

California's Approval of Interim Rate Relief for State Farm: What Insurers Should Know

May 16, 2025

AUTHORS

Kara Baysinger | Stephanie Duchene | Laura Leigh Geist | David G. Nadig
Nicole Zayac | Maureen Kellett Curtiss | Shlomo Potesky | Mili Yoon

In a noteworthy decision, California Insurance Commissioner Ricardo Lara approved State Farm General Insurance Company's ("State Farm") request for an emergency rate increase on May 13, 2025, making State Farm the first insurance company to obtain interim rate relief under Proposition 103 as part of a prior approval rate application. Commissioner Lara's decision adopted an administrative law judge's review and proposed decision to approve State Farm's request for an interim rate relief after the Los Angeles wildfires.¹ The administrative law judge's review found, in part, that "State Farm is experiencing extraordinary financial distress, coupled with surplus depletion that threatens ongoing business operations."

Pending a full hearing, Commissioner Lara's approval grants State Farm a 17% interim rate increase for its homeowners line, effective June 1, 2025. As part of the approval, State Farm has agreed to secure a \$400 million surplus note from its parent company to reinforce its solvency, and to refrain from issuing new block non-renewals until the end of 2025. A full rate hearing will be scheduled by the administrative law judge. This client alert briefly

¹ The administrative law judge's order is available [here](#).

discusses the background of interim rate relief under Proposition 103, and what insurers need to consider when seeking interim rate relief in California.

Legal Authority for Interim Rate Relief under Proposition 103

Adopted by California voters in 1988, Proposition 103 seeks to provide fair and adequate rates that encourage a competitive insurance marketplace and ensure that insurance is available and affordable for all Californians. As part of this purpose, Proposition 103 codified the California Insurance Commissioner's (the "Commissioner") ratemaking authority under a "prior approval" system, which requires the Commissioner to approve (or not disapprove) property and casualty insurance rate changes before insurers can implement them.² The Commissioner has the sole authority to determine whether the requested rate is "excessive, inadequate, or unfairly discriminatory."³

California case law supports that the broad authority granted to the Commissioner includes authority to grant interim rate relief.⁴ In concluding that the rate review and approval provisions of Proposition 103 met due process requirements, the Supreme Court of California explained that the Commissioner is authorized to take "whatever steps necessary" to ensure an expedient rate review process because "[t]he power to grant interim relief is necessary for the due and efficient administration of Proposition 103."⁵

Seeking Interim Rate Relief

Originally arising from public utility law, interim rate relief has historically been justified when there is a financial emergency.⁶ A company's "continued viability need not be on the line before interim rate relief may be granted, it is sufficient where there is a showing that fairness to both the public and the [company] require immediate action."⁷ In addition, an interim rate increase may be necessary when a "substantial delay" in making a final determination regarding rates is expected, or where there are concerns about cash flow.⁸

² Proposition 103 is codified at Cal. Ins. Code § 1861.01 *et seq.* The regulations implementing Proposition 103 are found at Cal. Code Regs. tit. 10, § 2641.1 *et seq.*

³ Cal. Ins. Code §§ 1861.01(c); 1861.05(a)–(b).

⁴ See *Calfarm Ins. Co. v. Deukmejian*, 48 Cal.3d 805, 824 (1989) (holding that the Insurance Commissioner "has the power to grant interim relief from plainly valid rates"); *State Farm Mut. Auto. Ins. Co. v. Garamendi*, 32 Cal. 4th 1029, 1041 (2004), as modified (June 9, 2004) (explaining that the California Insurance Code "gives the Commissioner broad authority over insurance rates"); *20th Century Ins. Co. v. Garamendi*, 8 Cal. 4th 216, 273–81 (1994), as modified (Sept. 29, 1994) (recognizing that the Commissioner had broad authority regarding rates).

⁵ *Calfarm*, 48 Cal.3d 805, 825.

⁶ *Toward Utility Rate Normalization v. Public Utilities Com.*, 44 Cal. 3d 870, 875. Public utility regulation is "analogous" to insurance regulation. See *Calfarm*, 48 Cal.3d 805, 825, n. 16.

⁷ *Application of Pac. Gas & Elec. Co. to Recover Costs Recorded in the Catastrophic Event Memorandum Acct. Pursuant to Pub. Utilities Code Section 454.9 & Forecasted Pursuant to Resol. Esrb-4.* (U39e.), No. 18-03-015, 2019 WL 2137308, at *3 (Apr. 25, 2019) (internal quotation omitted). This consideration of fairness to both consumers and insurers is reflected in Cal. Ins. Code §1861.05(a), which bars both "excessive and inadequate rates." *State Farm General Ins. Com.*, 71 Cal. App. 5th 148, 167 (2021).

⁸ *Toward Utility*, 44 Cal. 3d 870, at 876, 879 (holding that interim relief was warranted where the "overriding circumstance was the prospect of many months and years of hearings and deliberations"); see also *In the Matter of Application of Kerman Tel. Co. (U1012c), d/b/a Sebastian, to Rev. Intrastate Rates & Charges & Rate of Return for Tel. Serv. Furnished Within the State of California, & to Modify Selected Rates*, No. 11-12-011, 2016 WL 805484, at *3 (Feb. 25, 2016) (granting interim relief when "[i]t is also clear that a decision on this uncontested motion for interim rate relief can be adopted more quickly than a final decision on the merits of the full case").

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As we have advised clients in the past, and in light of the State Farm decision and California case law, insurers should consider interim rate relief when developing rate filing strategies, but its practical use may be limited. An insurer will need to establish an urgent need for immediate relief due to severe financial hardship, including the inability to continue writing existing customers, in order to obtain the Commissioner's approval. Further, the interim relief is subject to the possibility of refund with interest, and must survive rigorous scrutiny during the full rate hearing.

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The Willkie insurance team continues to monitor developments impacting the California insurance market following the Southern California Wildfires and the State Farm decision. If you have any questions regarding this alert or rate strategy in California, please contact any of the attorneys listed on this alert or the Willkie attorney with whom you regularly work.

Kara Baysinger

415 858 7425
kbaysinger@willkie.com

Stephanie Duchene

310 855 3066
sduchene@willkie.com

Laura Leigh Geist

415 858 7440
lgeist@willkie.com

David G. Nadig

312 728 9097
dnadig@willkie.com

Nicole Zayac

415 858 7443
nzayac@willkie.com

Maureen Kellett Curtiss

212 728 8902
mcurtiss@willkie.com

Shlomo Potesky

212 728 3232
spotesky@willkie.com

Mili Yoon

212 728 3476
myoon@willkie.com



BRUSSELS CHICAGO DALLAS FRANKFURT HOUSTON LONDON LOS ANGELES MILAN
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