Report of the Examination of

Pacific Star Insurance Company

San Diego, California

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 30, 2020

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

PACIFIC STAR INSURANCE COMPANY
San Diego, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Pacific Star Insurance Company (PSIC or the company) was conducted in 2014 and 2015 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 and 2020 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Anchor General Insurance Company (AGIC). The California Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the California Department of Insurance was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized on August 3, 1987, as a stock property and casualty insurer under Ch. 611, Wis. Stat., under the name Greatway Insurance Company and commenced business on August 29, 1987. Its initial capitalization was provided by its parent and sole stockholder, Heritage Mutual Insurance Company, which subsequently changed its name to ACUITY, A Mutual Insurance Company (ACUITY).

On December 31, 2006, the company was sold to Anchor General Insurance Company, a California company. The stock purchase agreement for the sale included an amendment to the company's reinsurance agreement with its former parent, ACUITY, which maintains the 100% quota share reinsurance coverage with ACUITY for all company claims on policies written prior to January 1, 2007. No direct business was written by the company as an ACUITY affiliate after June 1, 2000.

The company has no employees of its own. All essential day-to-day resources, including personnel, office facilities, and general administrative services, are provided by the company's parent, AGIC, and affiliates Anchor General Insurance Agency, Inc., and PacStar General Insurance Agency, Inc. (AGIA and PSGIA, respectively). The majority of operations are conducted in accordance with the business practices and internal controls established by these affiliated companies. All expenses for shared arrangements are initially paid by the parent. Expenses other than taxes are then allocated on the basis of budget center utilization estimates and time studies. Intercompany balances with affiliates are created in the normal course of business, with settlements generally made on a monthly basis.

The company, which ceased to accept any new business on June 1, 2000, began writing business again in March 2008 under its new name and ownership.

In 2018, the company wrote direct premium in the following states:

Arizona	$ 19,066	0.1%
California	7,401,999	60.9
Washington	4,741,261	39.0
Oregon	(23)	0.0
Total	$ 12,162,326	100.0%

The products offered by the company include nonstandard automobile liability and physical damage coverage. All underwriting services are provided by PacStar General Insurance Agency, Inc. Products are marketed through approximately 200 licensed agents.

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Inland marine	$ 182	$0	$ 0	$ 182
Private passenger auto liability	7,497,648		5,623,212	1,874,436
Auto physical damage	4,664,473		3,498,323	1,166,150
Total All Lines	$12,162,303	$0	$9,121,535	$3,040,768

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. Four directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation specific to their service on the board.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Abe Badani Rancho Santa Fe, California	President and Chief Executive Officer Anchor General Insurance Company	2021
Angie Van Cleaf Encinitas, California	Chief Financial Officer and Vice President Anchor General Insurance Company	2021
Susan Stokes-Gibson Poway, California	Vice President – Underwriting Anchor General Insurance Company	2021
Joe Kaiser* San Diego, California	Vice President – Claims Anchor General Insurance Company	2021

* Retired on January 31, 2020.

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2018 Compensation
Abe Badani	President and Chief Executive Officer	$ 18,883
Angie Van Cleaf	Vice President and Chief Financial Officer	13,164
Gretchen Allen	Secretary and Controller	41,900
Joe Kaiser	Vice President – Claims	32,579
Susan Stokes-Gibson	Vice President – Underwriting	8,754

The individual compensation noted above is based on allocations between the insurance companies, agencies, and other legal entities within the holding company group. Of the gross compensation, between 30% and 40% is allocated to the insurers, with the allocation between PSIC and AGIC based on direct premium written, except for the Controller and Vice President – Claims, whose allocation is based on actual monthly time spent. Remaining compensation for other officers is allocated to the agencies, with a portion of compensation for the Chief Executive Officer and Chief Financial Officer being allocated to Anchor Insurance Holdings, Inc., and Anchor Claims Services, Inc., respectively.

Committees of the Board

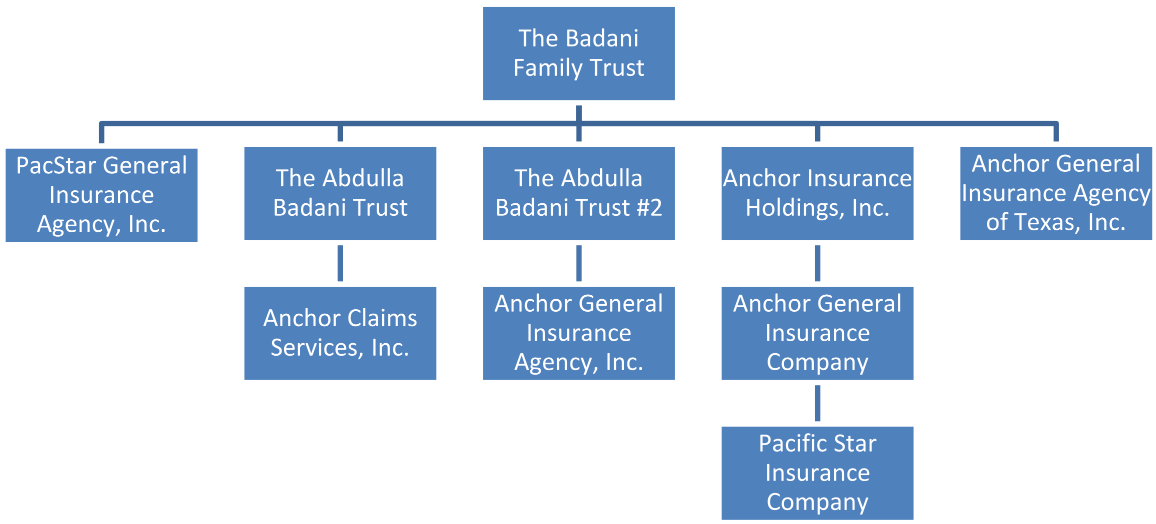
The company's bylaws allow for the formation of certain committees by the board of directors. Due to the company's small size and the fact that all board members are also officers, the company currently only has one committee as shown below:

Audit Committee
Abe Badani, Chair
Angie Van Cleaf
Susan Stokes-Gibson

IV. AFFILIATED COMPANIES

Pacific Star Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2018



The Badani Family Trust

All of the issued and outstanding shares of stock of Anchor Insurance Holdings, Inc., are owned by The Badani Family Trust (the Trust). The Trust was established on October 23, 1996, and is part of the overall estate plan of Mr. and Ms. Badani. The trustees are the ultimate controlling persons of the Trust.

Anchor Insurance Holdings, Inc.

Anchor Insurance Holdings, Inc., serves as the sole shareholder and parent of Anchor General Insurance Company. As of December 31, 2018, the unaudited tax basis financial statements of Anchor Insurance Holdings, Inc., reported assets of $16,218,470, liabilities of $1,500, and capital of $16,216,970. Operations for 2018 produced a net loss of $(3,840).

Anchor General Insurance Company

AGIC, the company's immediate parent, is licensed in six states and provides nonstandard automobile liability and physical damage coverage. The company has a Cost Allocation Agreement with AGIC which is summarized later in this section of this report. As of December 31, 2018, the audited financial statements of AGIC reported assets of $80,649,331, liabilities of $58,668,584, and capital and surplus of $21,980,747. Operations for 2018 produced a net income of $1,019,891 on gross premium written of $86,969,338.

Anchor General Insurance Agency, Inc.

AGIA markets and administers nonstandard automobile liability and physical damage coverage for AGIC, PSIC, and a few non-affiliated insurance carriers. The company has a Cost Allocation Agreement with AGIA which is summarized later in this section of this report. As of December 31, 2018, the unaudited financial statements of AGIA reported assets of $1,739,097, liabilities of $1,682,384, and capital of $56,713. Operations for 2018 produced net income of $204,574.

PacStar General Insurance Agency, Inc.

PSGIA markets and administers nonstandard automobile liability and physical damage coverage for Pacific Star Insurance Company. The company has a Program Administrator Agreement with PSGIA which is summarized later in this section of this report. As of December 31, 2018, the unaudited financial statements of PSGIA reported assets of $735,338, liabilities of $351,993, and capital of $383,345. Operations for 2018 produced net income of $300,649.

Agreements with Affiliates

PSIC currently has no employees of its own, and all of its operations are conducted by employees of its affiliates in accordance with the terms of the affiliated agreements. A summary of these agreements follows.

Program Administrator Agreement

Pacific Star Insurance Company and PacStar General Insurance Agency, Inc., entered into a Program Administrator Agreement effective January 1, 2018. Under this agreement, PSGIA is responsible for soliciting and servicing business, binding risks, issuing policies, quoting accurate rates, complying with manuals, appointing and managing sub-producers, collecting premiums, timely accounting of revenues and expenses, holding premiums in a fiduciary account, credit extensions to sub-producers or policyholders, safeguarding assets, paying all costs incurred in performance of the agreement, legal compliance, correspondence regarding all government contracts, developing premium financing, hiring and maintaining qualified staff, keeping accurate records, preparation of audit reports, maintaining required licenses, and policy administration. PSGIA has no authority for claims settlement through this agreement.

Under the agreement, PSGIA is required to prepare and forward to PSIC a monthly, detailed claim and premium bordereau and statement of account within 20 days after the end of each calendar month. PSGIA shall also prepare and forward to PSIC a quarterly, detailed data export within 20 days after the end of each calendar quarter. Settlements of balances are to be made within 30 days after the end of each calendar month.

PSGIA is responsible for all administrative costs whereby it earns an 18.0% provisional commission on private passenger automobile direct written premium and 70% on inland marine - motorist protection as well as 100% of policy fees and other fees less applicable taxes. PSGIA must maintain errors and omissions insurance, general liability, and workers' compensation coverage while the agreement is in effect. The parties agree to indemnify each other for claims that are the responsibility of the other respective company. This agreement replaced the Program Administrator Agreement between the company and AGIA that was in effect prior to January 1, 2016.

Cost Allocation Agreement

Pacific Star Insurance Company and Anchor General Insurance Company renewed their existing Cost Allocation Agreement effective January 1, 2019. Under this agreement, AGIC provides certain facilities and administrative services as needed by PSIC. Essential services provided through this agreement include financial reporting, tax compliance, budget and cost accounting, legal services, claims processing, actuarial services, supervisory administrative services, and additional services as requested. PSIC is to reimburse AGIC for all costs and expenses for providing these services based on actual cost, without a profit factor being built into that cost. Within 30 days after the end of each month, a written statement of the prior month's fees and expenses is to be provided by AGIC to PSIC. The balance due on this statement shall be paid within 30 days following receipt. In the event that settlements are not made in a timely manner, interest shall accrue at the current legal rate.

The agreement states that all services provided shall be subject to the ultimate authority, control, review, and limitation of PSIC and its board of directors, and the company shall at all times own and have custody of its general accounts and records. The agreement states that it shall be reviewed and renegotiated in its entirety by the parties from time to time, but no less frequently than once every three years and the agreement may be terminated by written notice at any time due to certain named causes or events.

Cost Allocation Agreement

Pacific Star Insurance Company and Anchor General Insurance Agency, Inc., renewed their existing Cost Allocation Agreement effective January 1, 2018. Under this agreement, AGIA provides certain facilities and administrative services as needed by PSIC. Essential services provided through this agreement include risk management, human resources, payroll, insurance procurement, office leases, office services, computer services, supervisory administrative services, and additional services as requested. PSIC is to reimburse AGIA for all costs and expenses for providing these services based on actual cost, without a profit factor being built into that cost. Within 30 days after the end of each month, a written statement of the prior month's fees and expenses is to be provided by AGIA to PSIC. The balance due on this statement shall be paid within 60 days following receipt. In the event that settlements are not made in a timely manner, interest shall accrue at the current legal rate. Additionally, PSIC and AGIA will conduct an annual two-week study where employees of AGIA record the actual amount of time spent performing services on behalf of PSIC after which the allocations of costs and expenses will be adjusted.

The agreement states that all services provided shall be subject to the ultimate authority, control, review, and limitation of PSIC and its board of directors, and the company shall at all times own and have custody of its general accounts and records. The agreement states it shall be reviewed and renegotiated in its entirety by the parties from time to time, but no less frequently than once every three years and the agreement may be terminated by written notice at any time due to certain named causes or events.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1.	Type:	Quota Share Reinsurance
	Reinsurer:	Swiss Reinsurance America Corporation
	Scope:	This agreement includes all business produced or written by the company and classified as private passenger auto liability or automobile physical damage
	Retention:	70% of business written with the option to cede up to an additional 45% to other reinsurers subject to a minimum retention of 25%
	Coverage:	30% of all loss and loss adjustment expenses incurred by the reinsured
	Premium:	Pro rata of the net written premium
	Commission:	26.75% total ceding commission comprised of 17.25% of the net written premium and 9.5% of the net earned premium for unallocated loss adjustment expenses
	Effective date:	January 1, 2018; continuous until canceled
	Termination:	Either party may cancel the agreement on any January 1 by giving at least 60 days' prior written notice Additionally, the reinsurer has the option to terminate this agreement by giving the company 60 days' prior notice upon notification of a change of ownership of AGIA or in the event that Mr. Abe Badani should no longer be employed as principal of AGIA The company has the option to terminate the agreement with 60 days' prior notice in the event the reinsurer's A.M. Best rating is downgraded to less than an "A-" or if the reinsurer should become non-admitted, non-accredited, or non-trusteed in the state of Wisconsin during the term of the agreement
2.	Type:	Quota Share Reinsurance
	Reinsurer:	The Toa Reinsurance Company of America
	Intermediary:	Atlantic Intermediaries LLC

	Scope:	This agreement includes all business produced or written by the company and classified as private passenger auto liability or automobile physical damage.
	Retention:	75% of business written with the option to cede up to an additional 50% to reinsurers other than those above subject to a minimum retention of 25%
	Coverage:	25% of all loss and loss adjustment expenses incurred by the reinsured
	Loss expense:	The reinsurers will pay 9.5% of the earned premium to the company for loss adjustment expense, exclusive of legal and special investigation unit costs
	Premium:	Pro rata of the net written premium
	Commission:	20% of the net written premium
	Effective date:	January 1, 2018; continuous until canceled
	Termination:	Either party may cancel the agreement on any January 1 with 60 days' prior written notice Additionally, the reinsurer has the option to terminate this agreement by giving the company 60 days' prior notice upon notification of a change of ownership of AGIA or PSGIA or in the event that Mr. Abe Badani should no longer be employed as principal of AGIA or PSGIA The company has the option to terminate the agreement with 60 days' prior notice in the event the reinsurer's A.M. Best rating is downgraded to less than an "A-" or if the reinsurer should become non-admitted, non-accredited, or non-trusteed in the state of Wisconsin during the term of the agreement
3.	Type:	Quota Share Reinsurance
	Reinsurer:	Munich Reinsurance America. Inc.
	Scope:	This agreement includes all business produced or written by the company and classified as private passenger auto liability or automobile physical damage
	Retention:	90% of business written with the option to cede up to an additional 65% to other reinsurers subject to a minimum retention of 25%
	Coverage:	10% of all loss and loss adjustment expenses incurred by the reinsured
	Premium:	Pro rata of the net written premium
	Commission:	19% of the net written premium
	Effective date:	January 1, 2018; continuous until canceled

	Termination:	Either party may cancel the agreement on any January 1 by giving at least 60 days' prior written notice Additionally, the reinsurer has the option to terminate this agreement by giving the company 60 days' prior notice upon notification of a change of ownership of AGIA or PSGIA or in the event that Mr. Abe Badani should no longer be employed as principal of AGIA or PSGIA The company has the option to terminate the agreement with 60 days' prior notice in the event the reinsurer's A.M. Best rating is downgraded to less than an "A-" or if the reinsurer should become non-admitted, non-accredited," or "non-trusteed" in the state of Wisconsin during the term of the agreement
4.	Type:	Quota Share Reinsurance
	Reinsurer:	Maiden Reinsurance Company
	Scope:	This agreement includes all business produced or written by the company and classified as private passenger auto liability or automobile physical damage.
	Retention:	90% of business written with the option to secure additional reinsurance from reinsurers other than Maiden Reinsurance Company, but in no event reducing its retention below 25%
	Coverage:	10% of all loss and loss adjustment expenses incurred by the reinsured
	Loss expense:	The reinsurers will pay 9.5% of the earned premium to the company for loss adjustment expense, exclusive of legal and special investigation unit costs
	Premium:	Pro rata of the net written premium
	Commission:	Provisional ceding commission ranging between 17.5% and 19.5% of all premiums ceded based on the actual loss ratio
	Effective date:	January 1, 2016; continuous until canceled
	Termination:	Either party may cancel the agreement on any January 1 with 60 days' prior written notice Additionally, the reinsurer has the option to terminate this agreement by giving the company 60 days' prior notice upon notification of a change of ownership of AGIA or PSGIA or in the event that Mr. Abe Badani should no longer be employed as principal of AGIA or PSGIA The company has the option to terminate the agreement with 60 days' prior notice in the event the reinsurer's A.M. Best rating is downgraded to less than an "A-" or if the reinsurer should become non-admitted, non-accredited, or non-trusteed in the state of Wisconsin during the term of the agreement.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Pacific Star Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 7,735,624	$	$ 7,735,624
Cash, cash equivalents, and short-term investments	4,185,106		4,185,106
Receivables for securities	1,000		1,000
Investment income due and accrued	53,417		53,417
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	825,356		825,356
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,467,958		2,467,958
Reinsurance:			
Amounts recoverable from reinsurers	1,539,133		1,539,133
Current federal and foreign income tax recoverable and interest thereon	1,000		1,000
Total Assets	$16,808,594	$0	$16,808,594

Pacific Star Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Losses		$ 1,718,779
Loss adjustment expenses		321,189
Commissions payable, contingent commissions, and other similar charges		12,819
Other expenses (excluding taxes, licenses, and fees)		23,075
Taxes, licenses, and fees (excluding federal and foreign income taxes)		123,016
Unearned premiums		752,435
Ceded reinsurance premiums payable (net of ceding commissions)		3,402,513
Payable to parent, subsidiaries, and affiliates		30,386
Total Liabilities		6,384,212
Common capital stock	$3,000,000	
Gross paid in and contributed surplus	5,500,000	
Unassigned funds (surplus)	1,924,382	
Surplus as Regards Policyholders		10,424,382
Total Liabilities and Surplus		$16,808,594

Pacific Star Insurance Company
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		$3,007,829
Deductions:		
Losses incurred	$2,349,573	
Loss adjustment expenses incurred	(383,792)	
Other underwriting expenses incurred	1,065,000	
Total underwriting deductions		3,030,781
Net underwriting gain (loss)		(22,952)
Investment Income		
Net investment income earned	172,082	
Net realized capital gains (losses)	(13,627)	
Net investment gain (loss)		158,455
Other Income		
Finance and service charges not included in premiums	238,029	
Write-ins for miscellaneous income:		
Miscellaneous income	(238,014)	
Total other income		15
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		135,518
Net Income		$ 135,518

Pacific Star Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$3,417,537
Net investment income			233,256
Miscellaneous income			15
Total			3,650,808
Benefit- and loss-related payments		$2,640,086	
Commissions, expenses paid, and aggregate write-ins for deductions		688,877	
Total deductions			3,328,963
Net cash from operations			321,845
Proceeds from investments sold, matured, or repaid:			
Bonds	$980,394		
Miscellaneous proceeds	6,234		
Total investment proceeds		986,628	
Cost of investments acquired (long-term only):			
Bonds		858,228	
Net cash from investments			128,400
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(3,132)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			447,114
Cash, cash equivalents, and short-term investments:			
Beginning of year			3,737,992
End of Year			$4,185,106

Pacific Star Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018

Assets		$16,808,594
Less liabilities		6,384,212
Adjusted surplus		10,424,382
Annual premium:		
Lines other than accident and health	$3,040,768	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$ 8,424,382
Adjusted surplus (from above)		$10,424,382
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (Deficit)		$ 7,624,382

Pacific Star Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2018	**2017**	**2016**	**2015**	**2014**
Surplus, beginning of year	$10,288,863	$10,426,745	$10,326,640	$6,562,856	$6,546,369
Net income	135,518	(137,882)	100,105	263,784	16,487
Surplus adjustments:					
Paid in				3,500,000	
Surplus, End of Year	$10,424,382	$10,288,863	$10,426,745	$10,326,640	$6,562,856

Pacific Star Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2018

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

	Ratio	**2018**	**2017**	**2016**	**2015**	**2014**
#1	Gross Premium to Surplus	117%	97%	51%	31%	67%
#2	Net Premium to Surplus	29	24	15	16	30
#3	Change in Net Premiums Written	23	61*	-4	-17	9
#4	Surplus Aid to Surplus	4	4	3	1	2
#5	Two-Year Overall Operating Ratio	98	97	87	93	108*
#6	Investment Yield	1.5*	1.2*	0.9*	0.8*	1.0*
#7	Gross Change in Surplus	1	-1	1	57*	0
#8	Change in Adjusted Surplus	1	-1	1	4	0
#9	Liabilities to Liquid Assets	33	25	17	13	23
#10	Agents' Balances to Surplus	8	7	4	2	4
#11	One-Year Reserve Development to Surplus	1	-1	-2	-3	1
#12	Two-Year Reserve Development to Surplus	0	-2	-5	-1	7
#13	Estimated Current Reserve Deficiency to Surplus	3	0	-4	-1	5

Ratio No. 3 measures the change in net premium written from the prior year. The exceptional result in 2017 was due to changes in the company's reinsurance program and the transfer of a portion of the California book of business from AGIC to PSIC.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional result in 2014 was due to elevated losses in the company's private passenger auto liability line of business, specifically associated with a book of business in the state of Oregon.

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in each of the years under examination. This is mainly due to the company's conservative investment portfolio, which is mostly comprised of investment grade bonds, together with the prolonged low interest rate environment in the United States during the period under examination.

Ratio No. 7 measures the company's gross change in surplus from the prior year. The exceptional result in 2015 was due to a paid in surplus contribution of $3,500,000 by the ultimate controlling persons, which was a conditional provision in allowing the company to begin writing business in California in late 2015.

Growth of Pacific Star Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$16,808,594	$6,384,212	$10,424,382	$135,518
2017	15,609,094	5,320,231	10,288,863	(137,882)
2016	13,854,843	3,428,098	10,426,745	100,105
2015	12,455,770	2,129,130	10,326,640	263,784
2014	9,262,110	2,699,254	6,562,856	16,487
2013	9,266,009	2,719,640	6,546,369	(264,950)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$12,162,303	$3,040,768	$3,007,829	65.4%	35.0%	100.4%
2017	9,980,830	2,471,229	2,303,686	71.2	37.5	108.6
2016	5,280,063	1,537,868	1,399,367	57.0	38.5	95.5
2015	3,181,228	1,607,683	1,679,696	52.9	36.6	89.5
2014	4,367,963	1,946,935	2,016,686	76.6	27.2	103.8
2013	3,707,699	1,785,351	1,870,809	88.8	30.0	118.8

The poor combined ratio in 2017 and 2014 can primarily be attributed to an increase in the net loss and LAE ratio. The elevated net loss and LAE ratio was the result of underwriting losses in the private passenger auto liability line of business, exacerbated by industrywide frequency and severity trends for the private passenger nonstandard auto liability line of business. However, the five-year combined and operating ratios compare favorably to the private passenger nonstandard auto industry composite average. Net premiums written trended significantly upward in recent years, driven by rate increases and the rollover of a California agent's fully seasoned book of business from Anchor General Insurance Company to Pacific Star Insurance Company.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Information Technology—It is recommended that the company submit an updated progress report to OCI describing the progress made in addressing the IT findings identified by the California Department of Insurance by November 16, 2015.

   Action—Compliance.

2. Audited Financial Report—It is recommended that the company comply with s. Ins 50.06 (3), Wis. Adm. Code, when filing its annual audited financial report so that the language and groupings used in the audited financial statements are substantially the same as those in the NAIC annual statement filing filed with the commissioner.

   Action— Compliance.

3. Financial Reporting—It is recommended that the company report anticipated salvage and subrogation on the “Salvage and Subrogation Anticipated” column of Schedule P – Part 1 of the annual statement in accordance with the NAIC *Annual Statement Instructions – Property and Casualty*.

   Action— Compliance.

4. Executive Compensation—It is recommended that the company report all remuneration, including deferred compensation, insurance benefits, and any other forms of compensation, for employees that meet the requirements to be reported on the Executive Compensation form in accordance with s. 611.63, Wis. Stat.

   Action— Compliance.

5. Affiliated Agreements—It is recommended that the company amend its Cost Allocation Agreement with AGIA and its Cost Allocation Agreement with AGIC to include specific settlement due dates.

   Action— Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Corporate Records

The minutes of the meetings of the board of directors and committees thereof were reviewed for the period under examination and for the subsequent period. The company's board of directors meets quarterly and the audit committee meets annually. During the review of the company's meeting minutes, it was discovered that at each year's annual Audit Committee meeting, the company formally approves the prior year meeting minutes. However, this same practice is not done for the quarterly board of directors meetings.

Approving all board of directors minutes formally establishes an accurate record and validates agreement by all members of the board. This practice produces an approved and legal record of the meeting. It is recommended that the company approve all board of directors' and committees' meeting minutes at each subsequent meeting.

VIII. CONCLUSION

The company was incorporated in Wisconsin on August 3, 1987, under the name Greatway Insurance Company. It was originally a wholly owned subsidiary of ACUITY, A Mutual Insurance Company. Throughout the time it was owned by ACUITY, it specialized in nonstandard automobile liability and physical damage insurance. Under ACUITY's ownership, the company ceased to write any direct business after June 1, 2000. On December 31, 2006, the company was sold to Anchor General Insurance Company, with ACUITY fully reinsuring and administering all of the pre-acquisition business of the company. The company began writing business again in March 2008 under its current name and ownership. The company writes nonstandard automobile liability and physical damage insurance and a very nominal amount of inland marine – motorist protection, primarily in the states of California and Washington.

Policyholders' surplus has increased from $6,546,369 as of year-end 2013, to $10,424,382 as of year-end 2018. This represents an increase of 57% during the period under examination, which was principally due to a $3,500,000 paid-in surplus contribution. Growth in annual premium volume during the period was notably strong, increasing 228%, from $3,707,699 in direct premiums written in 2013 to $12,162,303 in 2018. Growth in premiums during the period under examination was significantly driven by rate increases and the rollover of one particular California agent's fully seasoned book of business from Anchor General Insurance Company to the company. In 2018, the company had a reinsurance program in place whereby it cedes 75% of its direct premiums written to nonaffiliated reinsurers. The company has maintained very conservative writings leverage on a net basis. The ratio of net premiums written to surplus was 27% in 2013 and 29% in 2018.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2013, when policyholders' surplus was last verified by examination, to December 31, 2018:

Policyholders' surplus, December 31, 2013	$ 6,546,369
Paid-in surplus adjustment	3,500,000
Net income	378,012
Policyholders' surplus, December 31, 2018	$10,424,382

The company complied with each of the five recommendations of the prior examination report. The current examination recommended that the company improve its corporate governance practices by having the board of directors approve meeting minutes. The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 Corporate Records—It is recommended that the company approve all board of directors and committee meeting minutes at each subsequent meeting.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Mark McNabb	Insurance Financial Examiner
James Vanden Branden	ACL Specialist
Eleanor Lu, CISA	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Nicholas Hartwig
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization (WHO) declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. This office is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with (company/group) regarding the impact of COVID-19 on business operations and the financial position of (company) and no immediate action was deemed necessary at the time of this report.