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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rates, Rating Plans, or Rating Systems of PACIFIC SPECIALTY INSURANCE COMPANY, Respondent.	**File No. NC-2025-00036** **NOTICE OF NONCOMPLIANCE [Ins. Code § 1858 *et seq.*]**

TO: RESPONDENT PACIFIC SPECIALTY INSURANCE COMPANY

NOTICE OF NONCOMPLIANCE

PURSUANT TO CALIFORNIA INSURANCE CODE SECTION 1858.1

THE CALIFORNIA DEPARTMENT OF INSURANCE ("Department") NOTIFIES YOU that the Insurance Commissioner of the State of California ("Commissioner") has good cause to believe that the rating plans, rating systems, rates and underwriting guidelines of PACIFIC SPECIALTY INSURANCE COMPANY (hereafter "Respondent"), violate various provisions of California law, including but not limited to California Insurance Code sections 1861.02, 1861.025, and 1861.15 and sections 2632.13.1 and 2632.14 of Title 10 of the California Code of Regulations. Pursuant to Insurance Code section 1858.1, this Notice sets forth the manner and extent of noncompliance. The Department is informed and believes, and thereon alleges, the following:

BACKGROUND FACTS

1. The Department has jurisdiction over Respondents, who is a licensed, admitted insurer in the state of California.

2. At all relevant times, Respondent transacted the business of insurance in California on risks or lines subject to the provisions of the California Insurance Code ("Insurance Code") and Title 10 of the California Code of Regulations ("Regulations"), in particular Insurance Code sections 1861.01 *et seq*. ("Proposition 103").

3. Respondent writes a motorcycle line of insurance under its certificate of authority. Motorcycle insurance is considered private passenger automobile insurance ("PPA") under Insurance Code section 660, subdivision (a).

4. PPA insurance is subject to Proposition 103, in particular Insurance Code sections 1861.02, 1861.025, and 1861.15 and Regulations sections 2632.13.1 and 2632.14 (collectively the "Good Driver Rules"). The Good Driver Rules require, *inter alia*, that an insurer writing PPA insurance offer minimum financial responsibility limits to good drivers ("Mandatory Offer Provision"). The Mandatory Offer Provision requires that good drivers be offered a policy at a premium at least 20 percent less than the lowest rate available to a comparable driver who is not a good driver, as defined in Insurance Code section 1861.025.[1]

5. On or about July of 2023, Respondent closed its online application portal used by its agents and brokers to bind new motorcycle insurance applicants. Respondent continued to renew existing good drivers, as required. Respondent did not inform the Department of this action. The Department became aware of the aforementioned in October of 2025 during review of a rate filing (CDI File No 25-166).

SPECIFIC ALLEGATIONS

ALLEGATION NUMBER 1: VIOLATIONS OF INSURANCE CODE SECTIONS 1861.02, 1861.025, and 1861.15.

6. By closing its online application portal, Respondent may have violated the Good Driver Rules, in particular the Mandatory Offer Provision, by eliminating the chief mechanism by which good drivers could apply for a PPA policy.

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[1] Because eligibility is not at issue in this noncompliance matter, a "good driver" will not be defined herein.

7. Because producers could not access Respondent's online application portal, good drivers may have been denied access to a good driver policy as required by Proposition 103.

8. It is not known how many good drivers were entitled to a good driver policy from Respondent during the time period of the alleged noncompliance, but the Department believes it could be a significant number.

9. These noncompliant acts are subject to monetary penalties pursuant to Insurance Code sections 1858.3 and 1858.07. The Department does not currently know the number of noncompliant acts. That will be determined at hearing.

ALLEGATION NUMBER 2: VIOLATION OF REGULATIONS SECTIONS 2632.13.1 and 2632.14.

10. By closing its online application portal, Respondent may have violated the Good Driver Rules, in particular the Mandatory Offer Provision, by eliminating the chief mechanism by which good drivers could apply for a PPA policy.

11. Because producers could not access Respondent's online application portal, good drivers may have been denied access to a good driver policy as required by Proposition 103.

12. It is not known how many good drivers may have been entitled to a good driver policy from Respondent during the time period of the alleged noncompliance, but the Department believes it could be a significant number.

13. These noncompliant acts are subject to monetary penalties pursuant to Insurance Code sections 1858.3 and 1858.07. The Department does not currently know the number of noncompliant acts. That will be determined at hearing.

<u>RELIEF REQUESTED</u>

THE DEPARTMENT NOTIFIES RESPONDENT that, to the extent Respondent's unlawful practices are ongoing at the time of delivery of this Notice, Respondent must correct its noncompliance within ten (10) days of receipt of this Notice. For each allegation listed above, Respondent must provide proof of system-wide correction, or other response permitted by CIC section 1858.1, within ten (10) days of receipt of this notice.

THE DEPARTMENT FURTHER NOTIFIES RESPONDENT that if Respondent fails to make an adequate or timely response, the Department will set a public hearing pursuant to CIC sections 1858.2 and 1858.3. If, at the conclusion of the hearing, the Commissioner finds that the facts are as alleged above and constitute violations of the Insurance Code and/or Code of Regulations, as set forth, he may issue an order for payment of money penalties and any other corrective action as he may deem appropriate.

THE DEPARTMENT FURTHER NOTIFIES RESPONDENT of all of the following:

- If the noncompliance referred to above constitutes willful acts involving the use of rates, rating plans, and/or rating systems in violation of Chapter 9, Part 2, Division 1 of the Insurance Code, the Department will seek civil penalties pursuant to CIC section 1858.07 in an amount up to $10,000.00 for each act;
- In the alternative, if the Commissioner does not find those acts involving the use of rates, rating plans, and/or rating systems in violation of Chapter 9, Part 2, Division 1 of the Insurance Code to be willful violations of that chapter, the Department will seek civil penalties in an amount up to $5,000.00 for each act pursuant to CIC section 1858.07;
- The Department may amend this Notice to set forth additional willful and/or non-willful noncompliant acts in violation of Chapter 9, Part 2, Division 1, of the Insurance Code and to seek additional penalties in an amount up to $5,000 to $10,000.00 for each act;
- If the noncompliance referred to above constitutes a willful failure to comply with a final order of the Commissioner under Chapter 9, Part 2, Division 1 of the Insurance Code, the Department may seek additional civil penalties pursuant to Insurance Code Section 1859.1 in an amount not exceeding $250,000.00 for the failure;
- In the alternative, if the Commissioner does not find the noncompliance referred to above to constitute a willful failure to comply with a final order of the Commissioner under Chapter 9, Part 2, Division 1 of the Insurance Code, the Department may seek additional civil penalties pursuant to Insurance Code section 1859.1 in an amount not exceeding $50,000.00 for the failure;
- The Department may amend this Notice to set forth additional willful and/or non-willful failure to comply with a final order of the Commissioner under Chapter 9, Part 2, Division 1, of the Insurance Code and to seek additional penalties in an amount up to $50,000 to $250,000.00 for the failure;

- In addition to the foregoing monetary penalties, following a hearing regarding the foregoing noncompliant acts, the Commissioner shall seek any and all relief available pursuant to Insurance Code section 1858.3, subdivision (a), including any and all appropriate corrective actions including without limitation refunds with interest to policyholders who may have been charged excessive rates; and
- In further addition to monetary penalties and other appropriate relief, the Commissioner may, pursuant to Insurance Code Section 1858.4, suspend or revoke, in whole or in part, the license of any rating organization or the certificate of authority of any insurer with respect to the class or classes of insurance specified in that order, which fails to comply within the time limited by that order or any extension thereof which the commissioner may grant, with an order of the commissioner lawfully made by him or her pursuant to Insurance Code Sections 1858.3 and 1858.6

THE DEPARTMENT FURTHER NOTIFIES RESPONDENT that, the Department may amend this Notice to set forth additional willful and/or non-willful noncompliant acts in violation of Chapter 9, Part 2, Division 1, of the Insurance Code and to seek additional penalties and/or require additional corrective actions as appropriate.

Dated: July 13, 2026

CALIFORNIA DEPARTMENT OF INSURANCE

By Daniel Wade

Daniel Wade
Senior Staff Counsel