, 33:17:24; CDI's Post-Hearing Opening Brief, 66.
[221] Cal. Code Regs., tit. 10, § 2644.17, subd. (b).
[222] CW's Post-Hearing Opening Brief, 30-32.

only,[223] Applicant now argues that its commercial line supports its leverage factor variance application. [224] The ALJ finds Applicant's mix of business to be the particular type and location of policies that comprise SFG's homeowner's insurance line because the homeowners line is the subject of this rate application and this variance requires it to be compared to its "line as a whole."

c. Applicant Fails to Demonstrate the Investment Risk of SFG's California Homeowner's Line is Riskier Than the Countrywide Line as a Whole

As discussed above, Applicant must independently demonstrate the investment risk of its homeowners line in California is riskier than the line countrywide. Applicant fails to demonstrate this. Instead, Applicant argues that its concentration of premium in one line, its concentration of premium in California, and its commercial insurance line in California should be added together. This argument is not persuasive for several reasons. First, Applicant assumes again that its concentration of business should be not be determined at the group level. Second, the Regulations do not permit adding risk from different insurance lines, which are not relevant to this rate application. And third, Applicant does not support its argument with data. A potential risk based on faulty assumptions about its business concentration without evidence in the record is insufficient to support the second part of this variance request.[225]

In general, Applicant perceives its risk from fires, including those from wildfires and fire following earthquakes, to be greater than the homeowners line nationwide because California's catastrophes are more variable. However, Applicant does not demonstrate that its actual mix of business is riskier. While California insurers face the risk of wildfires and infrequent earthquakes, the risk of other natural disasters, such as hurricanes and tornadoes is almost zero in

[223] Tr. 2509.
[224] SFG's Post-Hearing Opening Brief, 34.
[225] CDI's Post-Hearing Opening Brief, 62.

California. On the other hand, nationwide the risk of hurricanes and tornadoes is significantly higher.[226]

d. Investment Risk Methodologies Do Not Support Applicant's Arguments

The Regulations and the Actuarial Standards of Practice provide little, if any, guidance regarding how to measure investment risk in this context. In this vacuum, the parties offer several methodologies to support their arguments.

First, as noted above, Applicant argues its California business lacks diversification. Leaving aside Applicant's failure to consider its diversification on a group basis, this contention is undermined by California's large size relative to other states and its geographic diversity.[227] In addition, the ALJ is not persuaded that lack of diversification is relevant to independently evaluate Applicant's investment risk compared to the line as a whole based on testimony alone.

Second, Applicant suggests computing the standard deviation of loss ratios based on the theory that variability is the essence of risk.[228] The method of using standard deviations is commonly used to measure the investment risk of an investment portfolio compared to the market risk in the field of corporate finance.[229] But the parties dispute how to apply that method in the insurance context using loss ratios, and the Regulations provide no support for applying it to ratemaking.[230]

On a countrywide basis, CW opines that Applicant's standard deviation analysis would not support a finding that SFG is riskier than the line as a whole. [231] For example, State Farm

[226] Schwartz PDT, 15.
[227] Tr. 384-385.
[228] SFG's Post-Hearing Opening Brief, 35-36.
[229] Appel PRT, 9.
[230] CW's Post-Hearing Opening Brief, 26, 33.
[231] CW's Post-Hearing Opening Brief, 32.

entities writing homeowners insurance policies in hurricane prone states, such as Florida and Texas, are riskier than SFG.[232]

Third, CW suggests examining NAIC Insurance Regulatory Information System (IRIS) ratios for SFG and other insurers. The IRIS manual published by the NAIC provides key financial information obtained from insurers' financial statements. As with the leverage factor, some Property and Casualty IRIS Ratios aggregate net premium to surplus.[233]

The ratio of net premium to surplus measures the adequacy of the policyholders' surplus cushion. The higher the ratio, the more risk the insurer bears in relation to policyholders' surplus. With regard to SFG's IRIS ratios, SFG was within the NAIC's usual range for all IRIS ratios. More specifically, SFG's net premium to surplus value of 50% was considerably less than the mean value of 85% and the fourth lowest of California insurers.[234] In other words, Applicant has a relatively low ratio of premium to surplus. By these measures, SFG has a lower than average risk compared to countrywide insurers.

Applicant argues IRIS and other ratios are irrelevant to the leverage factor variance because IRIS ratios assess the risk of insolvency, not variability. Applicant also contends the NAIC ratios are not relevant because the leverage factor variance is based on a single line while IRIS ratios aggregate lines of property and casualty insurance. However, Applicant itself opined on the relationship between an insurer's surplus, risk and insolvency in relation to the need for diversification.[235] These ratios are relevant to how the industry evaluates risk, as they reflect the ability of insurers to use surplus and other resources for absorbing losses.[236] While IRIS ratios

[232] CW's Post-Hearing Opening Brief, 25 and 32-33; Schwartz PRT, 35.
[233] Exh. 907.
[234] Schwartz PRT, 30.
[235] Appel PDT, 15:24-16:5.
[236] Exhibit 907-7; Tr. 2295-2298, 3082-3083; CW's Post-Hearing Opening Brief, 26.

are not directly related to the leverage factor variance, they provide some evidence of how the insurance industry evaluates risk.

Fourth, CW contends AM Best's credit ratings are relevant to the leverage factor variance and militate against granting it. In its 2014 rating, AM Best rated SFG and State Farm "A+" and "A++", respectively. As part of these ratings, AM Best noted that SFG is concentrated in a single state.[237] Nevertheless, AM Best attributes Applicant's financial strength, in part, to the strategic relationship between State Farm Mutual and its affiliates. AM Best also gives Applicant's enterprise risk management (including its stress testing) credit for mitigating the overall risk of both entities.

Unlike IRIS ratios, AM Best's ratings are specific to Applicant as an individual insurer and as a group. However, AM Best's ratings of SFG and State Farm Mutual include all lines and affiliates. As a result, the ALJ does not find them to be directly relevant to the leverage factor variance. Nevertheless, these ratings are consistent with a finding that SFG's mix of business is not riskier than the line as a whole.

Lastly, CW and CDI opine that Applicant's own stress testing indicates SFG's homeowner's line is not riskier than companies analyzed by Applicant and other State Farm affiliates.[238] In its credit ratings, AM Best notes that Applicant performs stress testing as part of its sophisticated enterprise risk management, but Applicant does not use its own internal risk assessment to support its arguments.

e. Conclusions Regarding Leverage Factor Variance

Applicant's argument that it should not be evaluated as part of its group is contrary to the calculation of the leverage factor and inconsistent with the Regulations and the facts. Applicant

[237] Exh. 44-9.
[238] Hemphill PRT, 27; CW's Post-Hearing Opening Brief, 26.

has acted as a group in California to segregate, capitalize, and mitigate SFG's risk to its owner and controlling parent company, State Farm Mutual. Applicant's direct earned premium in California amounts to only 9.2% of its total direct earned premium countrywide. Since this percentage is less than 90%, Applicant does not satisfy the first part of the leverage factor variance.

The Applicant also fails to demonstrate its California homeowners business is riskier than the homeowners line as a whole countrywide. Having considered the facts and arguments presented, Applicant's request for a leverage factor variance is denied.

B. Confiscation Variance or Variance 9

Pursuant to California Code of Regulations, title 10, section 2644.27, subdivision (f)(9), Applicant claims using its consolidated annual statement to calculate its projected yield is confiscatory.[239]

1. Applicable Law

The Fifth Amendment to the United States Constitution provides that private property shall not be taken for public use without just compensation. The Fifth Amendment's "takings" clause has been interpreted to limit the power of states to regulate, control or fix prices that producers charge to consumers for goods and services.[240] This protection extends to price-control regulations, such as the ratemaking formula.[241]

It was with this constitutional mandate in mind the Commissioner implemented California Code of Regulation, title 10, section 2644.27, subdivision (f)(9), which provides the following as a valid basis for requesting a variance:

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[239] Exh. 1-18, 1-92, 1-93, 1-94.
[240] *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at p. 292.
[241] *Federal Power Comm'n v. Hope Natural Gas Co.* (1944) 320 U.S. 591, 601.

> That the maximum permitted earned premium would be confiscatory as applied. This is the constitutionally mandated variance articulated in *20th Century v. Garamendi* (1994) 8 Cal.4th 216, which is an end result test applied to the enterprise as a whole.

Following the passage of Proposition 103, various insurers challenged the validity of the Commissioner's rate rollback regulations promulgated as a result of Proposition 103. The insurers alleged the regulations lacked statutory support, set forth an invalid rate formula and constituted an unlawful taking under the due process clause of the Constitution. As a result, the Court in *20th Century* reviewed the confiscation issue and clarified the meaning of "deep financial hardship."

After reviewing and considering the cases such as *Federal Power Comm'n v. Hope Natural Gas Co.*, (1944) 320 U.S. 591 (Hope) and its progeny, the California Supreme Court ruled that a rate is confiscatory only when an insurer can demonstrate the maximum permitted rate prevents it from operating successfully during the period of the rate.[242] In such circumstances, the insurer is characterized as experiencing "deep financial hardship." Confiscation does not arise whenever a rate does not produce a profit which an investor could reasonably expect to earn in other businesses with comparable investment risks and which is sufficient to attract capital.[243] In addition, the Commissioner must not confine his inquiries either to the computation of costs of service or to conjectures about the prospective responses of the capital market.[244]

The *20th Century* Court also made it clear that the inability to operate successfully is a necessary, but not a sufficient, condition of confiscation.[245] The resulting rate must not be

[242] *20th Century v. Garamendi, supra,* 8 Cal.4th at p. 296.
[243] *Id.* at pp. 297, 299.
[244] *Id.* at p. 320.
[245] *Id.* at pp. 296, 299.

viewed in isolation as an end result. Instead, deep financial hardship must befall the enterprise as a whole. Confiscation cannot be effected within one discrete line of insurance.[246]

Having made such rulings, the Court concluded 20th Century Insurance Company (20th Century Ins.) failed to demonstrate deep financial hardship to the enterprise as a whole. While the rate rollback appeared harsh when it is viewed in isolation, the Court noted that 20th Century Ins. was a multi-line insurer whose earthquake line accounted for only 1.35% of its overall business.[247] As such, the rollback's impact diminished significantly. The Court also noted 20th Century Ins. suffered very low earthquake losses and thus enjoyed a high profit in past years. Further, the final rollback amounted to only 12.2% of 20th Century Ins.'s $8.7 million earned premium, or $1.06 million.[248] Given all these circumstances, the Court found the rate rollback did not result in confiscation to 20th Century Ins.

While *20th Century* dealt with a rate rollback, the Commissioner specifically incorporated the holdings in *20th Century* in the language of the confiscation variance. Thus, in determining whether an insurer qualifies for relief under Variance 9, the ALJ must determine whether the insurer has made a prima facie showing that the maximum indicated rate produced by the regulatory formula results in deep financial hardship to the insurer's enterprise as a whole (rather than to a single line of insurance) such that the insurer cannot operate successfully during the rate period.

Note that section 2644.16 provides for a maximum permitted after-tax rate of return. The maximum rate of return is calculated by adding the risk-free investment income rate to the statutory 6% rate of return. The Commissioner fixes the risk-free rate on a monthly basis by examining the investment returns on specific classes of assets. For 2014, the Commissioner set a

[246] *Id.* at pp. 308-309, 322.
[247] *Id.* at pp. 322-323.
[248] *Id.* at p. 323.

risk-free rate of 1.39%. Accordingly, the Commissioner's formula generates for Applicant a 7.39% return on surplus.[249]

2. Contentions Regarding Confiscation Variance

a. Applicant's Contentions

Applicant argues that it should be granted a variance due to the impact of using Applicant's consolidated statutory annual statement to calculate Applicant's projected yield pursuant to section 2644.20, subdivision (a). Applicant measures the impact of 2644.20, subdivision (a) by calculating the difference between the rate of return produced by the formula using the Applicant's consolidated annual statement versus using SFG's annual statement. This argument assumes that Applicant is entitled to view its California subsidiary, SFG, separately from the State Farm Group. Applicant calculates the lower rate of return resulting from using its consolidated annual statement to be 3.62% less than the amount provided by the formula, which Applicants opines is confiscatory.

b. CDI's, CW's and CFC's Contentions

CDI, CW, and CFC maintain that State Farm does not apply the appropriate standard of confiscation and does not demonstrate confiscation in accordance with the standard from *20th Century*.

3. Findings of Fact Regarding Confiscation Variance

In addition to the background facts found, the ALJ finds by a preponderance of evidence the following facts relevant to Applicant's ability to operate successfully:

From 2010 through 2014, SFG realized net income (i.e., profit) of $1.59 billion, an average profit after taxes of $318 million per year.[250] Looking at the enterprise as a whole – i.e.,

[249] Exh. 1-26; SFG's Post-Hearing Opening Brief, 22.
[250] Schwartz, PDT 26:24 – 27:8.

the State Farm Group– in the five-year period from 2010 through 2014, the State Farm Group reported net income after taxes of $12.22 billion – an average of $2.4 billion per year – and profited $4.6 billion in 2014, alone.

From 2005 to 2014, SFG averaged comparable profits: nearly $300 million per year. And from 2005 to 2014, State Farm averaged $2.485 billion per year in profits.[251] Applicant did not present facts demonstrating the impact of a rate decrease.

4. Analysis and Conclusions Regarding Confiscation Variance

Having considered the evidence presented and the parties' legal arguments, the ALJ concludes Applicant fails to demonstrate the rate decrease indicated by the formula results in deep financial hardship to Applicant's enterprise as a whole such that it cannot operate successfully.

a. Applicant Does Not Apply the Standard Set Forth in *20th Century v. Garamendi*

State Farm applied for Variance 9 in its rate application but does not apply the appropriate standard from *20th Century* in several respects. First, Applicant sees Variance 9 as an opportunity to challenge the regulations on the basis that section 2644.20, subdivision (a) amounts to a constitutional taking. This is not permitted by the relitigation ban in section 2646.4, subdivision (c), which the Court specifically upheld in *20th Century*.[252]

Second, Applicant only applies its constitutional arguments to the California affiliate, SFG. This is in conflict with the requirement of the constitutional variance that the end result is applied to the "enterprise as a whole." State Farm refuses to look at the rate application of its California property and casualty affiliate as part of its group even for the constitutional or confiscation variance even though applying the end result to the enterprise as a whole is clearly

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[251] Schwartz PRT, 49:16 – 50:5.
[252] *20th Century v. Garamendi* (1994) 8 Cal.4th 216, 256.

required. Applying Variance 9 to Applicant as a group is also consistent with the statutory scheme requiring insurers to perform and report on their enterprise risk management on a group basis.[253] Accordingly, where, as here, an insurer is part of a group, the ALJ finds that "the enterprise as a whole" refers to the insurer as a group.

Third, as discussed above, Applicant argues the end-result standard to be reviewed is a fair rate of return.[254] In support of this argument, Applicant cites passages from *Calfarm Ins. Co. v. Deukmejian*, 48 Cal. 3d 805 (1989) as well as holdings in a land use case and rent control cases. But Applicant misrepresents the decision in *Calfarm* and relies on unrelated case law.[255]

In *Calfarm*, the Court only invalidated the temporary "substantially threatened with insolvency" standard for approving a rate increase during the first phase of the rate rollback period and upheld the remaining provisions of Prop. 103. While *Calfarm* required rates to be "fair and reasonable," the same Supreme Court abandoned the notion of a "fair rate of return" in favor of the "operating successfully" standard in *20th Century*. It is the decision in *20th Century* that is specifically referenced in Regulation section 2644.27, subdivision (f)(9), and it is that holding the ALJ must apply.

Based on *Calfarm*, Applicant claims that out-of-state income and past profits cannot be used to determine whether a rate is confiscatory.[256] Even assuming Applicant applied the appropriate test to the enterprise as a whole, the first part of Applicant's argument fails because it assumes Applicant's asset distribution cannot be considered on a group basis. Applicant's

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[253] ORSA Guidance Manual dated July, 2014, p. 1. The ALJ took official notice of the ORSA Guidance Manual on May 27, 2016, which is available on the NAIC website; Tr. 940:19-23.
[254] SFG's Post-Hearing Reply Brief, 13.
[255] CW's Post-Hearing Opening Brief, 42; *Ehrlich v. City of Culver City*, 12 Cal. 4th 854, 880, 883-84 (1996) involved wholly unrelated issues regarding the proper fee to impose on a condominium developer to fund public art.
[256] SFG's Post-Hearing Opening Brief, 24

argument against using past operating profits also fails because it is in conflict with the Court upholding the consideration of ten years of financial data in *20th Century*.[257]

Applicant also cited to *Action Apartment Ass'n v. Santa Monica Rent Control Bd.* (2001) 94 Cal. App. 4th 587. In *Action Apartment Ass'n*, the Court invalidated a specific interest rate on security deposits, but specifically stated it had such authority unlike in a rate hearing governed by *20th Century*. In rate hearings, parties are not permitted to mount a piecemeal assault on a regulation's methodology.[258]

b. Applicant Has Not Demonstrated the Rate in Question Does Not Allow Applicant to Operate Successfully

Applying the clear holding of *20th Century*, Applicant must make a prima facie showing that the regulatory formula's maximum permitted indicated rate prevents Applicant's enterprise as a whole from operating successfully. Absent such a showing, the Commissioner's inquiry ends. Because the maximum indicated rate permits Applicant to earn a profit and maintain its financial integrity, the ALJ concludes that the maximum indicated rate is not confiscatory.

Ignoring the standard of *20th Century*, Applicant argues that if SFG' s assets alone are used, a rate of return of 2.65% is confiscatory. The rate of return calculated by Applicant is based on its decision to invest SFG's surplus solely in bonds. Applicant describes this profit based on 2014 data as "marginal" and blames its marginal rate on the construct that "SFG does not own the assets necessary to produce the investment income attributed to it" by section 2644.20, subdivision (a).[259] Applicant does not argue whether any of the rates proposed by CDI, CW, and

[257] *20th Century v. Garamendi* (1994) 8 Cal.4th 216, 238.
[258] *Id.* at 619.
[259] SFG's Post-Hearing Opening Brief, 22-23.

CFC would be confiscatory. Using 2014 data, Applicant argues instead that the rate of return using the consolidated statement and the profit resulting from it is confiscatory.[260]

Even if the enterprise as a whole consisted only of SFG, Applicant has not demonstrated confiscation. Applicant's rate of return for the enterprise as a whole is not reflected in SFG individual annual statement. Using SFG's annual statement instead of the whole enterprise's consolidated statement is misleading because it would lead to an artificially low yield and artificially higher rates.

The overriding standard is whether Applicant's enterprise as a whole is operating successfully. To apply this standard, Applicant's overall financial integrity or credit is also relevant.

While perhaps not generating the profit margin Applicant desires, Applicant fails to demonstrate the rates indicated will impair the enterprise as a whole's financial integrity, profitability, or overall ability to operate successfully. Any argument that Applicant is not operating successfully is not consistent with Applicant's performance in the insurance industry. In 2014, the insurance industry's national rating organization, AM Best, rated State Farm's financial strength as A++. Among other strengths, this rating reflects State Farm's dominant business profile and favorable earnings over a five year period. In a very similar rating, AM Best rated SFG's financial strength as A+ in 2014.

In addition to Applicant's financial integrity, Consumer Watchdog argues that Applicant has been profitable under the rates resulting from the regulatory formula.[261] For example, using the consolidated statement to calculate Applicant's projected yield, SFG realized net income (i.e., profit) of $1.59 billion, an average profit after taxes of $318 million per year from 2010-

[260] Tr. 427-441; CW's Post-Hearing Opening Brief, 42-43; SFG's Post-Hearing Reply Brief, 12:19-25.
[261] CW's Post-Hearing Opening Brief, 42.

2014.[262] Looking at the enterprise as a whole – i.e., the State Farm Group– during the same time period, State Farm reported net income after taxes of $12.22 billion – an average of $2.4 billion per year – and profited $4.6 billion in 2014 alone.

As in *20th Century*, the parties considered Applicant's past ten years of profit.[263] From 2005 to 2014, SFG averaged profits of nearly $300 million per year. And State Farm averaged $2.5 billion per year in profit.[264]

Just as rates are projected or applied in the future based on historical data, the Commissioner may draw limited inferences from past applications of the rate formula to review whether rates applied prospectively are confiscatory.[265] Since the promulgation of the current definition of the projected yield, Applicant has been profitable and maintained its financial integrity. Overall, no evidence demonstrates Applicant's enterprise as a whole will not continue to operate successfully. Accordingly, State Farm's application for Variance 9 is denied.

III. Refund of Excess Premium From the Application's Effective Date

A. Applicable Law

Insurance Code section 1861.05, subdivision (a) articulates the substantive standard of the prior approval system:[266]

> No rate shall be approved or remain in effect which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter.

Regulation section 2644.1 further specifies that no rate shall remain in effect that is above the maximum permitted earned premium, as defined by the formula in section 2644.2.

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[262] Schwartz PDT, 26:24 – 27:8.
[263] *20th Century v. Garamendi* (1994) 8 Cal.4th 216, 258; SFG's Post-Hearing Opening Brief, 22-26; CW's Post-Hearing Opening Brief, 42-44.
[264] Schwartz PRT, 49:16 – 50:5.
[265] Werner & Modlin, Basic Ratemaking (Casualty Actuarial Society 2010) p. 6.
[266] *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at p. 242.

It is well settled in this state that administrative officials may exercise such additional powers as are necessary for the due and efficient administration of powers expressly granted by statute, or as may fairly be implied from the statute granting the powers. In fact, the Court in *20th Century* stated "the power to grant interim relief is necessary for the due and efficient administration of Proposition 103, and may fairly be implied from [section 1861.01(a)]."[267]

The Commissioner can approve an interim rate pending a final decision. If the Commissioner finds the rate charged is not fair and reasonable, the insurer must refund excess premiums collected with interest.[268] "The ordering of a refund of rates is "akin to a reduction in rates," when, as here, the rates in question were charged pending a determination of [their] legality.... The ordering of a rate refund is prospective."[269] In accordance, with *20th Century*, the interest on refunds may be calculated using simple interest.[270]

B. Findings Regarding Effective Date

State Farm filed its application on December 4, 2014 with an effective date of July 15, 2015 and filed additional data to complete its application on April 30, 2015. On July 24, 2015, the parties stipulated to using data through the end of 2014. On August 7, 2015, Applicant updated its rate application based on the parties' agreement and the ALJ's order requiring the use of data through 2014. As a result of regulatory timelines for pretrial discovery, motions and rulings, and deadlines regarding the submission of data and other matters, the ALJ submitted a Proposed Decision on this rate application on July 6, 2016, almost a year after the effective date of the rate application.

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[267] *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at p. 245.
[268] *20th Century v. Garamendi* (1994) 8 Cal.4th 216, 246.
[269] *Id.* at 281.
[270] *Id.* at 267-268.

The effective date of a rate application impacts the maximum permitted earned premium indicated by the regulations because rates are determined by projecting values into the future based, in part, on trend factors, including the overall loss trend and premium trend.[271] A rate hearing without an effective date leaves open a variable that subjects the hearing to further delays. The effective date of the rate application also impacts the end of the recorded period used in calculating the other variables in the formula because the Regulations indirectly require the use of the most recently available data.[272]

C. Contentions Regarding Refunding Excess Premiums From the Effective Date

Insurers must charge the most recent approved rate until it obtains a subsequent rate. So if the current rate is no longer valid, the insurer may no longer charge that rate. Applicant contends the new rate may not retroactively invalidate the prior rate.[273] Applicant argues that an effective date prior to the conclusion of the hearing conflicts with the prior approval statutory system and is unnecessary because the effective date is not fixed by a rate application, and therefore, can be extended to a date after the conclusion of the hearing. Applicant also argues that no constitutional, statutory, or regulatory provision provides for interest and that the policies and context that justify interest in other contexts do not apply here.[274]

CDI, CW, and CFC all contend that July 15, 2015 is the effective date for the rate determined through this proceeding based the rate application and the Commissioner's Notice of Hearing requiring use of the effective date chosen by Applicant. As a result, the same parties contend that if a rate reduction is ordered, State Farm must pay refunds from the effective

[271] Tr. 335:13-344, 358-359.
[272] Cal. Code Regs., tit. 10, § 2642.6 and 2655.8, subd. (b).
[273] SFG's Post-Hearing Opening Brief, 71.
[274] SFG's Brief on Interest Issues, 2-3.

date.[275] In addition, CDI and the intervenors contend that any refund must be paid with interest because failing to do so would unjustly enrich and incentivize insurers to delay granting a decrease as long as possible.[276]

D. Analysis and Conclusions Regarding Refunding Excess Premiums From the Effective Date

Whatever the reason rates have not been implemented on noticed effective dates in the past,[277] basing this rate hearing on an initial effective date and maintaining that date to approve new rates retroactively, if appropriate, serves several purposes. Allowing for interim rates after the effective date and authorizing refunds is consistent with the Insurance Code and *20th Century*. Fixing an effective date and allowing for an interim rate also minimizes delays and helps to reduce rate hearings to a "manageable size."

For this rate application, State Farm chose the effective date of July 15, 2015. The effective date of a rate application impacts rates indicated by the regulatory formula because rates are determined, in part, by trends which project rates to the effective date.

Changing the effective date of a rate application causes further delays in an already lengthy rate hearing process because doing so may impact the data cut-off period, trend analysis, and other factors that can require the resubmission, re-analysis, and recalculation of data and rates. This is especially true with regard to trend analysis where the end points of trends have a significant impact on trending losses.

After noticing a hearing on this rate application based on Applicant's effective date, the parties agreed to a data cut-off period of December 31, 2014 and proceeded to a hearing without

[275] CDI's Post-Hearing Opening Brief, 6-8.
[276] CDI's Brief Regarding Interest on Refunds, 1; CW's Brief Regarding Interest on Refunds, 1.
[277] Tr. 352-353.

resubmitting data beyond 2014.[278] Without fixing an effective date for a rate application, a rate hearing becomes a moving target of fluctuating data to analyze. As a result, fixing the effective date is a reasonable measure envisioned by *20th Century* to reduce rate hearings to a manageable size.

Applicant argues the Commissioner lacks authority to order a refund.[279] For its authority, Applicant cites a case regarding the retroactivity of a Public Utilities Commission (PUC) order based on entirely different statutory language.[280]

In addition, Applicant cites cases brought by insureds directly in Superior Court.[281] *Mckay* involved a challenge in superior court to approved rates. And in both *McKay* and *Walker*, insurance companies argued, and those courts agreed, the Insurance Commissioner, not the courts, has exclusive jurisdiction over challenges to rates, i.e., that such challenges must first be brought before the agency. The holding in *McKay* that the Commissioner has exclusive jurisdiction over rates does not operate to now limit the Commissioner's authority to establish rates and to order rates to be refunded.

20th Century is the relevant authority in this matter because it upheld the Proposition 103 prior approval system regulations based on the same, current sections of the Insurance Code.[282] The Insurance Code and *20th Century* require that if the Commissioner finds the initiative's rate less than the insurer charged, the insurer must refund excess premiums collected with interest.[283]

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[278] Tr. 335:13-344.
[279] SFG Post-Hearing Reply Brief, 14-15.
[280] In *Pacific Tel. & Tel. Co. v. Public Utilities Comm 'n* (1965) 62 Cal. 2d 634, 650, Public Utilities Code §728 only prescribes rates prospectively; *Ponderosa Tel. Co. v. Public Utilities Comm 'n* (2011) 197 Cal. App. 4th 48, 61-64 is based on the same statute.
[281] *Walker v. Allstate Indem. Co.* (2000) 77 Cal.App. 750; *McKay v. Superior Court* (2010) 188 Cal.App.4th 1427.
[282] Ins. Code § 1861.01, subd. (a and c) and §1861.05; *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at p. 242-243.
[283] CW's Post-Hearing Reply Brief, 21-24.

The Notice of Hearing in this matter put Applicant on notice of CDI's intent to seek review of its rates based on the effective date in State Farm's rate application. Since the legality of Applicant's current rate was not known, Applicant's current rates served as an interim rate after July 15, 2015. The past practice of allowing effective dates to change is not controlling, is not manageable, and contributes to unnecessary delay in the rate hearing process, which the ALJ is mandated to eliminate.[284] Accordingly, the effective date of Applicant's new homeowners insurance rates in Californa is July 15, 2015 and excess premiums shall be refunded with simple interest accruing from July 15, 2015.

IV. Interest on Prior Approval Refunds

The parties did not address the issue of the interest rate on prior approval refunds until after the end of the rate hearing because a notice of hearing had not previously requested refunds to accrue from an effective date. Without a record of argument and evidence regarding possible refund interest rates, the Commissioner referred this matter back to the ALJ to obtain additional evidence and argument.[285] More specifically, the Commissioner sought a more complete record regarding whether Applicant should be required to pay interest on amounts to be refunded, and if Applicant is required to do so, which interest rate, if any, would be appropriate.

A. Applicable Law

The Court in *20th Century* upheld the authority for refunding excess premiums with interest, but a specific interest rate for prior approval refunds accruing from a specific date was not at issue. The *20th Century* Court upheld adding interest to rollback refunds, "calculated at 10 percent per annum" pursuant to California Code of Regulations, title 10, section 2645.9, subdivision (e). Regulation section 2645.9 was promulgated to make consumers whole and to

[284] Cal. Code Regs., tit. 10, § 2654.1, subd. (b); CW's Post-Hearing Opening Brief, 48.
[285] Transcript of September 2, 2016 hearing, 8.

ensure that insurers would not profit from delay in implementiong Proposition 103.[286] Section 2645.9 required all insurers writing lines of insurance subject to Proposition 103 to rollback rates to 80 percent of November 8, 1987 levels with interest at 10 percent per annum added from May 8, 1989 to the date of payment.[287]

In *20th Century,* the Court stated an interest rate of 10 percent on rollback refunds was not unreasonable because excess premiums are similar to unearned premiums, which are refunded at the rate of 10 percent pursuant to Insurance Code section 481.5.[288] Section 481.5, subdivision (d) requires unearned premiums to bear interest only after an amount is determined and 10 percent interest only accrues after the date determined by statute. For personal lines, unearned premiums are required to be "tendered within 25 business days after the insurer [...] receives notice" of an event generating unearned premiums.[289] In addition, the Court in *20th Century* held that the rate of 10 percent on rollback refunds did not amount to an impermissible penalty against all insurers subject to Proposition 103 or an impermissible windfall for insureds.[290]

In *20th Century,* the Court also held that the Commissioner is not constrained by article XV, section 1 of the California Constitution because premiums paid over the amount determined by statute are not in the nature of a judgement.[291] Nor is the Commissioner limited to considering only the interest rate promulgated for rollback refunds. In the absence of a promulgated interest rate, "imposition of interest at some market rate" below 10 percent may be reasonable.[292]

An interest rate on refunds of excess premium may also be awarded to prevent unjust enrichment based on *Ohio Cas. Ins. Co. v. Garamendi*, 137 Cal. App. 4th 64 (2006). In *Ohio*

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[286] Excerpts of the Adoption of Emergency Regulations dated August 13, 1991, 8. The ALJ took official notice of this regulation on September 2, 2016.
[287] Cal. Code Regs., tit. 10, § 2654.1 et seq.; *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at p. 315.
[288] *20th Century Ins. Co v. Garamendi, supra,* 8 Cal.4th at p. 315.
[289] Insurance Code § 481.5, subd. (a).
[290] *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at p. 315.
[291] *Id.*
[292] *20th Century Ins. Co v. Garamendi, supra*, 8 Cal.4th at 315.

Casualty, the Commissioner ordered the payment of Fair Access to Insurance Requirements (FAIR) Plan assessments totaling over $3 million based on statutory obligations, pursuant to Insurance Code section 10090 et seq, without interest. The specific interest rate was not determined for FAIR Plan assessments until the matter was appealed, at which point the appellate courts disagreed on the rate.[293] Nevertheless, without determining the interest rate in this matter, *Ohio Casualty* supports finding that "failure to award interest would unjustly enrich appellants by allowing them to benefit from their use of the funds that should have been paid."[294]

B. Findings of Fact Regarding the Excess Premium Refund Interest Rate

In response to the Commissioner's Order of Referral, the ALJ admitted evidence regarding the appropriate interest rate, if any, including the interest rate Applicant earned on excess premiums and the market rate a consumer would reasonably have earned on the excess premium. The ALJ finds the following facts regarding such rates by a preponderance of evidence.

1. Interest Earned on Excess Premium

From July 15, 2015 through August 11, 2016, Applicant invested $1,153,752,638 by purchasing the assets shown in Exhibit 208. The assets purchased with this amount included Asset-Backed/Mortgage-Backed Securities, Agency Commercial Mortgage-Backed Securities, Corporate Bonds, Tax-Advantaged Municipal Bonds, Taxable Municiple Bonds, and U.S. Treasuries. The purchase yield or interest rate earned on these funds averaged 2.25 percent. Applicant earned this interest on premiums collected from Applicant's homeowners insurance policyholders in California for approximately a year after July 15, 2015.[295]

[293] *Ohio Cas. Ins. Co. v. Garamendi*, 137 Cal. App. 4th 64 (2006) at 83.
[294] *Id* at 83-84.
[295] Transcript of hearing dated September 2, 2016, 32:21-35:20.

2. The Market Rate a Consumer Would Reasonably Have Earned on Excess Premium

In the event Applicant is required to refund California homeowners policy holders for excess premiums, the average refund per policy would be about $51.[296] Applicant's policy holders could spend that amount on goods and services, save it with interest, pay mortgages or home equity loans, or pay credit card balances.[297] From July 2015 through August 2016, the national rate on saving accounts was about 0.06 percent. The national rate on money market deposit accounts was 0.08 percent. The national rate on checking accounts was 0.04 percent. And the California rate on money market deposits ranged from 0.22 to 0.30 percent.[298]

During the same period, national auto loan rates ranged from 4.09 to 4.33 percent. And the national average interest rate on all outstanding mortgage debt ranged from 3.80 to 3.84 percent. In California during the same period, auto loan rates ranged from 2.66 to 3.26 percent, and mortgages ranged from 3.48 to 4.12 percent.

From July 2015 through August 2016, the national interest rate on credit card debt varied from 13.93 to 13.35 percent. Of the households carrying credit card debt, thirty-eight percent carried a balance that accrues interest.[299] Despite the debt carried by consumers, studies have shown that when given approximately $50, the average consumer will spend it rather than save it.[300]

During the period from 1988 to 1994, interest rates in the U.S. economy ranged between 5 to 6 percent higher than interest in 2015 and 2016. From 1989 through 1994, the five-year U.S. treasury yield averaged 7.03 percent.[301]

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[296] Exh. 212.
[297] Exh. 213, p. 2-3.
[298] Exh. 211; Exh. 213, p. 4-5.
[299] Exh. 213, p. 6.
[300] Exh. 213, p. 7-11.
[301] Exh. 207 and Exh. 214, p. 1-2.

3. Contentions Regarding the Excess Premium Refund Interest Rate

Applicant argues that no interest can run unless and until the Commissioner orders refunds on excess premiums. If interest is charged, Applicant argues that the interest rate should be the national rate on savings of 0.06 percent or no greater than interest rate earned on excess premiums of 2.25 percent. Applicant contends that the rate of 0.06 percent will make policy holders whole and any rate over 2.25 percent constitutes a windfall to consumers and an impersmissible penalty to insurers.

Applicant's position is based on its contention that the Commissioner has discretion to set a reasonable rate, and there is no controlling authority or public policy other than *20th Century* which provides that the rate 1) should be reasonable, 2) not impose a penalty on insurers, and 3) not provide a windfall to policy holders.[302]

The CDI and intervenors argue that excess premiums must be refunded with interest at the rate of 10 percent effective July 15, 2015 based on statutory, regulatory, and case law. Some of the arguments made by CDI to supports its position include: 1) no significant difference exists between rollback refunds and prior approval refunds, 2) the interest rate for prior approval refunds is based on the similar, if not the same goals, policies, or standards, 3) a 10 percent interest rate would make consumers whole, and 4) a 10 percent interest rate would ensure that insurers would not profit from the delay in the implementation of Proposition 103.[303] In the alternative, CDI argues that the projected yield of 5.84 percent is not guaranteed to make all consumers "whole."[304]

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[302] SFG's Brief in Support of Interest Rate Issues dated August 29, 2016, p. 16; SFG's Reply in Support of Brief on Interest Rate Issues, p. 1-2.
[303] CDI's Brief in Support of Interest Rate Issues dated August 29, 2016, p. 1.
[304] CDI's Reply Brief on Interest Rate Issues, p. 1.

CW contends more broadly that interest on refunds should be awarded at 10 percent based on 1) a statutory framework explicitly enacted by California voters placing a continuing obligation upon insurance companies to charge rates that are not excessive, and from which the requirements of refunds and interest on those refunds arise; 2) *Calfarm* and *20th Century*, where the California Supreme Court called for and upheld interest, even though the refund amounts were unknown, i.e., "unliquidated," for nearly five years until the Supreme Court issued its decision; and 3) California's strong public policy in favor of awarding interest at a rate of 10 percent without reference to whether the principal amount is liquidated or unliquidated.[305]

In addition to the above arguments, CFC contends that 10 percent is the proper interest rate. CFC specifically contends: 1) to order otherwise would provide disincentives for insurers to return and refund excess premiums, and 2) no other rate will capture opportunity costs and make consumers whole.[306]

C. Analysis and Conclusions Regarding the Refund Interest Rate

As the Commissioner ordered, the parties submitted evidence and legal argument regarding the interest rate on refunds. The evidence admitted and argument offered presents a choice between: 1) 10 percent, 2) Applicant's projected yield of 5.84 percent, 3) the rate Applicant earned on excess premium of 2.25 percent, and 4) an interest rate approximating the market rate for consumers.

1. An Interest Rate of 10 Percent is Not Determined by the Prior Approval Regulations or Other Law Applicable to This Administrative Hearing

Proposition 103's prior approval system has been in place for over 20 years. During this time, rate reductions have not been refunded with interest because effective dates on rate

[305] CW's Reply Brief Regarding Interest on Refunds, 1.
[306] CFC's Brief and Reply Brief in Support of Refund Interest Rates.

applications have not been adhered to from the beginning to the end of the rate hearing process. Unlike rollback rates, Applicant's prior approval rates have literally been pre-approved by the Commissioner. Now, CDI and intervenors argue for interest on refunds without regulations specifying the interest and from when it accrues. CDI did not specify the interest rate and from when it accrues in its Notice of Hearing either. In fact, CDI's argument for an interest rate was only provided after the end of the evidentiary hearing, over a year following the commencement of the hearing. The most "on point legislative authority" provided by CDI is Insurance Code section 1861.16, subdivision (g), which applies to refunds on excess rates for interim auto class plan filings.[307] This statute may provide analogous authority in a rule-making proceeding, but it does not persuasively support rule-making during an administrative hearing process intended to implement existing laws and regulations.[308]

CW argues Applicant is under a continuing obligation to charge rates that are not excessive based on a statutory framework explicitly enacted by California voters from which the requirements of refunds and interest on those refunds arise. The irony with CW's argument is that the hearing resulting in a recommended rate reduction of 7 percent was initiated by Applicant. Nevertheless, the prior approval regulations do not determine an interest rate on refunds and when one must accrue. In the absence of such regulation, the ALJ does not find 10 percent to be an appropriate interest rate on refunds of excess premium in this prior approval hearing.

2. 2.25 Percent Instead of 5.84 Percent Is the Appropriate Interest Rate to Prevent Unjust Enrichment in this Matter

[307] CDI's Reply Brief in Support of Refund Interest Rates, 2.
[308] The closest authority CDI gives for ordering 10 percent interest on excess premium refunds is Insurance Code section 1861.16, subd. (g), which governs CDI's Reply Brief in Support of Refund Interest Rates, 2.

In the absence of regulatory and statutory authority determining the interest rate on refunds of excess premium in a prior approval rate hearing, the relevant authority includes *20th Century* and *Ohio Casualty*. CDI and the intervenors argue that the policies supporting rollback refunds should apply to prior approval refunds. Again, even if that were the case, the circumstances of making consumers whole today and ensuring that insurers would not profit from delay in implementiong Proposition 103 are different than in this case, over 20 years after Proposition 103 was implemented.

The policy of preventing unjust enrichment, even if not directly caused by the insurer, is similar to the policy of ensuring that insurers not profit from delay. In *Ohio Casualty*, the Court awarded interest to prevent a California insurer from being unjustly enriched by retaining FAIR Plan assessments they were statutorily obligated to pay. The law against unjust enrichmnent applied in *Ohio Casualty* is not a new rule, but a well-established one, applicable to the circumstances in this case where interest is sought on payments due in the absence of statutes or regulations specifying the interest rate owed.

The question then is, what interest is appropriate to avoid unjust enrichment in this matter?

CW considers the rate of 5.84 percent, based on Applicant's projected yield, to be the minimum rate that must be charged to avoid unjust enrichment. The rate of 5.84 is based on the Group's entire portfolio. Whereas, the rate of 2.25 percent is based only on the assets of State Farm General Insurance Company. CW contends the rate of 5.84 percent is the appropriate rate based on several reasons, including that 2.25 percent is only based on assets actually invested during the refund period rather than the Group's entire portfolio, including assets invested before the rating period.[309]

CDI states that the rate of 5.84 percent would be consistent with the ratemaking regulations and would avoid the admission of additional evidence in future rate hearings.[310]

Applicant contends that the interest rate on refunds of excess premiums in this prior approval matter is not determined by the regulation determining Applicant's projected yield (section 2644.20, subdivision (a)).[311] Instead, Applicant provides evidence of the interest rate it earned on investments purchased with excess premiums for the year following July 15, 2015 equal to 2.25 percent. Applicant also considers 2.25 percent to be the rate justified by the policies discernible in *20th Century*.[312]

In the absence of regulations promulgating the interest rate on refunds of excess premium and when they accrue and considering the timing of the imposition of an interest rate on refunds in this matter, the ALJ finds the minimum interest rate to avoid unjust enrichment in accordance with *20th Century* to be 2.25 percent and recommends its adoption in this administrative proceeding.

3. The Market Rate a Consumer Would or Could Reasonably Have Earned Does Not Avoid Unjust Enrichment

Applicant contends a rate of zero or 0.06 is the best measure of a reasonable rate based on what consumers would have earned by keeping the money in a savings account.[313] This is the lowest rate responding to the Commissioner's referral order. Even if what Applicant's homeowners policy holders would earn on excess premiums could reasonably be estimated, the

[309] CW's Reply Brief on Interest Rate Issues, 11-12.
[310] CDI's Reply Brief on Interest Rate Issues, 10-11.
[311] SFG's Reply Brief on Interest Rate Issues, 17-18.
[312] SFG's Reply Brief on Interest Rate Issues, 9, 19-20.
[313] SFG's Reply Brief on Interest Rate Issues, 19-20.

fact that the average consumer would forgo saving by spending an estimated refund indicates that the value one can attribute to consumers' spending may be higher than the interest rate consumers forgo, not lower. The Commissioner has discretion to consider such a rate, but what a consumer would have earned is not in accord with any authority in this matter.

The interest rate of 0.06 may not impermissibly penalize Applicant or provide an impermissible windfall to consumers, but it would unjustly enrich Applicant by allowing Applicant to benefit from the use of funds during the hearing that should have been paid. Any rate below 2.25 percent is not in accord with the currently limited authority applicable to this administrative hearing.

Conclusions of Law

1. All findings in this decision shall be considered to be either findings of fact or conclusions of law. They should be read in conjunction with the discussion above which explains the reasons for the determinations.

2. The hearing was full and fair and allowed the parties a reasonable opportunity to conduct discovery, present testimony and documentary evidence, cross examine witnesses and submit briefs on the disputed issues in this matter.

3. In a rate hearing, the Commissioner reviews Applicant's proposed rates and determines whether they are excessive, inadequate or unfairly discriminatory using the methodology set forth in California Code of Regulations, title 10, section 2642.1, et seq.

4. The amended version of the ratemaking regulations contained in California Code of Regulations, title 10, section 2642.1, et seq., effective May 16, 2008, applied in this proceeding.

5. Applicant bears the burden of proving by a preponderance of the evidence that the requested increase will not result in excessive, inadequate or unfairly discriminatory rates as defined in California Code of Regulations, title 10, section 2644.1, et seq.

6. Applicant supported its selection of its catastrophe load ratio based on a ratio of catastrophe loss to the amount of insurance years (CAT/AIY) for a historical period of 25 years.

7. Applicant supported its treatment of the Oakland Hills Fire.

8. Applicant failed to support its trending of catastrophe losses. The catastrophe trend supported by the evidence in this case is one of 0% or no trend.

9. The weights applied to Applicant's catastrophe load ratios are those shown in column 5 of Appendix A, pages 13, 14, and 15.

10. Applicant did not support its calculation of its renters and condominium lines from the data used to calculate its non-tenant homeowners line according to its beta method. The indicated rates for Applicant's sublines are calculated independently.

11. Applicant's projected yield for this rate application is 5.84.

12. The regulatory ratemaking formula, without Variance 3, indicates a rate decrease of 5.37% for SFG's non-tenant homeowners line.

13. The regulatory ratemaking formula, without Variance 3, indicates a rate decrease of 20.39% for SFG's renters line.

14. The regulatory ratemaking formula, without Variance 3, indicates a rate decrease of 13.81% for SFG's condominium line.

15. Applicant failed to support its request for a variance under California Code of Regulations, title 10, section 2644.27, subdivision (f)(3). Applicant did not satisfy its burden of proof that it writes at least 90% of its direct earned premium in one line or that it writes at least

90% of its direct earned premium in California. In addition, Applicant did not satisfy its burden of proof that its mix of business presents investment risks different from the risks typical of the line as a whole.

16. Applicant failed to support its request for a variance under California Code of Regulations, title 10, section 2644.27, subdivision (f)(9). Applicant did not satisfy its burden of proof that application of the maximum permitted earned premium results in deep financial hardship to Applicant's enterprise as a whole such that it cannot operate successfully.

17. The appropriate rate of interest on refunds of excessive premium effective July 15, 2015 is 2.25 percent per annum until paid.

Order

Based on the foregoing, IT IS ORDERED that:

1. Applicant's request for a rate increase is denied.

2. A 5.37% decrease is approved for SFG's non-tenant homeowners line rate effective July 15, 2015.

3. A 20.39% decrease is approved for SFG's renter's line rate effective July 15, 2015.

4. A 13.81% decrease is approved for SFG's condominium line rate effective July 15, 2015.

5. Applicant shall issue refunds to holders of State Farm's three homeowners insurance policy sublines in California at rates consistent with this order effective July 15, 2015 with simple interest at the rate of 2.25 percent per annum until paid.

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

Dated: October 6, 2016

JOHN H. LARSEN
Administrative Law Judge
Administrative Hearing Bureau
California Department of Insurance

Appendix A: Rate Template Calculations

Company: State Farm General Insurance Company
CDI FILE #: 14-8381

Change at Max, All Coverages Combined: **-7.00%**

Coverage	Adjusted Annual Premium	Change at Min	Change at Max
Non-Tenant Homeowners	966,396,012	-26.75%	-5.37%
Renters	77,005,354	-38.38%	-20.39%
Condominium Unitowners	80,030,863	-33.29%	-13.81%
0	0	0.00%	0.00%
0	0	0.00%	0.00%
0	0	0.00%	0.00%
COMBINED	**1,123,432,230**	**-28.02%**	**-7.00%**

Instructions for completing Prior Approval Rate Template *(Multi-Coverage)*:

* Complete a separate Rate Making Data page for each coverage (e.g. liability, physical damage, property).
* Enter data in lined boxes on RateMakingData pages only (Do not enter data directly in Templates). For more than three years of data, click + button.
* On the first Rate Making Data page, start at the top of the page and enter the following data: Company or Group name; Line Description, selected from pull down list; Coverage; Marketing System (percentage of each system used, totaling 100%); Prior Effective Date (of current rates); Proposed Effective Date (of proposed new rates); statistical period used; one or more years of appropriate data.
* On subsequent pages, only Line Description and Coverage need to be entered at the top, followed by the specific premium and loss data by coverage.
* Enter numerical data only; no comments please. (For inapplicable fields: 0 for $ or %; 1.00 for factors)
* Source of data should be page 7 of the Prior Approval Rate Application; For explanation of data, see CDI Rate Filing Instructions.
* Enter Variance data, only if supported by Variance Request. Final decisions regarding variances will be made by CDI and/or administrative hearing.
* For results, see Template pages (Disregard Reinsurance indication if not applicable).

RATEMAKING DATA

Edition Date: *1/15/2015*

(Click + to expand for more than 3 years; - to contract)

Completed by	
Company/Group	State Farm General Insurance Company
Line Description	HOMEOWNERS MULTIPLE PERIL
Coverage	Non-Tenant Homeowners

	%Captive	*%Direct*	*%Independent*	*(Must add up to 100%)*
Marketing System:	100.00%			
Prior Effective Date (current rates)	12/1/2014			
Proposed Effective Date (new rates)	7/15/2015			
CDI File Number (*Department use only*)	14-8381			

Does the data provided below reflect a Request for Variance? Yes

Variance #: 2A, 7, 8

Data below is: Accident Year Data

		2nd Prior Year	1st Prior Year	Most Recent Year	Projected*/ New Program**
				2014	
1	California Direct Written Premium			1,048,142,789	
2	California Direct Earned Premium			1,054,453,938	
3	Premium Adjustment Factor (Developed in Exhibit 4)			0.878	
4	Premium Trend Factor * (Developed in Exhibit 5)			1.044	2.11%
5	Miscellaneous Fees and Flat Charges (Not included in Line 2; Developed in Exhibit 6)			-	
6	Earned Exposure Units			1,111,944	
7	Historic Losses			370,625,463	
8	Historic Defense and Cost Containment Expense (DCCE)			2,748,084	
9	Loss Development Factor (Developed in Exhibit 7)			1.120	
10	DCCE Development Factor (Developed in Exhibit 7)			7.812	
11	Loss Trend Factor* (Developed in Exhibit 8)			1.050	2.42%
12	DCCE Trend Factor* (Developed in Exhibit 8)			1.050	2.42%
13	Catastrophe Adjustment Factor (Developed in Exh 9)			1.352	
14	Credibility Factor for Losses & DCCE (Developed in Exhibit 10)				100.00%
15	Excluded Expense Factor (From Page 13 of Rate Application)				1.15%
16	Ancillary Income (Developed in Exhibit 11)			3,269,244	
17	Projected Federal Income Tax Rate on Investment Income (From Page 14 of Rate Application)				26.97%
18	Projected Yield (From Page 14 of Rate Application)				5.84%
	Complete 19, 20 & 21 For Earthquake and certain Medical Malpractice with Reinsurance Only (see instructions)				
19	Direct Commissions				
20	Reinsurance Premium (Developed in Exhibit 14)				
21	Reinsurance Recoverables (Developed in Exhibit 14)				

Variance Change to Leverage on the basis that the insurer either writes at least 90% of its direct earned premium in one line or writes at least 90% of its direct earned premium in California. (Must be accompanied by Variance Request, subject to CDI approval)	No
Variance Change to Efficiency Standard (Must be accompanied by Variance Request, subject to approval by CDI)	0.50%

* For all trend factors, the Projected Column should reflect the annual trend expressed as a percentage.

** For New Programs, please see Rate Filing Instructions, Page 4.

RATEMAKING DATA

(Click + to expand for more than 3 years; - to contract)

Edition Date: *1/15/2015*

Completed by	
Date Completed	
Company/Group	State Farm General Insurance Company
Line Description	HOMEOWNERS MULTIPLE PERIL
Coverage	Renters

	%Captive	%Direct	%Independent	(Must add up to 100%)
Marketing System:	100.00%	0.00%	0.00%	
Prior Effective Date (current rates)	12/1/2014			
Proposed Effective Date (new rates)	7/15/2015			
CDI File Number (*Department use only*)	14-8381			

Does the data provided below reflect a Request for Variance? Yes   Variance #: 2A, 7, 8

Data below is: Accident Year Data

		2nd Prior Year	1st Prior Year	Most Recent Year	Projected*/ New Program**
				2014	
1	California Direct Written Premium			79,942,842	
2	California Direct Earned Premium			73,360,969	
3	Premium Adjustment Factor (Developed in Exhibit 4)			1.109	
4	Premium Trend Factor * (Developed in Exhibit 5)			0.947	-2.65%
5	Miscellaneous Fees and Flat Charges (Not included in Line 2; Developed in Exhibit 6)			-	
6	Earned Exposure Units			444,433	
7	Historic Losses			33,271,953	
8	Historic Defense and Cost Containment Expense (DCCE)			279,191	
9	Loss Development Factor (Developed in Exhibit 7)			1.104	
10	DCCE Development Factor (Developed in Exhibit 7)			8.538	
11	Loss Trend Factor* (Developed in Exhibit 8)			1.018	0.88%
12	DCCE Trend Factor* (Developed in Exhibit 8)			1.018	0.88%
13	Catastrophe Adjustment Factor (Developed in Exh 9)			1.044	
14	Credibility Factor for Losses & DCCE (Developed in Exhibit 10)				100.00%
15	Excluded Expense Factor (From Page 13 of Rate Application)				1.15%
16	Ancillary Income (Developed in Exhibit 11)			249,348	
17	Projected Federal Income Tax Rate on Investment Income (From Page 14 of Rate Application)				26.97%
18	Projected Yield (From Page 14 of Rate Application)				5.84%
	Complete 19, 20 & 21 For Earthquake and certain Medical Malpractice with Reinsurance Only (see instructions)				
19	Direct Commissions				
20	Reinsurance Premium (Developed in Exhibit 14)				
21	Reinsurance Recoverables (Developed in Exhibit 14)				

Variance Change to Leverage on the basis that the insurer either writes at least 90% of its direct earned premium in one line or writes at least 90% of its direct earned premium in California. (Must be accompanied by Variance Request, subject to CDI approval)	No
Variance Change to Efficiency Standard (Must be accompanied by Variance Request, subject to approval by CDI)	0.50%

* For all trend factors, the Projected Column should reflect the annual trend expressed as a percentage.

** For New Programs, please see Rate Filing Instructions, Page 4.

RATEMAKING DATA

(Click + to expand for more than 3 years; - to contract)

Edition Date: *1/15/2015*

Completed by
Date Completed
Company/Group State Farm General Insurance Company
Line Description HOMEOWNERS MULTIPLE PERIL
Coverage Condominium Unitowners

	%Captive	%Direct	%Independent	(Must add up to 100%)
Marketing System:	100.00%	0.00%	0.00%	
Prior Effective Date (current rates)	12/1/2014			
Proposed Effective Date (new rates)	7/15/2015			
CDI File Number (*Department use only*)	14-8381			

Does the data provided below reflect a Request for Variance? Yes   Variance #: 2A, 7, 8

Data below is: Accident Year Data

	2nd Prior Year	1st Prior Year	Most Recent Year	Projected*/ New Program**
			2014	
1 California Direct Written Premium			72,258,477	
2 California Direct Earned Premium			67,457,193	
3 Premium Adjustment Factor (Developed in Exhibit 4)			1.108	
4 Premium Trend Factor * (Developed in Exhibit 5)			1.070	3.39%
5 Miscellaneous Fees and Flat Charges (Not included in Line 2; Developed in Exhibit 6)			-	
6 Earned Exposure Units			140,705	
7 Historic Losses			42,362,870	
8 Historic Defense and Cost Containment Expense (DCCE)			193,419	
9 Loss Development Factor (Developed in Exhibit 7)			0.997	
10 DCCE Development Factor (Developed in Exhibit 7)			9.375	
11 Loss Trend Factor* (Developed in Exhibit 8)			1.021	1.03%
12 DCCE Trend Factor* (Developed in Exhibit 8)			1.021	1.03%
13 Catastrophe Adjustment Factor (Developed in Exh 9)			1.039	
14 Credibility Factor for Losses & DCCE (Developed in Exhibit 10)				100.00%
15 Excluded Expense Factor (From Page 13 of Rate Application)				1.15%
16 Ancillary Income (Developed in Exhibit 11)			225,380	
17 Projected Federal Income Tax Rate on Investment Income (From Page 14 of Rate Application)				26.97%
18 Projected Yield (From Page 14 of Rate Application)				5.84%
Complete 19, 20 & 21 For Earthquake and certain Medical Malpractice with Reinsurance Only (see instructions)				
19 Direct Commissions				
20 Reinsurance Premium (Developed in Exhibit 14)				
21 Reinsurance Recoverables (Developed in Exhibit 14)				

Variance Change to Leverage on the basis that the insurer either writes at least 90% of its direct earned premium in one line or writes at least 90% of its direct earned premium in California. (Must be accompanied by Variance Request, subject to CDI approval) — No

Variance Change to Efficiency Standard (Must be accompanied by Variance Request, subject to approval by CDI) — 0.50%

* For all trend factors, the Projected Column should reflect the annual trend expressed as a percentage.

** For New Programs, please see Rate Filing Instructions, Page 4.

A-5

VARIANCE: 2A, 7,

RATE TEMPLATE

Edition Date: 1/15/2015

CDI FILE NUMBER:	14-8381		
COMPANY/GROUP:	State Farm General Insurance Company		
LINE OF INSURANCE:	HOMEOWNERS MULTIPLE PERIL		
COVERAGE:	Non-Tenant Homeowners		
PRIOR_EFF_DATE:	12/1/2014	Completed by:	
PROPOSED_EFF_DATE:	7/15/2015	Date:	

DATA PROVIDED BY FILER

Year:	0	0	2014	
	PRIOR2	PRIOR1	RECENT	PROJECTED/ SUMMARY
WRT_PREM	0	0	1,048,142,789	1,048,142,789
ERN_PREM	0	0	1,054,453,938	1,054,453,938
PREM_ADJ	1.000	1.000	0.878	
PREM_TREND	1.000	1.000	1.044	0.021
MISCELLANEOUS_FEES (& other flat charges)	0	0	0	0
EARNED_EXP	0	0	1,111,944	1,111,944
LOSSES	0	0	370,625,463	370,625,463
DCCE	0	0	2,748,084	2,748,084
LOSS_DEV	1.000	1.000	1.120	
DCCE_DEV	1.000	1.000	7.812	
LOSS_TREND	1.000	1.000	1.050	0.024
DCCE_TREND	1.000	1.000	1.050	0.024
CAT_ADJ	1.000	1.000	1.352	
CREDIBILITY				100.00%
EXPENSE EXCLUSION FACTOR				1.15%
ANC_INC	0	0	3,269,244	3,269,244
FIT_INV				26.97%
YIELD				5.84%

CDI PARAMETERS:

FIT_UW	35.00%
EFF_STANDARD	34.65%
LEVERAGE	1.10
PREMIUM_TAX_RATE	2.35%
SURPLUS_RATIO	0.91
UEP_RES_RATIO	0.51
LOSS_RES_RATIO	0.69
RISK FREE RATE OF RETURN	1.39%
MAXIMUM RATE OF RETURN	7.39%
MINIMUM RATE OF RETURN	-6.00%

Jun-15

CDI CALCULATIONS:

ADJ_PREM	0	0	966,396,012	966,396,012
ADJUSTED_LOSSES	0	0	589,116,515	589,116,515
ADJUSTED_DCCE	0	0	30,479,064	30,479,064
ADJUSTED_LOSS+DCCE_RATIO	***0.00%***	***0.00%***	***64.11%***	***64.11%***
TRENDED_CURRENT_RATE_LEVEL_PREMIUM	#DIV/0!	#DIV/0!	869.10	869.10
LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	557.22	557.22
COMP_LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	589.76	589.76
CRED_LOSS_PER_EXP	#DIV/0!	#DIV/0!	557.22	557.22
ANC_INC_PER_EXP	#DIV/0!	#DIV/0!	2.94	2.94
FIXED_INV_INC_FACTOR				4.55%
VAR_INV_INC_FACTOR				9.32%
ANNUAL_NET_TREND				0.31%
COMP_TREND				0.19%
MAX_PROFIT				10.36%
MIN_PROFIT				-8.41%
UW_PROFIT				-2.40%
MAX_DENOM				0.643
MIN_DENOM				0.831
MAX_PREMIUM				$822.45
MIN_PREMIUM				$636.59
CHANGE_AT_MIN				-26.75%
CHANGE AT MAX				**-5.37%**

Alternate Calculation with Reinsurance

COMMISSION_RATE				0.00%
RE_PREM	-	-	-	0
RE_RECOV	-	-	-	0
RE_PREM_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
RE_RECOV_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
COMP_LOSS_RE	#DIV/0!	#DIV/0!	589.76	589.76
RMAX_PREMIUM			NA	
RCHANGE_AT_MAX			*NA*	

A 1

VARIANCE: 2A, 7,

RATE TEMPLATE

ˉdition Date: *1/15/2015*

CDI FILE NUMBER:	14-8381
COMPANY/GROUP:	State Farm General Insurance Company
LINE OF INSURANCE:	HOMEOWNERS MULTIPLE PERIL
COVERAGE:	Renters
PRIOR_EFF_DATE:	12/1/2014
PROPOSED_EFF_DATE:	7/15/2015

Completed by:
Date:

DATA PROVIDED BY FILER

Year:	0	0	2014	
	PRIOR2	PRIOR1	RECENT	PROJECTED/ SUMMARY
WRT_PREM	0	0	79,942,842	79,942,842
ERN_PREM	0	0	73,360,969	73,360,969
PREM_ADJ	1.000	1.000	1.109	
PREM_TREND	1.000	1.000	0.947	-0.027
MISCELLANEOUS_FEES (& other flat charges)	0	0	0	0
EARNED_EXP	0	0	444,433	444,433
LOSSES	0	0	33,271,953	33,271,953
DCCE	0	0	279,191	279,191
LOSS_DEV	1.000	1.000	1.104	
DCCE_DEV	1.000	1.000	8.538	
LOSS_TREND	1.000	1.000	1.018	0.009
DCCE_TREND	1.000	1.000	1.018	0.009
CAT_ADJ	1.000	1.000	1.044	
CREDIBILITY				100.00%
EXPENSE EXCLUSION FACTOR				1.15%
ANC_INC	0	0	249,348	249,348
FIT_INV				26.97%
YIELD				5.84%

CDI PARAMETERS:

FIT_UW	35.00%
EFF_STANDARD	34.65%
LEVERAGE	1.10
PREMIUM_TAX_RATE	2.35%
SURPLUS_RATIO	0.91
UEP_RES_RATIO	0.51
LOSS_RES_RATIO	0.69
RISK FREE RATE OF RETURN	1.39%
MAXIMUM RATE OF RETURN	7.39%
MINIMUM RATE OF RETURN	-6.00%

Jun-15

CDI CALCULATIONS:

ADJ_PREM	0	0	77,005,354	77,005,354
ADJUSTED_LOSSES	0	0	39,030,390	39,030,390
ADJUSTED_DCCE	0	0	2,533,737	2,533,737
ADJUSTED_LOSS+DCCE_RATIO	***0.00%***	***0.00%***	***53.98%***	***53.98%***
TRENDED_CURRENT_RATE_LEVEL_PREMIUM	#DIV/0!	#DIV/0!	173.27	173.27
LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	93.52	93.52
COMP_LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	119.94	119.94
CRED_LOSS_PER_EXP	#DIV/0!	#DIV/0!	93.52	93.52
ANC_INC_PER_EXP	#DIV/0!	#DIV/0!	0.56	0.56
FIXED_INV_INC_FACTOR				4.55%
VAR_INV_INC_FACTOR				9.32%
ANNUAL_NET_TREND				3.63%
COMP_TREND				2.23%
MAX_PROFIT				10.36%
MIN_PROFIT				-8.41%
UW_PROFIT				-2.45%
MAX_DENOM				0.643
MIN_DENOM				0.831
MAX_PREMIUM				$137.93
MIN_PREMIUM				$106.76
CHANGE_AT_MIN				-38.38%
CHANGE AT MAX				-20.39%

Alternate Calculation with Reinsurance

COMMISSION_RATE				0.00%
RE_PREM	-	-	-	0
RE_RECOV	-	-	-	0
RE_PREM_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
RE_RECOV_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
COMP_LOSS_RE	#DIV/0!	#DIV/0!	0.56	119.94
RMAX_PREMIUM			NA	
RCHANGE_AT_MAX			*NA*	

VARIANCE: 2A, 7,

RATE TEMPLATE

˜dition Date: 1/15/2015

CDI FILE NUMBER:	14-8381
COMPANY/GROUP:	State Farm General Insurance Company
LINE OF INSURANCE:	HOMEOWNERS MULTIPLE PERIL
COVERAGE:	Condominium Unitowners
PRIOR_EFF_DATE:	12/1/2014
PROPOSED_EFF_DATE:	7/15/2015

Completed by:
Date:

DATA PROVIDED BY FILER

Year:	0	0	2014	
	PRIOR2	PRIOR1	RECENT	PROJECTED/ SUMMARY
WRT_PREM	0	0	72,258,477	72,258,477
ERN_PREM	0	0	67,457,193	67,457,193
PREM_ADJ	1.000	1.000	1.108	
PREM_TREND	1.000	1.000	1.070	0.034
MISCELLANEOUS_FEES (& other flat charges)	0	0	0	0
EARNED_EXP	0	0	140,705	140,705
LOSSES	0	0	42,362,870	42,362,870
DCCE	0	0	193,419	193,419
LOSS_DEV	1.000	1.000	0.997	
DCCE_DEV	1.000	1.000	9.375	
LOSS_TREND	1.000	1.000	1.021	0.010
DCCE_TREND	1.000	1.000	1.021	0.010
CAT_ADJ	1.000	1.000	1.039	
CREDIBILITY				100.00%
EXPENSE EXCLUSION FACTOR				1.15%
ANC_INC	0	0	225,380	225,380
FIT_INV				26.97%
YIELD				5.84%

CDI PARAMETERS:

FIT_UW	35.00%
EFF_STANDARD	34.65%
LEVERAGE	1.10
PREMIUM_TAX_RATE	2.35%
SURPLUS_RATIO	0.91
UEP_RES_RATIO	0.51
LOSS_RES_RATIO	0.69
RISK FREE RATE OF RETURN	1.39%
MAXIMUM RATE OF RETURN	7.39%
MINIMUM RATE OF RETURN	-6.00%

Jun-15

CDI CALCULATIONS:

ADJ_PREM	0	0	80,030,863	80,030,863
ADJUSTED_LOSSES	0	0	44,789,423	44,789,423
ADJUSTED_DCCE	0	0	1,923,806	1,923,806
ADJUSTED_LOSS+DCCE_RATIO	*0.00%*	*0.00%*	*58.37%*	*58.37%*
TRENDED_CURRENT_RATE_LEVEL_PREMIUM	#DIV/0!	#DIV/0!	568.79	568.79
LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	331.99	331.99
COMP_LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	379.48	379.48
CRED_LOSS_PER_EXP	#DIV/0!	#DIV/0!	331.99	331.99
ANC_INC_PER_EXP	#DIV/0!	#DIV/0!	1.60	1.60
FIXED_INV_INC_FACTOR				4.55%
VAR_INV_INC_FACTOR				9.32%
ANNUAL_NET_TREND				-2.28%
COMP_TREND				-1.42%
MAX_PROFIT				10.36%
MIN_PROFIT				-8.41%
UW_PROFIT				-2.37%
MAX_DENOM				0.643
MIN_DENOM				0.831
MAX_PREMIUM				$490.25
MIN_PREMIUM				$379.46
CHANGE_AT_MIN				-33.29%
CHANGE AT MAX				**-13.81%**

Alternate Calculation with Reinsurance

COMMISSION_RATE				0.00%
RE_PREM	-	-	-	0
RE_RECOV	-	-	-	0
RE_PREM_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
RE_RECOV_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
COMP_LOSS_RE	#DIV/0!	#DIV/0!	1.60	379.48
RMAX_PREMIUM			NA	
RCHANGE_AT_MAX			*NA*	

		Blended	Captive	Direct	Indep
ES:	ES1:	35.30%	35.30%	25.93%	40.03%
	ES2:	35.30%	35.30%	25.93%	40.03%
	ES3:	35.30%	35.30%	25.93%	40.03%
	ES4:	32.07%	32.07%	31.80%	32.08%
	ES5:	32.07%	32.07%	31.80%	32.08%
	ES:6	32.07%	32.07%	31.80%	32.08%

EFFICIENCY STANDARD TABLE

SOURCE 2011 - 2013 ROLLING AVG

DATE REVISED: 1/15/2015

Line	Captive	Direct	Indep	Line Description
1.0	39.86%	24.68%	31.23%	FIRE
2.1	45.38%	20.69%	32.72%	ALLIED LINES
3.0	47.33%	47.33%	48.58%	FARMOWNERS MULTIPLE PERIL
4.0	35.30%	25.93%	40.03%	HOMEOWNERS MULTIPLE PERIL
5.0	36.33%	35.00%	39.45%	COMMERCIAL MULTIPLE (5.1 & 5.2 Combined)
5.1	35.39%	34.35%	39.37%	COMMERCIAL MULTIPLE PERIL(NON-LIABILITY)
5.2	39.02%	36.42%	39.60%	COMMERCIAL MULTIPLE PERIL(LIABILITY)
9.0	37.39%	27.47%	29.74%	INLAND MARINE
11.0	28.11%	29.92%	36.85%	MEDICAL MALPRACTICE
11.1	28.11%	29.92%	36.85%	MEDICAL MALPRACTICE(occ)
11.2	28.11%	29.92%	36.85%	MEDICAL MALPRACTICE (cm)
12.0	19.67%	20.44%	25.01%	EARTHQUAKE
17.0	32.64%	28.59%	32.93%	OTHER LIABILITY
17.1	32.55%	25.07%	31.51%	OTHER LIABILITY (occ)
17.2	36.30%	35.84%	34.64%	OTHER LIABILITY (cm)
18.0	35.35%	35.35%	35.35%	PRODUCTS LIABILITY
18.1	35.35%	35.35%	35.35%	PRODUCTS LIABILITY (occ)
18.2	35.35%	35.35%	35.35%	PRODUCTS LIABILITY (cm)
19.2	37.11%	25.01%	38.84%	PRIVATE PASSENGER AUTO LIABILITY
19.4	38.22%	35.67%	34.80%	COMMERCIAL AUTO LIABILITY
21.1	36.18%	25.88%	39.55%	PRIVATE PASSENGER AUTO PHYSICAL DAMAGE
21.2	41.01%	33.85%	38.86%	COMMERCIAL AUTO PHYSICAL DAMAGE
22.0	32.07%	31.80%	32.08%	AIRCRAFT
23.0	36.33%	39.60%	36.30%	FIDELITY
24.0	43.86%	43.86%	43.86%	SURETY
26.0	33.22%	33.22%	33.22%	BURGLARY & THEFT
27.0	34.79%	26.52%	44.11%	BOILER & MACHINERY

LEVERAGE RATIO TABLE

SOURCE: Best's Aggregates and Averages, 2014 Edition / Exhibit of Premiums and Losses (Statutory Page 14 Data)

DATE REVISED: 10/17/2014

Line	LF	Line Description
1.0	1.0097	Fire
2.1	1.0301	Allied Lines
3.0	1.1319	Farmowners
4.0	1.0971	Homeowners
5.1	1.0325	CMP - NL
5.2	0.5135	CMP - Liab.
5.0	0.7622	CMP
9.0	1.1130	Inland Marine
11.1	0.3090	Med. Mal. Occ.
11.2	0.4735	Med. Mal. cm.
11.0	0.4154	Med. Mal.
12.0	1.0000	Earthquake
17.1	0.4157	O. Liab. Occ.
17.2	0.4945	O. Liab. cm.
17.0	0.4293	O. Liab.
18.1	0.2459	Products - Occ.
18.2	0.4124	Products - cm.
18.0	0.2623	Products
19.2	0.9049	PP Auto Liab.
19.4	0.7070	C. Auto Liab.
21.1	1.4693	PP Auto PD
21.2	1.1893	Comm Auto PD
22.0	0.5699	Aircraft
23.0	0.6804	Fidelity
24.0	0.8514	Surety
26.0	0.9257	Burglary & Theft
27.0	1.0154	Boiler & Mach.

RESERVES RATIO TABLE

SOURCE: Best's Aggregates & Averages - Property Casualty (2013 & 2014 edition) / Annual Statement - Statutory Page 14

DATE REVISED: 10/17/2014

LINE	UEP	LOSS	Line Description
1	0.48	1.07	FIRE
2.1	0.47	1.52	ALLIED LINES
3	0.47	1.17	FARMOWNER MP
4	0.51	0.69	HOMEOWNER MP
5	0.49	2.19	CMP
5.1	0.49	1.07	CMP (N-LIAB)
5.2	0.48	3.23	CMP (LIAB)
9	0.31	0.43	INLAND MRN
11.0	0.52	3.52	MED MAL
11.1	0.62	4.15	MED MAL - occurrence
11.2	0.49	3.20	MED MAL - claims-made
12.0	0.48	1.00	EARTHQUAKE
17.0	0.54	4.61	OTHER LIAB
17.1	0.52	6.08	OTHER LIAB - occurrence
17.2	0.56	3.02	OTHER LIAB - claims-made
18.0	0.48	3.63	PROD LIAB
18.1	0.50	3.82	PROD LIAB - occurrence
18.2	0.40	2.49	PROD LIAB - claims-made
19.2	0.34	1.11	PPA LIAB
19.4	0.45	1.88	COMLA LIAB
21.1	0.33	0.06	PPA PD
21.2	0.49	0.26	COMLA PD
22.0	0.44	2.03	AIRCRAFT
23.0	0.58	2.73	FIDELITY
24.0	0.58	2.22	SURETY
26.0	0.57	0.84	BRGLRY THEFT
27.0	0.48	0.80	BLR & MCHNRY

State Farm General Insurance Company
California Homeowners
Catastrophe Adjustment

(A)	(B) Non-Tenant Homeowners	(C) Renters	(D) Condominium Unitowners
NC Loss + DCCE developed and trended	458,280,754	39,812,382	44,959,797
Program FFEQ Provision per AIY*	0.0434	0.0254	0.0588
7/15/2016 Projected AIY	452,311,664	16,182,594	9,071,668
FFEQ Provision Dollars	19,630,326	411,038	533,414
FFEQ Provision to NC Loss + DCCE	0.043	0.010	0.012

	Weighted Average CAT-to-AIY, excluding FFEQ:		
	Non-Tenant	Renters	Condos
0% Trend	0.3130	0.0822	0.1343

	Final CAT Load:		
	Non-Tenant	Renters	Condos
0% Trend	**1.352**	**1.044**	**1.039**

State Farm General Insurance Company
California Non-Tenant Homeowners
Catastrophe Adjustment Excluding Fire Following Earthquake Provision

(1) Year	(2) CAT/AIY	(3) Trend Factor [1+(6)]^[(7)-Year]	(4) Trended Cat Ratio = (2) * (3)	(5) Weight
1990	0.602	1.000	0.602	3.1%
1991	1.536	1.000	1.536	3.2%
1992	0.273	1.000	0.273	3.2%
1993	0.621	1.000	0.621	3.3%
1994	0.238	1.000	0.238	3.4%
1995	0.544	1.000	0.544	3.4%
1996	0.272	1.000	0.272	3.5%
1997	0.092	1.000	0.092	3.6%
1998	0.262	1.000	0.262	3.7%
1999	0.050	1.000	0.050	3.7%
2000	0.080	1.000	0.080	3.8%
2001	0.098	1.000	0.098	3.9%
2002	0.148	1.000	0.148	4.0%
2003	1.893	1.000	1.893	4.1%
2004	-0.365	1.000	-0.365	4.1%
2005	0.111	1.000	0.111	4.2%
2006	0.058	1.000	0.058	4.3%
2007	0.892	1.000	0.892	4.4%
2008	0.470	1.000	0.470	4.5%
2009	-0.031	1.000	-0.031	4.6%
2010	0.262	1.000	0.262	4.6%
2011	0.044	1.000	0.044	4.7%
2012	0.090	1.000	0.090	4.8%
2013	0.046	1.000	0.046	4.9%
2014	0.054	1.000	0.054	5.0%

(6) Projected Annual Trend:	0.0%
(7) Projection Year	2016
(8) Trended Catastrophe Ratio (Column (4) weighted by Column (5)):	**0.3130**

State Farm General Insurance Company
California Renters
Catastrophe Adjustment Excluding Fire Following Earthquake Provision

(1) Year	(2) CAT/AIY	(3) Trend Factor [1+(6)]^[(7)-Year]	(4) Trended Cat Ratio = (2) * (3)	(5) Weight
1990	0.108	1.000	0.108	3.1%
1991	0.637	1.000	0.637	3.2%
1992	0.196	1.000	0.196	3.2%
1993	0.138	1.000	0.138	3.3%
1994	0.071	1.000	0.071	3.4%
1995	0.090	1.000	0.090	3.4%
1996	0.024	1.000	0.024	3.5%
1997	0.017	1.000	0.017	3.6%
1998	0.043	1.000	0.043	3.7%
1999	0.005	1.000	0.005	3.7%
2000	0.006	1.000	0.006	3.8%
2001	0.006	1.000	0.006	3.9%
2002	0.036	1.000	0.036	4.0%
2003	0.646	1.000	0.646	4.1%
2004	-0.289	1.000	-0.289	4.1%
2005	-0.032	1.000	-0.032	4.2%
2006	0.012	1.000	0.012	4.3%
2007	0.297	1.000	0.297	4.4%
2008	0.230	1.000	0.230	4.5%
2009	-0.114	1.000	-0.114	4.6%
2010	0.098	1.000	0.098	4.6%
2011	-0.056	1.000	-0.056	4.7%
2012	0.025	1.000	0.025	4.8%
2013	0.005	1.000	0.005	4.9%
2014	0.034	1.000	0.034	5.0%

(6) Projected Annual Trend:	0.0%
(7) Projection Year	2016
(8) Trended Catastrophe Ratio (Column (4) weighted by Column (5)):	**0.0822**

State Farm General Insurance Company
California Condos
Catastrophe Adjustment Excluding Fire Following Earthquake Provision

(1) Year	(2) CAT/AIY	(3) Trend Factor [1+(6)]^[(7)-Year]	(4) Trended Cat Ratio = (2) * (3)	(5) Weight
1990	0.102	1.000	0.102	3.1%
1991	0.369	1.000	0.369	3.2%
1992	0.183	1.000	0.183	3.2%
1993	0.115	1.000	0.115	3.3%
1994	0.032	1.000	0.032	3.4%
1995	0.345	1.000	0.345	3.4%
1996	0.016	1.000	0.016	3.5%
1997	0.061	1.000	0.061	3.6%
1998	0.105	1.000	0.105	3.7%
1999	0.013	1.000	0.013	3.7%
2000	0.030	1.000	0.030	3.8%
2001	0.057	1.000	0.057	3.9%
2002	0.070	1.000	0.070	4.0%
2003	0.309	1.000	0.309	4.1%
2004	0.034	1.000	0.034	4.1%
2005	0.260	1.000	0.260	4.2%
2006	0.060	1.000	0.060	4.3%
2007	0.173	1.000	0.173	4.4%
2008	0.234	1.000	0.234	4.5%
2009	0.047	1.000	0.047	4.6%
2010	0.375	1.000	0.375	4.6%
2011	0.101	1.000	0.101	4.7%
2012	0.071	1.000	0.071	4.8%
2013	0.008	1.000	0.008	4.9%
2014	0.198	1.000	0.198	5.0%

(6) Projected Annual Trend:	0.0%
(7) Projection Year	2016
(8) Trended Catastrophe Ratio (Column (4) weighted by Column (5)):	**0.1343**

NOTICE OF TIME LIMITS FOR RECONSIDERATION & JUDICIAL REVIEW
In the Matter of State Farm General Insurance Company
Case No. PA-2015-00004

Reconsideration of this Decision may be had pursuant to California Government Code Section 11521 and California Code of Regulations, Title 10, Section 2659.1. The power to order Reconsideration shall expire thirty (30) days after service of the Decision on the parties, but not later than the effective date of the Decision.

A Petition for Reconsideration must be served on all parties, with a copy filed with the Administrative Hearing Bureau, and should be directed to:

Geoffrey F. Margolis
Deputy Commissioner & Special Counsel
California Department of Insurance – Executive Office
300 Capitol Mall, 17th Floor
Sacramento, California 95814

Judicial review of the Insurance Commissioner's Decision may be had pursuant to California Insurance Code Sections 1858.6 and 1861.09, California Government Code Section 11523, and California Code of Regulations, Title 10, Section 2660, by filing a petition for a writ of mandate in accordance with the provisions of the California Code of Civil Procedure. The right to petition shall not be affected by the failure to seek reconsideration before the Commissioner.

A Petition for a Writ of Mandamus shall be filed with the Court, and served on the Insurance Commissioner as follows:

Chao Lor
Attorney
California Department of Insurance – Legal Office
300 Capitol Mall, 17th Floor
Sacramento, California 95814

Any Petition for a Writ of Mandamus should also be served on the Administrative Hearing Bureau of the California Department of Insurance as follows:

Department of Insurance
Administrative Hearing Bureau
45 Freemont Street, 22nd Floor
San Francisco, California 94105

Petitions for reconsideration shall be based solely upon, and shall set forth specifically, the grounds upon which the decision of the Commissioner allegedly is contrary to law or is erroneous. A petition for reconsideration shall not refer to, or introduce, any evidence which was not part of the record of the evidentiary hearing. Any such evidence nonetheless provided shall be accorded no weight. Copies of documents received in evidence or already part of the records shall be referenced and attached as exhibits.

DECLARATION OF SERVICE BY MAIL

Case Name/No.: In the Matter of the Rate Application of:
STATE FARM GENERAL INSURANCE COMPANY
File PA-2015-00004

I, SHANNON HEINZER, declare that:

I am employed in the County of Sacramento, 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, Executive Office, 300 Capitol Mall, Suite 1700, Sacramento, California, 95814.

I am readily familiar with the business practices of the Sacramento 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 Sacramento, California.

☒ On November 7, 2016, following ordinary business practices, I caused a true and correct copy of the following document(s):

ORDER ADOPTING REVISED PROPOSED DECISION; REVISED PROPOSED DECISION; and NOTICE OF TIME LIMITS FOR RECONSIDERATION & JUDICIAL REVIEW

to be placed for collection and mailing at the office of the California Department of Insurance at 300 Capitol Mall, Sacramento, California, 95814 with proper postage prepaid, in a sealed envelope(s) addressed as follows:

(SEE ATTACHED SERVICE LIST)

I declare under penalty of perjury that the foregoing is true and correct, and that this declaration was executed at Sacramento, California, on November 7, 2016.

Shannon M. Heinzer

SHANNON HEINZER

PARTY SERVICE LIST
FILE NO. PA-2015-00004

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