Property Insurance Report

Setting The Record Straight: State Farm Didn't Burn California

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Editor's Note: We wrote up this analysis of a recent Wall Street Journal *article that misrepresented the situation in the California homeowners insurance market. It did not make it into our 17-page California state market analysis on February 24, 2025, but have decided to post it on our web site to help set the record straight. Anyone with questions should contact Editor Brian Sullivan at bpsullivan@riskinformation.com.*

A February 6 article in the *Wall Street Journal* argued that **State Farm's** over-zealous sales followed by sudden withdrawal tipped the **California** homeowners insurance market into its current crisis. While we're honestly not trying to get into the business of media commentary, we feel it important to set the record straight so false narratives don't become part of the debates over how California should work to fix its struggling property insurance market.

The article states that State Farm was intentionally selling policies at a loss to garner market share and commissions for its agents. Then the company abruptly shut down its operation when it realized the error, throwing the market off balance and forcing customers into the FAIR Plan. The reason for the change was possibly tied to a change in management in California.

The thesis of the article is incorrect. Here are some important insights about State Farm's role in the California market, based on conversations with insurers, regulators and consumer groups over the last several years.

• State Farm Mutual and its subsidiaries – the nation's and California's largest home insurer – has always been the most stable market in almost every state. As a mutual, they measure success in 10-year increments, as opposed to insurers that must contend with Wall Street's demand for a shorter-term measurement of success. The reason State Farm was the last insurer standing in Pacific Palisades was because they were the last insurer standing in every part of California, and frankly almost every troubled market.

• State Farm's rapid growth was not the result of a decision to attack. The growth was the result of being the last insurer standing. This is a common problem for State Farm. When everyone else leaves in a hurry, and they remain, suddenly all the business flows to them. They are guilty of being slow to turn off the spigot and join the others in a panic. If State Farm was a public company, as opposed to a mutual controlled by policyholders, investors would hate this behavior. As a regulator, or a consumer, or a consumer group, this market-stabilizing activity is exactly the kind of thing you hope for out of your market leader.

• State Farm knew full well that its rates were inadequate. They very publicly told that to regulators over and over as they requested substantial rate increases. Verifying these claims were financial statements filed with regulators, showing enormous underwriting losses that were draining available capital. Most regulators, charged with the maintaining the financial health of insurers in their state, would have responded with approving the rate increases needed to stem the losses and return the company's balance sheet to health. But California's rules are set up to essentially limit insurers to maximum rate increases of 6.9%. Every home insurer has needed more, and many are insisting on that now as a price of staying in the state, but for years 6.9% was all regulators would approve. State Farm was not lowballing the market. They were charging the maximum regulators would allow. To suggest that State Farm was intentionally charging too little is to ignore the available facts. For regulators and consumer groups who opposed rate increases in the past to now criticize State Farm's low rates is impossible to take seriously.

• The consumers State Farm nonrenewed just before the fire were destined for the FAIR Plan no matter what. If State Farm joined the rest of the industry in running away 6-12 months earlier, these consumers would not have found their way to another voluntary carrier. They would have wound up in the FAIR Plan a year earlier and missed the opportunity for more time with coverage from the market leader.

• The story says State Farm's "shocking reversal upended the status quo . . ." when it stopped writing new business. There was no shocking reversal, as every insurer in the market was pulling out, and everyone in the market knew State Farm would have to follow. As for "the status quo," at no point since the 2017 fires has the California market been stable. The status quo in California's property insurance market has been chaos for at least five years. State Farm didn't upend the status quo. The decision to stop writing was very much part of the status quo.

• As for a change in local leadership driving a change in State Farm General's California strategy, that overstates the authority of regional management at every insurer in the market. Local leadership certainly makes recommendations, but big decisions – such as stopping new business or withdrawing from a market – are made at a much higher level. In deciding to stop taking new business, it is likely any insurer's board of directors would be involved.

There are even more details to consider, and we're open to discussing the market with any interested party.