Report Date: 1/29/25
Company: Mercury General Corporation
Ticker: MCY (NYSE)
Industry: Insurance
Stock Price (USD): $49.94
Market Cap (USD, Millions): $2,765

WOLFPACK RESEARCH

California Wildfire Events a Gamechanger for Mercury (MCY) As We Estimate More Than $2 Billion in Losses Using Zip Code Data

Our analysis shows MCY's California subsidiary is deep underwater as we expect more than $2 billion in claims will blow the top off its $1.3 billion reinsurance tower and eat up its subsidiary's existing capital. We believe MCY will be severely affected by the loss of capital.

We are short insurer Mercury General (MCY) as we estimate the company faces more than $2 billion in losses following the LA wildfires (Eaton and Palisades).[1] We have discovered an obscure, ~4,000-page rate filing which reveals the number of homes and condominiums MCY insures in each California zip code.

Due to the difficulty in finding this rate filing, we would like to direct readers to the footnote at the bottom of page 1.[I] This document, filed in June 2024 by an MCY subsidiary, allows us to see how many policies in force MCY has per zip code. For example, we can see on page 1216 of the rate filing that MCY insures 929 homeowner (HO-3) policies in Altadena (91001). Per LA County, ~63% of single-family homes in this zip code have been destroyed.

We used this data to estimate MCY's losses from the fires and arrived at ~$2 billion in gross losses (for homeowner and landlord policies), more than enough to eat through the company's $1.3 billion in reinsurance.[2] We believe MCY will face further losses from insured automobiles, condominiums, commercial property, displacement costs for those in evacuation zones, and rehabilitation costs for non-destroyed homes for smoke damage and mold. We think these costs will add significantly more to our $2 billion loss estimate.

Management seems slow to share the true extent of its exposure with investors, instead opting to tell investors on a market holiday that the fires *"can be considered a separate occurrence"* for reinsurance purposes. We are skeptical of this as MCY is effectively telling investors that for just $250 million in fees, MCY's reinsurers will provide the company with an additional $1.2 billion of reinsurance to cover losses from an event that has already occurred. We consider this to be MCY's Hail Mary as MCY's own press release indicates these fires would be defined as a single event in its reinsurance treaty.[3]

We expect MCY's reinsurers to fight any demand for additional reinsurance coverage. Multiple reinsurance experts we spoke with expect the fires to be treated as a single event. One expert said: *"The bulk of the industry that's affected by this is going to consider this one event. So, Mercury would be an outlier. So, I don't see them winning in court on something like that."*

[I] Insurers in California need to file extensive information to request an increase in rates. These filings are available to the public. This link should bring you directly to the filing we relied upon for our HO-3 analysis.

Without additional reinsurance, we expect MCY will struggle to obtain the cash it needs to pay out all its fire damage claims. We would not be surprised if MCY suspends its dividend, raises additional capital, or takes other drastic steps in response to this crisis.

- After an extensive search, we found a regulatory rate filing form filed in June by an MCY subsidiary which unveils the number of homeowners and condominium policies it has for each zip code in California. This ~4,000 page rate filing form covers MCY's Policy In-Force (PIF) data as of June 2024 which can be accessed here.
- MCY claims it has the option to treat these fires as two events: allowing the company to retroactively purchase additional reinsurance coverage. MCY claims it is able to recognize the fires as two events because Property Claims Service (PCS), a subsidiary of publicly traded Verisk,[4] purportedly says the fires are each their own catastrophic event. However, a reinsurance expert told us, *"they [PCS] don't have any standing authority to designate one event versus another unless it's something in their contract says that's the case, but that would be unusual."* He also said, *"from a legal standpoint, I don't see how they [MCY] would have any standing to do this, unless their contract has some unusual wording in it."* Given that $1 billion is potentially riding on the interpretation of an unusual provision in a contract, we are predicting protracted litigation to decide the issue.
- MCY's 2023 10-K states that the majority of the company's homeowner's policies have a replacement value of less than $500,000 which has been used to argue that MCY's exposure to the fires is minimal. We think this is grossly misleading. 30% of MCY's homeowner exposure comes from outside the state of California.[5] While our analysis shows that MCY's average home replacement value is under $500,000,[6] that is not true of the zip codes impacted by these fires. An independent analysis from BMS says *"many of the homes [destroyed] are bespoke and high value, so it will take extra effort to understand designs and replacement costs."* Average home values in the zip codes impacted by these fires are 2-4x California's average home value.[7]
- MCY's underwriting guidelines for homeowner and landlord policies state that they provide for 100% replacement costs.[8] California law[9] requires that a replacement cost estimate "*shall include the expenses that would reasonably be incurred to rebuild the insured structure(s) in its entirety*." These expenses will not only include demolition and debris removal but also restoration of the fine finishings in the home.
- We estimate MCY's exposure to the Pacific Palisades is significant as it insured 385 homes and wrote 31 landlord policies. Our analysis shows MCY will incur at least $934 million in homeowner policy losses from the Pacific Palisades.[10]
- Our analysis shows MCY has outsized exposure to the fires relative to some peers. Yet the Street haphazardly applies statewide homeowners insurance market share to calculate MCY's expected losses instead of drilling down on how many policies MCY writes in each zip code. For example, CSAA, the 3rd largest provider of home insurance in California,[11] only wrote 2 homeowner policies in Pacific Palisades, 2 in Malibu, and 4 in Altadena per their 2024 rate filing.[12] Whereas MCY wrote 385 homeowner policies in Pacific Palisades, 109 in Malibu, and 929 in Altadena. Per our research, MCY, California's 5th largest home insurer,[13] has **178x** the exposure of CSAA to the fires.

- In May, MCY announced it would try to provide coverage to thousands of non-renewed Tokio Marine personal lines policyholders.[14] State Farm reportedly announced it would non-renew 1,600 Pacific Palisades homeowner policies in July 2024, after MCY's rate filing was submitted.[15] We believe there is potential for MCY to have significantly higher exposure to the Palisades fire than reported in their rate filing.
- California's insurance commissioner has declared a 1-year moratorium on insurance non-renewals and cancellations for zip codes within or adjacent to the wildfire's perimeter. We believe this subjects MCY to incremental losses in the event Southern California faces another fire.
- In total, our estimate is that MCY will face more than $2 billion of policyholder losses from the fires. MCY's subsidiary, CAIC, only has $1.4 billion between its reinsurance and remaining available surplus as of Q3 2024 to pay claims. We think CAIC could face a liquidity crunch, forcing MCY to rapidly move funds around to preserve liquidity. Both Moody's and Fitch have recently downgraded its ratings for MCY, citing the company's exposure to the fires.[16]
- We believe MCY has been able to downplay their exposure to the fires for now. MCY is yet to disclose to investors how many insurance policies it has in zip codes impacted by the fires or even state how many claims they have incurred, leaving investors guessing what the extent of the damage is.

Sometimes It's All in Knowing Where to Look: Our Method for Finding MCY's Exposure to the Fires

Through the California Department of Insurance portal, we obtained the rate filing documents for MCY's wholly owned subsidiary,[17] California Automobile Insurance Company (CAIC). A rate filing is a document that insurance companies, like MCY, submit to the California Department of Insurance to request changing the rates they charge policyholders.[18] By clicking here, we can see CAIC's rate filing from June 2024 which contains their HO-3 (homeowner policies) and HO-6 (condominium policies) exposure by zip code.

This ~4,000-page document allows us to see the number of homes and condos CAIC, MCY's subsidiary, insures in each zip code in California. We can effectively use this document to understand MCY's home and condominium exposure to the Eaton and Palisades fires. To ensure you have downloaded the correct rate filing, below is what the 2nd page of this rate filing looks like.

SERFF Tracking #: MERY-134140986 **State Tracking #:** 24-1205 **Company Tracking #:** CAIC HO RATE 2024

State:	California	**Filing Company:**	California Automobile Ins. Co.
TOI/Sub-TOI:	04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations		
Product Name:	CAIC Homeowners		
Project Name/Number:	/		

General Information

Project Name:	Status of Filing in Domicile:
Project Number:	Domicile Status Comments:
Reference Organization:	Reference Number:
Reference Title:	Advisory Org. Circular:
Filing Status Changed: 01/16/2025	
State Status Changed: 01/16/2025	Deemer Date: 08/27/2024
Created By: Adam Bakonis	Submitted By: Christa Jenkins
Corresponding Filing Tracking Number:	

Filing Description:
With this filing, California Automobile Insurance Company ("CAIC") is requesting updates to our rate manual as detailed in our filing memo and documentation.

Company and Contact

Filing Contact Information

Adam Bakonis, Product Manager State
555 W. Imperial Hwy
Brea, CA 92821

abakonis@mercuryinsurance.com
714-255-5001 [Phone] 20223 [Ext]

Filing Company Information

California Automobile Ins. Co.	CoCode: 38342	State of Domicile: California
4484 Wilshire Blvd	Group Code: 660	Company Type: Property & Casualty
Los Angeles, CA 90010	Group Name: Mercury Insurance Group	State ID Number:
(323) 937-1060 ext. [Phone]	FEIN Number: 95-2971307	

Source: CAIC Rate Filing, p. 2

When we scroll down to page 1214 (Exhibit 20-4), we are able to see a table which shows how many homeowner (HO-3) insurance policies CAIC, MCY's subsidiary, has written in that zip code.[19] This is valuable data given the market appears to benchmark MCY's exposure to the fires off of its homeowners insurance market share in California as opposed to how many homes it underwrites in zip codes impacted by the fires. On page 1215, we can review CAIC's homeowner (HO-3) exposure to the Pacific Palisades which was impacted by the Palisades fires. As seen below, CAIC appears to have had 385 HO-3 policies in force (PIF) in Pacific Palisades (90272) as of June 2024.

CALIFORNIA AUTOMOBILE INSURANCE COMPANY
HOMEOWNERS MULTIPLE PERIL
CALIFORNIA
Exhibit 20 - Customer Dislocation
Dislocation by Zip Code (PIF) - HO3

Zip Code	Avg % Impact	Avg $ Impact	[0%,5%)	[5%,10%)	[10%,15%)	[15%,20%)	Total	% by Zip Code
90089	0.0%	$0.00	0	0	0	0	0	0.00%
90094	12.0%	$238.88	0	0	43	0	43	0.01%
90095	0.0%	$0.00	0	0	0	0	0	0.00%
90201	11.6%	$140.97	0	5	237	0	242	0.05%
90210	12.7%	$1,258.35	0	1	304	0	305	0.07%
90211	12.3%	$451.34	0	2	110	0	112	0.03%
90212	12.1%	$504.76	0	4	103	0	107	0.02%
90220	11.8%	$154.07	0	1	238	0	239	0.05%
90221	11.8%	$171.96	0	3	222	0	225	0.05%
90222	11.8%	$157.76	0	3	148	0	151	0.03%
90230	11.6%	$168.31	0	20	532	0	552	0.12%
90232	11.8%	$214.83	0	12	274	0	286	0.06%
90240	11.9%	$192.06	0	4	550	0	554	0.13%
90241	12.0%	$214.66	0	5	687	0	692	0.16%
90242	11.9%	$175.12	0	2	662	0	664	0.15%
90245	11.9%	$270.18	0	8	168	0	176	0.04%
90247	11.6%	$143.87	0	6	418	0	424	0.10%
90248	11.5%	$128.72	0	3	206	0	209	0.05%
90249	11.5%	$132.36	0	15	506	0	521	0.12%
90250	11.6%	$141.25	0	32	919	0	951	0.22%
90254	12.2%	$351.31	0	10	284	0	294	0.07%
90255	11.6%	$139.04	0	12	267	0	279	0.06%
90260	11.7%	$145.82	0	8	351	0	359	0.08%
90261	0.0%	$0.00	0	0	0	0	0	0.00%
90262	11.8%	$162.35	0	8	371	0	379	0.09%
90263	0.0%	$0.00	0	0	0	0	0	0.00%
90265	12.3%	$474.48	0	3	106	0	109	0.02%
90266	12.1%	$336.35	1	16	592	0	609	0.14%
90270	11.5%	$123.38	0	5	81	0	86	0.02%
90272	12.4%	$563.97	0	4	381	0	385	0.09%
90274	12.3%	$412.90	0	14	587	0	601	0.14%

Source: CAIC Rate Filing, p. 1215

If we scroll one page further down, we can see on page 1216 that MCY had a total of 929 homeowner (HO-3) policies in force in Altadena (91001) which was impacted by the Eaton fire.

CALIFORNIA AUTOMOBILE INSURANCE COMPANY
HOMEOWNERS MULTIPLE PERIL
CALIFORNIA
Exhibit 20 - Customer Dislocation
Dislocation by Zip Code (PIF) - HO3

Zip Code	Avg % Impact	Avg $ Impact	[0%,5%)	[5%,10%)	[10%,15%)	Total	% by Zip Code
90813	11.9%	$155.53	0	3	97	100	0.02%
90814	12.0%	$204.70	0	8	230	238	0.05%
90815	12.0%	$190.30	0	18	1,041	1,059	0.24%
90822	0.0%	$0.00	0	0	0	0	0.00%
90840	0.0%	$0.00	0	0	0	0	0.00%
90848	0.0%	$0.00	0	0	0	0	0.00%
91001	12.0%	$219.71	0	27	902	929	0.21%

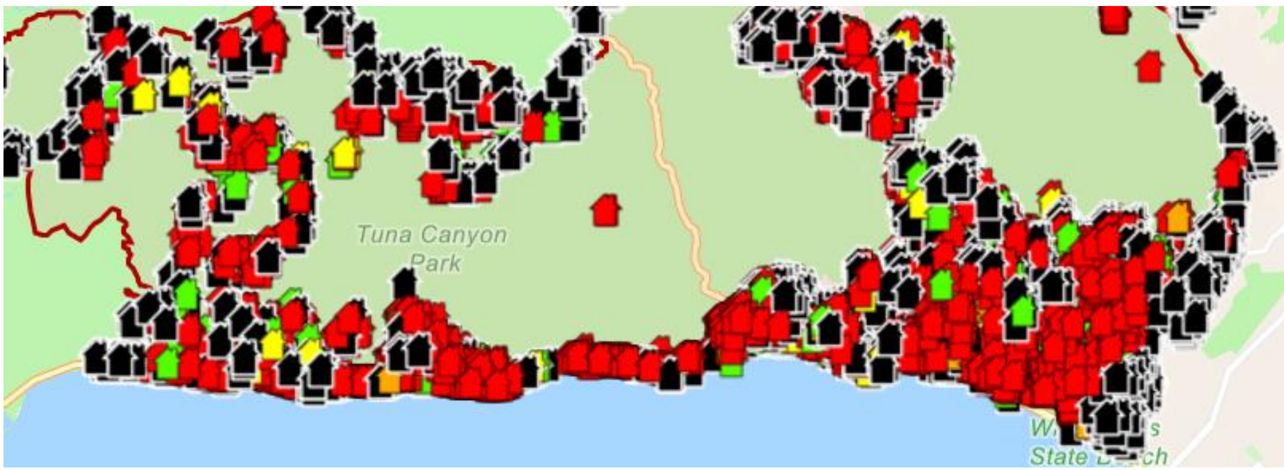
Source: CAIC Rate Filing, p. 1216

LA County Provides Us with a Comprehensive Damage Assessment

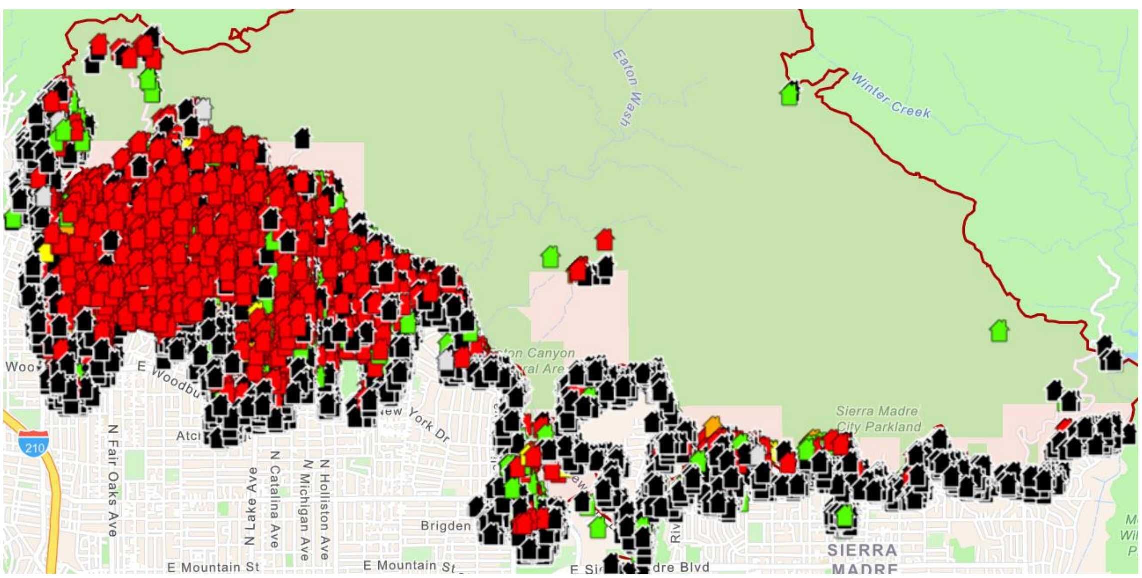
We have been able to use publicly available maps from LA County to approximate each impacted zip codes' damage from the fires.[20] LA County is assessing these properties for damage and giving the exterior of the property a status of no damage, affected, minor damage, major damage, or destroyed. We would note that LA County does not appear to be assessing the interior of these homes. Homes that have been marked as structurally undamaged may still be subject to meaningful claims for smoke damage or mold remediation.

The maps below show homes assessed as either red (destroyed) or black (structurally undamaged). Green means the home has been affected (1-9%), yellow signifies minor damage (10-25%), and major damage (26-50%) is marked in beige.

PALISADES FIRE[21]



EATON FIRE[22]



Using these maps, we can see how many structures were destroyed and the type of structure destroyed. We were able to extract the geocoordinates (latitude, longitude) of every property inspected in the above maps.[23] We wrote a program to reverse engineer the geocoordinates into a property address, allowing us to evaluate damage from the fires on a per zip code basis.[24] LA County's damage analysis indicates that the three most heavily impacted zip codes by the fires are Altadena (91001), Pacific Palisades (90272), and Malibu (90265). Below is LA County's reported damage assessment for these three zip codes detailing how many single-family homes were destroyed:[25]

Zip Code	Homes Destroyed	Homes Inspected	% Of Homes Destroyed
91001	5,823	9,266	62.84%
90272	3,610	5,841	61.80%
90265	1,004	1,659	60.52%

Source: LA County Damage Data, Wolfpack Analysis

For example, we can see that LA County reported that there were 5,823 single-family residences destroyed in Altadena (91001). From rate filings filed by MCY, we know the company insures 929 homes and 99 landlord policies. Here is an aerial video of the damages.[26] Seen below is a satellite photo of Altadena during the Eaton fire.

Source: x.com

In Pacific Palisades (90272), MCY insures 385 homes and wrote 31 landlord policies.[27] Per LA County, we can see that 3,610 single-family residences in 90272 were destroyed by the Palisades fire. Shown below is a before and after satellite photo of a neighborhood in the Pacific Palisades.

Source: Soar

We Estimate MCY’s Policyholder Losses Exceed $2 Billion

Based on LA County’s comprehensive inspection data, we can estimate the number of MCY-insured homes that were destroyed. By applying the County’s reported damage proportions for Pacific Palisades (90272) and Altadena (91001) to MCY’s homeowner policyholder base in these areas, we can calculate an estimate of destroyed properties.[28] We also estimate that ~25% of the homes MCY insures in Malibu were destroyed.

To estimate dwelling value (the cost to rebuild a home), we took the average home value in each zip code from Zillow and calculated 75% of that figure. MCY’s underwriting guidelines specify that homes are insured for 100% replacement costs. Per a former California P&C insurance executive we spoke to, homes insured at 100% replacement cost typically have an endorsement attached to the policy that expands Coverage A by 25%.[29] When estimating dwelling value, this expert said to take coverage A and inflate it by *“25% at a minimum.”* We were told to expect normal building costs to rise by as much as ~50% given the volume of homes destroyed in the same area at the same time.

For our analysis, we estimated two key insurance costs: living expenses at 20% of dwelling value and personal property losses at 35% of dwelling value.[30] Standard insurance policies tend to offer more generous coverage for personal property losses than our estimate, it is standard to offer up to 50% of dwelling value.[31] This former executive says, *“I think in these situations, the press puts a lot of pressure on insurers, and they often just cut checks for whatever the content’s limit is…so it would probably be 50% of Coverage A.”*

$'s In Thousands

Zip Code	Wildfire	HO-3 Policy Count	Est. % of Homes Destroyed	Avg. Home Value By Zip	Est. Dwelling Value (Coverage A)	Est. Personal Property Losses	Est. Additional Living Expenses	Est. Gross HO-3 Losses
91001	Eaton	929	62.84%	$ 1,250	$ 937	$ 328	$ 187	$ 848,142
90272	Palisades	385	61.80%	$ 3,376	$ 2,532	$ 886	$ 506	$ 933,749
90265	Palisades	109	25.00%	$ 3,174	$ 2,381	$ 833	$ 476	$ 100,548
Total								$ 1,882,439

Source: Wolfpack Analysis

As shown in the table, we estimate that MCY will incur ~$1.9 billion in homeowner (HO-3) losses from the fires. In addition to homeowner exposure, MCY also has exposure to landlord policies. We estimate each of MCY's landlord policies at a flat, $2.5 million dwelling value which we think is reasonable considering these policies can insure up to 16 units.[32] We did not factor in loss of income for these landlord policies which we believe MCY will be responsible for.[33] Our analysis below shows MCY incurring ~$130 million in landlord losses.[34]

Zip Code	Wildfire	Landlord Policies	Est. % of Multifamily Destroyed	Est. Dwelling Value	Est. Gross Landlord Losses
91001	Eaton	99	40.41%	$2,500,000	$100,025,907
90272	Palisades	31	39.52%	$2,500,000	$30,625,000
90265	Palisades	0			
Total					$130,650,907

Source: Wolfpack Analysis

Cumulatively, we expect CAIC, MCY's subsidiary, to incur over $2 billion in losses between their landlord and homeowner (HO-3) policy exposure to the fires. The Woolsey Fire, which tore through Malibu in 2018, reportedly cost $3.3 million per structure in 2024 dollars.[35] LA County has reported that 5,535 residential structures have been destroyed by the Palisades fire in Malibu and the Pacific Palisades;[36] implying this fire could cause ~$18 billion in residential insured losses. Taking MCY's statewide market share of the homeowners insurance market (6.35%),[37] we would expect that the Palisades fire could cost them more than $1.2 billion. FAIR, California's insurer of last resort, has 29 more homeowner policies than MCY in Altadena[38] and is estimated to have more than $775 million of exposure to the Eaton Fire.[39] We believe it is a safe estimate to assume MCY has a similar level of exposure to FAIR here.

In our view, MCY's losses from the fires should exceed $2 billion for several reasons. Our estimate excludes costs for homes that require smoke damage remediation, fire retardant cleanup, and accompanying temporary relocation costs as well as losses from automobile, commercial property, or MCY's condominium (HO-6) policies.[40]

MCY's Hail Mary: Doubling Up on Reinsurers

If our estimates are correct, or anywhere close, then MCY could be in a world of trouble. The company initially told investors that their reinsurance treaty provided $1.3 billion of coverage;[41] leading the Street to believe total damages would be below $1.3 billion. However, MCY appeared to throw that presumption out the window when they put out a PR on MLK day stating that they are considering treating these fires as two events.

If MCY treats the fires as two events, it could allow them to access another $1.2 billion in reinsurance if they pay $251 million in fees on top of the $150 million that they have already paid to access the first batch of reinsurance.[42] Clearly, they would not be considering this move if the original $1.3 billion reinsurance treaty was enough to take care of their claims. In fact, we believe claims would need to rise to more than ~$1.7 billion before it made sense economically for them to make this move.

Even if they pull this off, the company could take a $401-$451 million hit to capital and put themselves in a very difficult position with their reinsurers as premiums would increase rapidly, if there is any appetite at all for their book. A reduction in capital means a reduction in growth, and perhaps further downgrades in the industry. Successfully doubling up on the reinsurers could save the company, but in our view, the victory would by pyrrhic for long investors.

But will MCY be successful in classifying this as two events? We don't think so.

MCY does not disclose this contract, even though its terms have become material for investors. Instead, it characterizes it in a press release. According to MCY's own PR, the contract indicates that these wildfires would normally be considered one event.

> *"The Company's catastrophe reinsurance treaty allows for the combining of events that occur within a 150-mile radius as a single occurrence"*

It has been reported that the Palisades and Eaton fires are ~25 miles apart and began within 2 days of one another, so analysts had already presumed it would be treated as a single event.[43] Per a reinsurance expert we spoke with:

> *"The hours clause and the radius clause are the key term that are going to be in everybody's [treaty]. So they cite those. The whole PCS thing, honestly, I think there's some bluster there, that they're [MCY] are just posturing."*

However, MCY believes it has an ace up its sleeve. They claim their contract states that an event *can* be considered two separate events if PCS says so. And apparently, PCS says so.

> *"Additionally, if each individual event is classified as its own catastrophic event by the Property Claims Service ("PCS"), a unit of the Insurance Services Office, each event can be considered a separate occurrence. In the case of the Palisades and Eaton wildfires, the PCS has designated each as a separate event."*

What do they mean exactly by "can be" considered a separate occurrence? Our initial assessment is that although the contract is very clear that events occurring within 150 miles can be considered a single occurrence, it may not be as clear about what it means when PCS says otherwise.

Considering that reinsurers are a for-profit business, we expect them to litigate MCY's bid for a second, retroactive reinsurance treaty. Below is a snippet of our conversation with a reinsurance expert informing us it would take MCY years of litigation to win.

> **Wolfpack Analyst:** *"if there is a legal battle over it, and I think we both agree there would be, this would take years and years, correct?"*
>
> **Reinsurance Expert:** *"Correct. Yeah. Oh, yeah. They'd [MCY] be underwater for a while, even if they were to win the thing. But, yeah, it takes years."*

Per our expert, one of the last rounds of wildfires in California took five years after the fire to settle litigation. Even in the slim chance MCY succeeds in procuring additional reinsurance, we think it could ultimately cost the company significantly in the long term. When we asked one of our reinsurance experts about the cost MCY will bear for reinsurance, he said:

> *"I think it's a problem that's going to be with them for a number of years. So even if they [MCY] manage to get through this, the price they're going to pay going forward is going to be orders of magnitude more than they paid this year."*

It's Just Math Folks

If MCY is unable to secure more reinsurance, we anticipate that its California insurer, California Automobile Insurance Company (CAIC), could face a liquidity crunch. As of September 30, 2024, CAIC only had $388 million in surplus.

37.	Surplus as regards policyholders (Lines 29 to 35, less 36)	388,122,487

Source: CAIC Q3 2024 Statutory Filing

When we add CAIC's surplus of $388 million plus $1.29 billion in reinsurance, we estimate that CAIC has approximately $1.68 billion in liquidity. However, as shown below, CAIC is required by their reinsurer to cover the first $150 million in losses. Furthermore, when MCY's $1.29 billion in reinsurance is depleted, the company's total reinstatement premium for reinsurance is $101 million. When we factor in the $150 million retention cost plus the $101 million reinstatement premium, we believe CAIC's total liquidity is ~$1.4 billion as seen in the table below.

In Millions	
MCY Reinsurance	$1,290
CAIC Surplus	$ 388
Reinsurance Retention	$ (150)
Total Reinstatement Premium	$ (101)
CAIC Total Liquidity	$1,427

Source: Wolfpack Analysis

Our analysis shows losses will exceed CAIC's total liquidity. We think the parent company, MCY, may be forced to raise capital or transfer cash from other subsidiaries to keep CAIC afloat.

Per MCY's latest 10-Q,[44] the company has $1.88 billion in combined surplus across its entities. Adding in MCY's reinsurance of $1.29 billion, the parent company has $3.17 billion to cover losses in the event MCY's reinsurers take the position that the fires are a single event. Per our analysis, we believe MCY will incur at least $2.1 billion in losses:

In Millions	
Est. HO-3 Losses	$(1,882)
Est. Landlord Policy Losses	$ (131)
Reinsurance Reinstatement Premium	$ (101)
Estimated MCY Losses	$(2,114)

Source: Wolfpack Analysis

We think MCY has $1.1 billion of surplus leftover after factoring in our estimated homeowner policy (HO-3) losses, landlord policy losses, and MCY's reinsurance reinstatement premium. In our opinion, this puts MCY in a precarious situation as its minimum capital requirement is $361 million.[45] If MCY's capital falls below $542 million, it would put the company's risk-based capital ratio under 150%, potentially forcing a regulatory review.[46]

In Millions	
Authorized Control Level Capital	$361
RBC Ratio	150%
Capital Threshold For Regulatory Intervention	$542

Source: Wolfpack Analysis

We calculate that MCY only has a $514 million cushion before it breaches the capital threshold for regulatory intervention. MCY's projected $514 million buffer could quickly be depleted by unaccounted costs. These costs include temporary evacuation housing, property restoration, and potential losses across auto, commercial, and condominium policies. We believe MCY's total losses could exceed $2.5 billion, breaching the threshold for regulatory intervention.

Appendix A

As seen below, MCY lists CAIC as its subsidiary per the company's most recent 10-K.[47]

Subsidiaries of the Company

Name of the Entity	State of Incorporation
Mercury Casualty Company	California
Mercury Insurance Company	California
Mercury Insurance Company of Illinois	Illinois
Mercury Insurance Company of Georgia	Georgia
Mercury Indemnity Company of Georgia	Georgia
Mercury Indemnity Company of America	Florida
California Automobile Insurance Company	California
California General Underwriters Insurance Company, Inc.	California

Source: MCY 2023 10-K

Furthermore, we can see that CAIC is 100% owned by MCY and engaged in writing homeowners and auto insurance in California per CAIC's audited financial statements.

(1) Significant Accounting Policies

(a) Basis of Presentation

California Automobile Insurance Company ("the Company") is a 100% owned subsidiary of Mercury General Corporation ("MGC"), a publicly traded insurance holding company incorporated in California. The Company is the sole shareholder of Mercury Insurance Company of Georgia ("MICGA"). The Company is a California licensed and domiciled insurance company.

The Company is engaged in underwriting mainly homeowners, private passenger automobile and commercial automobile insurance in California through a network of independent agents. No independent agent produced more than 10% of the Company's direct premiums written in 2023 or 2022.

Source: CAIC's 2023 Audited Financials

[1] Cal Fire Updates On Eaton Fire and Palisades Fire
[2] MCY 8-K
[3] MCY 8-K states the company's reinsurance treaty allows for the combining of events that occur within a 150-mile radius as a single occurrence.
[4] Insurance Services Office
[5] MCY 10-Q, Q3 2024, p. 26. Based on direct premiums written for the nine months ended September 30, 2024.
[6] Per Zillow, the average California home value is ~$773k. Assigning a 75% dwelling value as we did elsewhere in our report, that yields a replacement value of ~$580k. Given 30% of MCY's direct written premium for homeowner's is written outside California, we used the average U.S home value reported by Zillow of $357k and assessed dwelling value at 75%. Taking a weighted average of these values based off direct premium written (California 70%, non-California 30%), we estimate the average replacement cost for MCY is $487k.
[7] The average California home value is $773,262 per Zillow.
[8] Homeowners underwriting guidelines available here. The landlord underwriting guideline is available through SERFF tracking number: MERY-134235497
[9] The statutory language is available here, although it looks as if it were only codified in 2025, prior to this the California Department of Insurance had made identical rules. This online article in the Advocate does a nice job breaking down the particulars of the rules and its history.
[10] Zip code 90272
[11] Insurance Information Institute
[12] SERFF Tracking #: WSUN-133844493
[13] Insurance Information Institute
[14] MCY Press Release
[15] CBS News. Another article published after the fire indicates that State Farm had only nonrenewed 30 percent of these policies prior to the fire, meaning that ~500 homes. State Farm is trying to appear magnanimous, but California's moratorium on non-renewals in CA is the likely reason why they are allowing these people to renew.
[16] Reinsurance News and Fitch Ratings
[17] Appendix A
[18] California Department of Insurance
[19] CAIC Rate Filing
[20] LA County Eaton Fire and LA County Palisades Fire
[21] Screenshot taken from LA County site, 1/25/25
[22] Screenshot taken from LA County site, 1/25/25
[23] Data retrieved from LA County's ArcGIS maps on 1/20/25
[24] We used a reverse geocoding API to approximate addresses of each home which LA County has inspected.
[25] Data retrieved from LA County's ArcGIS maps on 1/20/25
[26] It is important to note that New York Drive (which you can see in the video) appears to be the southern boundary of 91001.
[27] SERFF Tracking #: MERY-134235497
[28] Our estimates are based on data retrieved from LA County's ArcGIS maps on 1/20/25 covering their damage assessment of single-story and multi-story single family residences.
[29] CalMatters estimates that structure value is 59% of LA property values. We adjusted dwelling value upwards to 75% to account for the endorsement which expands Coverage A plus inflationary construction costs.
[30] Most homeowner policies provide ALE coverage at 20-30% of dwelling coverage.
[31] Hippo personal property coverage
[32] CAIC Landlord SERFF Filing
[33] Nationwide
[34] Our estimates are based on data retrieved from LA County's ArcGIS maps on 1/20/25 covering their damage assessment of single-story and multi-story multifamily structures.
[35] Artemis.bm
[36] Data retrieved from LA County's ArcGIS Palisades Fire map on 1/20/25
[37] SF Chronicle
[38] FAIR Plan 91001 Residential PIF Count as of 9/30/24
[39] Insurance Business
[40] Landlord policies are included in our loss estimate.
[41] MCY 8-K

[42] MCY 8-K
[43] Reinsurance News
[44] MCY Q3 2024 10-Q, p. 41
[45] Capital IQ
[46] NAIC Risk-Based Capital (RBC) For Insurers Model Act
[47] MCY 2023 10-K

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