

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA

In the Matter of

PACIFIC SPECIALTY INSURANCE
COMPANY,

Respondent.

File No. UPA 2007-00001

OAH No. N2007060909

STIPULATION AND WAIVER

Respondent Pacific Specialty Insurance Company (“Respondent”) and the California Department of Insurance (“Department”) stipulate as follows:

WHEREAS, Respondent currently are, and at all times relevant hereto were, insurers licensed to conduct various classes of insurance in California and were conducting insurance business in California at the time of the alleged violations; and,

WHEREAS, the Commissioner completed a report of its examination of Respondent’s claims handling practices (the “Examination Report”), which reports covers the period September 1, 2003 to August 30, 2004; and,

WHEREAS, on July 3, 2007, the Department issued an “Order to Show Cause and Statement of Charges; Notice of Monetary Penalty” (the “OSC”) under file number UPA 2007-00001, alleging violations of Insurance Code Sections 790.03, 1871.3, 1874.87, Title 10, California Code of Regulation (“CCR”), Sections 2632.13, 2695.3, 2695.4, 2695.5, 2695.7, 2695.8, and California Vehicle Code (“CVC”) Sections 11515; and,

WHEREAS, Respondent has denied the allegations of the OSC, but acknowledge that those allegations, if proven to be true, may constitute grounds for the Commissioner to impose a civil penalty and issue an order to Respondent to cease and desist from engaging in those

methods, acts, or practices found to be unfair or deceptive pursuant to the provisions of the Insurance Code of the State of California; and

WHEREAS, the Department and Respondent have discussed Respondent's response to the Examination Report received and Respondent's compliance with certain provisions of the Code and the Department's regulations, including the specific allegation in the OSC; and,

WHEREAS, Respondent has implemented various measures to ensure compliance with the Code and Regulations; and,

WHEREAS, the Department and Respondent believe that it is in the public interest to resolve all matters raised by the complaints, the Examination Report, and the OSC without the need for a formal hearing or any further administrative action;

THEREFORE, with respect to the matters stated herein, Respondent and the Department agree as follows:

A. This compromise settlement is not an admission of liability, wrongdoing or violation of law and no court has made any factual findings or legal conclusions. Respondent has agreed to the terms herein to avoid an unnecessary hearing and in the interest of resolving the matter. Respondent waives its right to a hearing and any and all rights that Respondent may be entitled to pursuant to Chapter 5, Part 1, Division 3, Title 2 of the California Government Code.

B. Respondent agrees that in lieu of disciplinary action against its Certificates of Authority, the Commissioner, by his written order to be made and filed herein, and without further notice to Respondent, Respondent will not engage in any such methods, acts or practices as are violative of Insurance Code Sections 758(c), 758.5, 790.03, 880, 1871.3, 1872.4, 1874.6, 1874.87, 1879.2, 11580.011, CCR Sections 2632.13, the Fair Claims Settlement Practices Regulations (CCR, Title 10, Chapter 5, Section 2695.1 et seq.) and 2698.91, and CVC Sections 11515, including all specific allegations made in the OSC.

C. Respondent further agrees that in lieu of disciplinary action against its Certificate of Authority, and in resolution of the Department's claims under California Insurance Code Sections 704, 790.03 and 790.035, Respondent shall pay the sum of \$190,000.00 (One Hundred

and Ninety Thousand Dollars) to the State of California as a civil penalty. All payments shall be made within thirty (30) days of receipt of an invoice from the Department. Payment shall be mailed to California Department of Insurance, Division of Accounting, 300 Capital Mall, 13th Floor, Sacramento, CA 95814.

D. Respondent acknowledges that, if it violates any of the terms or conditions of this Stipulation and Waiver, the Insurance Commissioner may bring disciplinary action against Respondent to enforce its terms in such manner as authorized by law.

E. Respondent acknowledges that, insofar as the future application of Section 790.07 of the California Insurance Code is concerned, the Order provided for herein shall have the same force and effect as if imposed after a hearing held pursuant to Section 790.05 of the California Insurance Code.

F. Respondent and the Department agree that this Stipulation and Waiver represents a complete resolution of the issues raised in the OSC referenced above.

G. Respondent acknowledges that this Stipulation and Waiver is a public record under California Government Code Section 11517(d), and that it and any order issued pursuant thereto is accessible to the public pursuant to California Public Records Act, California Government Code Section 6250 et seq. Pursuant to California Insurance Code Section 12968 the Stipulation will also be posted on the Department's internet web site.

H. Respondent acknowledges that California Insurance Code Section 12921 requires the Insurance Commissioner to approve the final settlement of this matter, and that both the settlement terms and conditions contained herein and the acceptance of those terms and conditions are contingent upon the Commissioner's personal approval.

Dated: June 3, 2008

Pacific Specialty Insurance Company

By: _____/s/_____
Print Name: Brian J. McSweeney_____
Title: Executive Vice President/General Counsel_____

