

**State Farm General Insurance Company
California
Business Lines Risk Type
Filing Memorandum**

Effective Date: September 15, 2026 – New and Renewal Business

The main purpose of this filing is to implement a rate increase for the Business Risk Types line of business. This filing represents a request for an overall change of 17.9% for the California Business Risk Types (-14.3% Property, 83.3% Liability)

Comments Regarding Data Selections for Loss Development and Trends

Inflation Affecting Insurance: Despite the slowing macroeconomic inflation and significant rate increases approved in prior filings (24- 1346, 24-1346-A), we continue to see the impacts of social inflation to liability lines of business such as Businessowners, Contractors, and Commercial Automobile Liability Programs. The deceleration of macroeconomic inflation has resulted in slower severity growth for property coverages; however liability claim costs have continued to increase significantly due to social inflation.

- **Social Inflation:** The CAS/III paper “Increasing Inflation on Liability Insurance – Impact as of Year-End 2024” authored by Jim Lynch, FCAS, MAAA and William Nibbelin, senior actuary at the Insurance Institutes of America (III), discusses social inflation from 2015-2024.
 - Jim Lynch comments, ““The data clearly show that insurance loss inflation has its own unique drivers. While general economic inflation is an important factor, legal trends, ranging from litigation financing to larger jury verdicts, have amplified costs well beyond what the CPI-U would suggest. Expanding this analysis to broader General Liability lines will allow us to quantify inflationary pressures across even more of the insurance landscape, especially given what we’ve observed in civil case trends...While consumer price inflation peaked in 2022, our data show that loss inflation in liability insurance lines remains structurally higher than before. This reflects the combined effects of economic conditions, changing legal dynamics, and higher settlement values.”
 - Sean Kavelighan, CEO of III summarizes, “This analysis illustrates that the severe spikes in liability insurance claims losses go well beyond normal economic inflation. Legal system abuse, manifested through excessive verdicts and litigation behaviors, has fueled a structural rise in claim costs that continues to increase costs for insurers and policyholders alike.”
 - The summary of the paper states, “Across all lines, claim severity, not claim frequency, is driving loss increases. While the number of claims has generally declined, the average cost per claim has soared, far exceeding overall economic inflation as measured by the Consumer Price Index (CPI-U)...Loss development factors (LDFs), actuarial measures of how claim costs evolve, have generally increased since 2008, reflecting the sustained impact of legal system abuse, from litigation financing and attorney involvement to larger jury verdicts and higher settlement values.”
- **Third Party Litigation Financing/Funding (TPLF):** Driven by investments from pensions, sovereign wealth funds, and hedge funds TPLFs have contributed significantly to the increase in liability claim costs and are expected to grow in the future.
 - According to the IASA, “more than 42 active funders manage \$16.1 billion in total assets across the industry... Litigation funders are consolidating their position as major players in the legal system despite ongoing regulatory challenges, and business opposition.”
 - The projected growth rate is 8.7%; the market penetration is assumed to be only about 10% of the total potential global market currently. (CAS Webinar: Third Party Litigation Funding: Quantifying the Key Driver of Social Inflation)
 - According to Zurich Reinsurance, TPLF is “akin to a non-recourse loan.”
 - Published internal rates of return for litigation funding investment portfolios range from 26% to 77% for completed investments. (CAS Webinar: Third Party Litigation Funding: Quantifying the Key Driver of Social Inflation)

- EY (Abigail Bruce, FCAS) estimated the impact of TPLF on the costs paid by the P&C insurance industry. (CAS Webinar: Third Party Litigation Funding: Quantifying the Key Driver of Social Inflation)
 - Direct costs of TPLF: The third party must be paid off in addition to payments to the legal staff and the plaintiff.
 - Indirect costs of TPLF: The third-party financing encourages an environment where there are more lawsuits and more trials, increasing costs to insurers.
 - The model projects that the cost of TPLF to the P&C insurance industry will increase by 45% to 70% over the next five years.
 - Over the next 5 years, the estimated direct impact to the P&C industry of TPLF (returns to TPLF) are likely (25th to 75th percentile) between \$13 and \$18 billion with \$2 to \$3 billion per year for the industry.
 - When combined with indirect costs, the impact could be as high as \$54 billion.
 - In California, local legal services advertising increased 82% from 2020 (\$131,101,967) to 2023 (\$238,836,505). This included TV (65% increase), radio (64% increase), digital (121%) and outdoor advertising (177%). [Legal Services Advertising in the United States - ATRA](#)
 - Such advertising to recruit clients reflects the state's judicial environment and likelihood of large payouts while also increasing the probability of claims.

Larger Losses: Based on examination of the loss data, we have confirmed no true unordinary large losses recently except for those removed associated with Variances 7D and 8F discussed below. In AY 2022-2025 which are included fully or partially in the experience period, there are 5 \$2 million losses, 4 losses between \$1 million and \$2 million, and 18 \$1 million losses. The growth of losses at or near limits has increased severity and is expected to continue given the social inflation and legal abuse described above.

Loss Trends: For frequency, selected trends were based on the reported data for Liability and paid data for Property. Typically, reported data more appropriately reflects our expectations of future trends. The use of reported claim frequencies eliminates the possibility that any shift in the timing of claim payments could bias the calculation of the underlying frequency trends. In addition, the use of reported frequency trend factors can allow for changes in claim frequency to become known sooner than may occur with paid frequency data; however, the decline in Property frequency along with the subsequent recovery resulted in more volatile longer-term reported trends (16 pt of -0.7%, 20 pt of -4.1%, 24 pt of -3.1%) than paid frequency trends (16 pt of -2.4%, 20 pt of -1.7%, 24 pt of -2%). Therefore, we selected paid frequency trends to result in reasonable trend selections for quickly developing Property coverage.

For severity, we have selected trends based on the paid + DCCE data, as shown in Standard Exhibit 8 and Standard Exhibit 8_Data_Adj_7D_8F. The use of paid severities allows for the reflection of large partial loss payments in earlier periods and is therefore more responsive to claim size distribution changes than the alternative approach. Paid data is also supported as a common severity basis in actuarial literature. We did not select severities calculated using total paid loss (including partial payments in previous calendar years) data. Such severities are more volatile than paid severities and are not calculated using a standard actuarial severity basis. Paid severities better coincide with our claim payment patterns, which may include partial payments in earlier years.

- a. Property:
 - i. Premium Trends: 12 pt though 24 pt trends have been relatively stable. The 24 pt trend selection is reasonable compared to other alternatives available.
 - ii. Loss Trends:

1. Frequency: The closed and reported frequency trends are negative for all periods with more recent frequency trends being more negative for both CA and complement data. The 24 point provides greater stability given past events (e.g., pandemic, civil unrest).
 2. Severity: Shorter term trends have been increasingly positive. The 24 point provides greater stability given past events (e.g., pandemic, civil unrest, post-pandemic inflation).
 3. Pure Premium: The 24 point provides greater stability given past events.
- iii. Net Trends: The net trend chosen assumes positive future severity trends along with slightly negative frequency trends. More responsive trends assume much more negative frequency trends which seem unlikely given recent frequency levels are lower than at any other time in the historical data period.
- b. Liability
- i. Premium Trends:
 1. We have considered the premium reductions associated with the effects of the uniform reduction of 40% of rated liability exposure amounts for all customers for one renewal cycle beginning September 15, 2020 in the selections. Only the 8 pt trend is unaffected; however, given the need to select a consistent trend period for premium and loss trends, the 8-point trend was not selected. Please see A.5. Data Adjustments below and the COVID-19 Questionnaire for more details.
 2. The highest premium trend, a 16 point trend of 10%, was selected.
 - a. There are regular underwriting reviews of gross sales amounts, the liability exposure base for some statistical classes; however, the impact of a recent review on the gross sales amounts was larger than in prior years. Given changes in the book of business over time including the rate of customer-initiated nonrenewals and the overlap between statistical classes with a gross sales exposure base statistical classes planned for company-initiated nonrenewals within this filing, estimates of the impact on premium and premium trend are still very dependent on specific assumptions. This higher selected premium trend considers the expected impact of the gross sales updates. As more premium data becomes available, State Farm will continue to review estimates of the premium impact.
 - ii. Loss Trends:
 1. Frequency:
 - a. The closed and reported frequency trends are positive for both CA and complement data for all periods, but shorter-term trends are consistently higher. Reported frequency has fully recovered from pandemic declines while closed frequency appears to be relatively flat and still below pre-pandemic levels.
 - b. Reported frequency has been selected, consistent with the selection of incurred liability development given the longer-tailed nature of its development (see below).
 - c. Frequency appears to be increasing at a faster pace over the last few post-pandemic years, so responsiveness is important. Only the 8-pt trend is unaffected by the pandemic data; however, the frequency recovery is likely to slow from its current pace over time. Review of a 4-point trend shows that the frequency trend has not yet started to slow down.
 - d. The 16-point trend is the midpoint of the selections available and assumes a slowing frequency trend.

There have been no changes in Claims reporting practices which would affect the reported claim count data, and these reserving changes have not affected the claims reporting pattern. The payment pattern is slowing, though, as shown by the decreasing percentages in the triangle on page 3 of Supporting Exhibit 13-7C (Payment Pattern: Non-Catastrophe Paid as a % of Ultimate Counts); the Ultimate counts have been developed using weighted LDF's (loss development factors) from case incurred claim counts. Reported claims are taking longer to be paid, so a paid development pattern will understate the ultimate BIPD losses and rate need. Therefore, we are filing a Case Outstanding Berquist Sherman adjustment using open claim counts adjusted for changes in settlement rates, as described and shown in the following exhibits:

- i. Supporting Exhibit 13-7C (No data adjustments)
 - ii. Supporting Exhibit 13-7C_Data_Adj_7D (Loss Development data adjusted as described in Variance 7D above)
 - iii. Supporting Exhibit 13-7C_Data_Adj_8F (Loss Trend data adjusted as described in Variance 8F above)
 - iv. Supporting Exhibit 13-7C_Data_Adj_7D_8F (Loss Development data and Loss Trend data adjusted as described in Variances 7D and 8F above)
- d. Standard Exhibits and Supplemental Exhibits (Additional Development Triangles and Quarterly Development Triangles) are provided with and without both data adjustments as shown below:
- i. Standard Exhibits (No data adjustments)
 - ii. Standard Exhibits_Data_Adj_7D_8F
 - iii. Supplemental Exhibit 1 – Additional Development Triangles (No data adjustments)
 - iv. Supplemental Exhibit 2_Data_Adj_7D_8F – Additional Development Triangles
 - v. SuppQtr_DevT1 (No data adjustments)
 - vi. SuppQtr_DevT1_Data_Adj_7D_8F
- e. Rate Templates for each combination of the variances above have been submitted for this filing including:
- i. Variances 7C, 7D, 8F
 - ii. Variances 7C, 7D
 - iii. Variances 7C, 8F
 - iv. Variances 7D, 8F
 - v. Variance 7C Only
 - vi. Variance 7D Only
 - vii. Variance 8F Only
 - viii. No Variances
5. Premium Data Adjustments: The premium data in the Rate Template and Exhibit 5 has not been adjusted or restated in any way. Therefore, premium data in the Rate Template and Exhibit 5 include the effects of the uniform reduction of 40% of rated liability exposure amounts for all customers for one renewal cycle beginning September 15, 2020 as mentioned in the COVID-19 Questionnaire. Premium data has not been restated, as the average liability losses and allocated loss adjustment expenses also decreased due to reduced exposure.
6. Exposures: The exposure base being used in both Exhibit 5 and Exhibit 8 is Businessowners Risk Types monthly policy count earned summed quarterly. This is an appropriate exposure base because it directly measures how much risk we were exposed to during each calendar quarter.

- a. There has been a 25% decrease in our exposure base over the last 2 years. This is due to either cancellation by the policyholders or lapses in payment. State Farm ceased writing new business on 5/27/2023, so new business has not replaced this business lost.

7. Standard Exhibits

- a. Exhibit 7 and Exhibit 7_Data_Adj_7D_8F – A rounding error in cell F468 of the Noncatastrophe Case-Specific Reserve Development Annual Triangle has resulted in a negative value of approximately 0.
- b. Exhibit 8 and Exhibit 8_Data_Adj_7D_8F – paid losses are now including DCCE so that all of our company-specific loss trend data includes DCCE. In our last rate filing, # 25-874, DCCE was not included in the paid losses on Exhibit 8. The paid claim counts are shown under the header closed claims to be consistent with the Paid Loss & DCCE values provided.

8. Exhibit 7 & 8 Reconciliation

- a. The R1.Reconciliation tab compares the paid claims counts from Exhibit 8 to the closed with pay counts from Exhibit 7, so they do not match; comparison of paid claim counts from Exhibit 8 to paid claim counts from Exhibit 7 shows minor discrepancies which are explainable by the Supplemental Quarterly Development Template and Supplemental Exhibit 1 – Extended Triangles.
 - i. This also applies to Standard Exhibits_Data_Adj_7D_8F alongside Supplemental Quarterly Development Template_Data_Adj_7D_8F and Supplemental Exhibit 1 – Extended Triangles_Data_Adj_7D_8F.
- b. Please also see the Supplemental Quarterly Development Template and Supplemental Exhibit 1 – Extended Triangles for loss development in the tail alongside Exhibit 7. These show that differences between Exhibit 7 and Exhibit 8 data shown in the Standard Exhibits for both Property and Liability are due to calendar year losses from prior accident years; this addresses the discrepancy and warnings shown in the R2.Exhibit 7 vs Exhibit 8 reconciliation in the Standard Exhibits.
 - i. This also applies to Standard Exhibits_Data_Adj_7D_8F alongside Supplemental Quarterly Development Template_Data_Adj_7D_8F and Supplemental Exhibit 1 – Extended Triangles_Data_Adj_7D_8F.

9. SIS Exhibits

- a. Salvage & Subrogation – Subrogation is not considered in our FFEQ models so columns asking for subrogation data have been left blank.
- b. Exhibit 5b: We do not have IBNR loss data readily available, so we left these columns blank.
- c. Exhibit 9b, Historical Data –
 - i. We have complete, consistent data through FAYE 20072; prior years have been left blank due to data limitations for noncatastrophe historical data. This allows for consistency in time periods between different types of data.
 - ii. We only have data available for Paid DCCE, so columns for Case Incurred DCCE have been set equal to Paid DCCE.
- d. Exhibit 9b, Selected Historical Cat Adjustment – we don't have an alternate weighting, so we selected the straight average.
- e. Exhibit 9b, CAT/AIY - Our CAT/AIY is different than in our previous filing, # 25-874, due to the change in methodology with the introduction of SIS. We were previously calculating the CAT/AIY based on experience across all of our Commercial-Multi Peril experience in California. With the SIS template being program-specific the CAT/AIY is now based on only CA Business data.

- f. Exhibit 9c, DCCE to Loss – we selected based on Non-Catastrophe data due to how thin the catastrophe data is for the Business Risk Type. We selected the straight average due to the volatility in the DCCE to loss ratio during the experience period.
- g. Exhibit 9d, AIY Trend – We selected the 12-point trend to reflect the increasing AIY per exposure given the declining trend in overall exposures since 2023.

10. Prior Approval Rate Application Reconciliation:

- a. The Proposed Impact tab shows the indication including all three variances above (7C, 7D, 8F).
- b. 6. Program Detail: The small data discrepancy in earned premium from Annual Statement data in tab 6 is a rounding error (off by \$1).
- c. 9. Forms: This is not a Form filing; there are no forms being introduced, replaced or withdrawn; however, it is not possible to delete the only 4 forms rows in tab 9.
- d. State Farm has not submitted copies of reinsurance agreements as these are not applicable to this filing given it does not include NCOR.

11. Models – The following models have been used in support of the filing:

- a. Catastrophe models AIR Touchstone 12.0, RMS RiskLink 24.0, and Cotality RQE v24 are probabilistic models used for overall rate level
- b. Business Program-Building and Property is a noncatastrophe GLM used for rate segmentation.
- c. Cotality Brushfire is a deterministic model used to determine eligibility.
- d. Customer Rating Index (CRI) is a noncatastrophe spline model used for rate segmentation.
- e. The LexisNexis Attract Commercial D104 and Commercial Business Owners (Non FCRA) B505 models are input models to the CRI model.

Our proposed change is fully supported with the selections and methods included herein. This is NOT to suggest that additional variances and other methodologies used by State Farm General are not appropriate and supportable, and we reserve the right to introduce them if necessary during the review of this filing, or in future filings.

Shown below are the indicated rate changes for the Business Owners Program (BOP) based on the CDI regulations. The chart below also shows the overall proposed changes by coverage.

Business Owners Program Coverage	Indicated Rate Change	Summary of Proposed Changes
Property	-13.3%	-14.3%
Liability	98.9%	83.3%
Total	23.4%	17.9%

A. Basic Rates

- 1. We are revising base rate changes, varying by table (Building and Business Personal Property only). When combined with all other rating plan changes, the result is an overall change of -14.3% for Business Risk Type Property and an overall change of +83.3% for Business Risk Type Liability.

Base rates guidelines by table and statistical class were developed and then used as offsets in the Building and Business Personal Property (BPP) Generalized Linear Models (GLMs) which were previously filed in filing # 25-874. Loss ratios by group of statistical classes were calculated using 2016-2021 calendar year non-catastrophe case incurred loss and paid allocated loss adjustment

expense data along with current leveled earned premium. Indicated changes (before credibility considerations) by statistical class group were developed from the loss ratios using catastrophe provisions varying by table along with constant fixed and variable expense provisions. The indicated changes were credibility weighted against a 0% change from the current base rates to generate guidelines. The GLMs account for the potential correlation between rating variables in the variables modeled.

The statistical class analysis uses classical credibility based on the number of case incurred non-catastrophe cause counts. Limited fluctuation or classical credibility is statistically sound and a widely used method in actuarial practice. The credibility standard for Business Owners Program is 3500 for Table 1 and 3250 for Table 2, consistent with the credibility standard used in the Rate Template as shown in Exhibit 10. The full credibility standards continue to be based on a Classical Credibility approach with a 90% confidence interval and 10% error threshold. The State Farm Companywide excluding California Business data by coverage has been used as complements. This dataset is credible given its size; the data is also similar in risk to CA data, as it is the same type of data (State Farm Business by coverage).

In this filing, the same percentage increases to base rates were applied for all statistical classes to achieve the overall rate effects by table after accounting for other rating factor changes.

2. We are revising the Construction rating factors for Table 1 (Building) and Table 2 (Business Personal Property), following California guideline factor relationships based on Building and BPP Generalized Linear Models. Please see Exhibits 15A-C and the Building and BPP GLM Model Checklist.
3. We are revising the Amount of Insurance rating factors for Table 1 (Building) and Table 2 (Business Personal Property), following California guideline factor relationships based on Building and BPP Generalized Linear Models. Please see Exhibits 15D-F and the Building and BPP GLM Model Checklist.

B. Discounts, Charges and Options

1. Deductible

We are revising the Deductible premium adjustments for the Business Risk Types, moving toward companywide guideline factor relationships based on loss elimination ratio analysis. Please see Exhibits 15G-H.

2. Automatic Sprinkler Protection

We are revising the premium adjustment, moving toward California guidelines based on Building and BPP Generalized Linear Models. Please see Exhibit 15I and the Building and BPP GLM Model Checklist.

3. Age of Building

We are revising the Age of Building premium adjustments, moving toward California guidelines based on the Building Generalized Linear Model. Please see Exhibit 15J and the Building and BPP GLM Model Checklist.

4. Years in Business

We are revising the Years In Business to move towards California guidelines based on Building and BPP Generalized Linear Models. Please see Exhibit 15K and the Building and BPP GLM Model Checklist.

5. Renewal

We are revising the Renewal adjustment to move towards California guideline factor relationships based on Building and BPP Generalized Linear Models. Please see Exhibit 15L and the Building and BPP GLM Model Checklist.

C. Special Rating Plan

Business Experience Rating Plan

We are revising Business Experience Rating premium adjustment factors and simplifying the rating structure to no longer consider years in business. Please see Exhibit 15M.

D. Underwriting Guidelines

We are revising underwriting guidelines to:

- Make Businessowner risks with more than \$5 million in Building Coverage unacceptable for renewal
- Make the following statistical classes unacceptable for renewal:

- 132 - Motels - 3 Stories or less - Owner Occupant - Without Restaurants or Bars: over 30 Units (no pool or beaches)
- 133 - Motels - 3 Stories or less - Owner Occupant - Without Restaurants or Bars: over 30 Units (with pool or beaches)
- 141 - Parking - Public - Not Open Air - excluding servicing of automobiles
- 148 - Truckers - Local (Including terminal, garage, or repair employees only)
- 152 - Motels - 3 Stories or less - Owner Occupant - Without Restaurants or Bars: 11-30 Units (no pool or beaches)
- 153 - Motels - 3 Stories or less - Owner Occupant - Without Restaurants or Bars: 11-30 Units (with pool or beaches)
- 291 - Lessor Risk Only - Risk Type R1: Motels
- 418 - Barber & Beauty Shop Supplies
- 442 - Convenience Food Stores - with gas pumps
- 454 - Convenience Food Stores - without gas pumps
- 460 - Department or Discount Store
- 512 - Mail Order Houses
- 603 - Beauty/Cosmetology - Nail Salon
- 625 - Funeral Home or Chapel
- 728 - Car Wash - full service - including incidental gas pumping
- 732 - Cemeteries (excluding mausoleums & crematory operations)
- 744 - Day Care Centers
- 831 - Massage Therapist / Acupressure / Reflexology

- 851 - Real Estate Agents - incidental property management included
- 915 - Distributors - No Food or Drink

Also, effective 7/1/2026, a location change request will be considered for customers with a current State Farm Tenant Occupied or Business in the Home BOP policy in force being replaced by the same occupancy type in a low to moderate wildfire area with Coverage B not exceeding 125% of the current Coverage B amount in force.

Please also see Supporting Exhibit 18 and the Underwriting Guidelines for more details. The rate impact of these nonrenewals combined with other changes in this filing is estimated to be negligible.