

Report of the Examination of  
Pacific Star Insurance Company  
San Diego, California  
As of December 31, 2022

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November 21, 2023

Honorable Nathan D. Houdek  
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 2019 and 2020 as of December 31, 2018. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent 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 as the lead state for the coordinated examinations. Work performed by the California Department of Insurance was reviewed and relied on where it was 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.

#### **Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the California Department of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## 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 (AGIC), 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 either by the parent or affiliate. Expenses other than taxes are then allocated based on 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.

In 2022, the company wrote direct premium in the following states:

California	\$10,044,054	84.1%
Washington	1,892,631	15.9
Arizona	<u>6,473</u>	<u>0.1</u>
Total	<u>\$11,943,158</u>	<u>100.0%</u>

The company is licensed in Arizona, Arkansas, California, Colorado, Idaho, Illinois, Indiana, Iowa, Kentucky, Nebraska, North Dakota, Ohio, Oregon, South Dakota, Tennessee, Washington, and Wisconsin.

The products offered by the company include nonstandard automobile liability and physical damage coverage. Most policies are for state-mandated minimum limits of coverage with a six-month policy term. All underwriting services are provided by PacStar General Insurance Agency, Inc.

The following table is a summary of the net insurance premiums written by the company in 2022. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Inland marine	\$ 114	\$	\$	\$ 114
Private passenger auto no- fault (personal injury)	13,511		5,794	7,717
Other private passenger auto liability	7,648,903		3,351,262	4,297,641
Private passenger auto physical damage	<u>4,280,630</u>	<u>                    </u>	<u>1,859,144</u>	<u>2,421,486</u>
Total All Lines	<u>\$11,943,158</u>	<u>\$ 0</u>	<u>\$5,216,200</u>	<u>\$6,726,958</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of three members. Three 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:

<b>Name</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Abe Bandani Rancho Santa Fe, California	President and Chief Executive Officer Anchor General Insurance Company	2023
Susan Stokes-Gibson Poway, California	Vice President – Underwriting Anchor General Insurance Company	2023
Angie Van Cleaf Encinitas, California	Chief Financial Officer and Vice President Anchor General Insurance Company	2023

#### Officers of the Company

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

<b>Name</b>	<b>Office</b>
Abe Bandani	President and Chief Executive Officer
Gretchen Allen	Secretary and Controller
Susan Stokes-Gibson	Vice President – Underwriting
Angie Van Cleaf	Vice President and Chief Financial Officer

#### Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

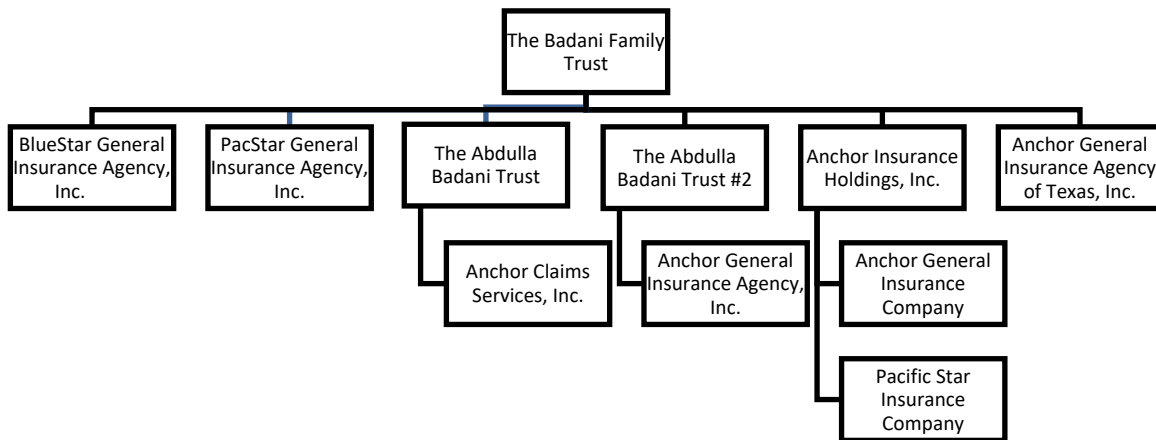
**Audit Committee**  
Abe Bandani, Chair  
Susan Stokes-Gibson  
Angie Van Cleaf



#### IV. AFFILIATED COMPANIES

PSIC 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, 2022



##### **The Badani Family Trust**

All 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 Mrs. 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.

##### **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.

### **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.

### **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.

### **BlueStar General Insurance Agency, Inc. (BlueStar)**

BlueStar was created in 2020 as a third-party administrator for unrelated insurance carrier operations in California.

### **Agreements with Affiliates**

PSIC currently has no employees of its own, and all 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, 2022. 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. The Program Administrative Agreement was retroactively amended effective January 1, 2022, to change the minimum and provisional commission from 19% to 17%, and to change the sliding

scale range wherein the minimum and provisional commission of 17% is paid from 66% to 70% of the ratio of losses incurred to premiums earned.

#### **Cost Allocation Agreement**

Pacific Star Insurance Company and Anchor General Insurance Company renewed their existing Cost Allocation Agreement effective January 1, 2022. 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.

#### **Cost Allocation Agreement**

Pacific Star Insurance Company and Anchor General Insurance Agency, Inc., renewed their existing Cost Allocation Agreement effective January 1, 2021. 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.

## V. REINSURANCE

The company relies on quota share reinsurance arrangements to cede a portion of its risk. The company's retention on private passenger automobile quota share programs has varied during the period under examination. The table below provides information about the company's reinsurance program during the examination period, up to the date of this examination report.

Reinsurer	Quota Share Percentage				
	2023	2022	2021	2020	2019
Munich Reinsurance America, Inc.		15.0%	15.0%	15.0%	15.0%
Toa Reinsurance Company of America			25.0	25.0	25.0
American Family Connect Property & Casualty Insurance Company			10.0		
Swiss Reinsurance America Corporation	<u>32.5</u>	<u>30.0</u>	<u>35.0</u>	<u>35.0</u>	<u>35.0</u>
Total	<u>32.5%</u>	<u>45.0%</u>	<u>85.0%</u>	<u>75.0%</u>	<u>75.0%</u>

## **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, 2022, 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 and the compulsory and security surplus calculation.

**Pacific Star Insurance Company**  
**Assets**  
**As of December 31, 2022**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 8,623,936	\$	\$ 8,623,936
Stocks:			
Common stocks	63,101		63,101
Cash, cash equivalents, and short-term investments	4,651,325		4,651,325
Receivables for securities	479		479
Investment income due and accrued	48,584		48,584
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	839,622		839,622
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,635,623		2,635,623
Reinsurance:			
Amounts recoverable from reinsurers	886,428		886,428
Current federal and foreign income tax recoverable and interest thereon	5,000		5,000
Net deferred tax asset	<u>80,359</u>		<u>80,359</u>
<b>Total Assets</b>	<b><u>\$17,834,457</u></b>	<b>\$</b>	<b><u>\$17,834,457</u></b>

**Pacific Star Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2022**

Losses		\$ 2,532,105
Loss adjustment expenses		364,251
Other expenses (excluding taxes, licenses, and fees)		38,364
Taxes, licenses, and fees (excluding federal and foreign income taxes)		163,085
Unearned premiums		1,746,509
Ceded reinsurance premiums payable (net of ceding commissions)		1,932,620
Payable to parent, subsidiaries, and affiliates		48,412
Write-ins for liabilities:		
Escheat Funds Payables		<u>2,697</u>
 Total Liabilities		 6,828,043
 Common capital stock	 \$3,000,000	
Gross paid in and contributed surplus	5,500,000	
Unassigned funds (surplus)	<u>2,506,414</u>	
 Surplus as Regards Policyholders		 <u>11,006,414</u>
 Total Liabilities and Surplus		 <u>\$17,834,457</u>

**Pacific Star Insurance Company  
Summary of Operations  
For the Year 2022**

<b>Underwriting Income</b>		
Premiums earned		\$5,350,019
Deductions:		
Losses incurred	\$3,998,297	
Loss adjustment expenses incurred	(7,138)	
Other underwriting expenses incurred	<u>1,843,770</u>	
Total underwriting deductions		<u>5,834,929</u>
Net underwriting gain (loss)		(484,910)
<b>Investment Income</b>		
Net investment income earned	149,405	
Net realized capital gains (losses)	<u>211</u>	
Net investment gain (loss)		149,616
<b>Other Income</b>		
Finance and service charges not included in premiums	287,407	
Write-ins for miscellaneous income:		
Service charges not included in premium expense	<u>(287,407)</u>	
Total other income		<u>0</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(335,294)
Federal and foreign income taxes incurred		<u>(1,579)</u>
Net Income (Loss)		<u>\$ (333,715)</u>



**Pacific Star Insurance Company  
Cash Flow  
For the Year 2022**

Premiums collected net of reinsurance		\$5,138,533
Net investment income		<u>157,512</u>
Total		5,296,045
Benefit- and loss-related payments	\$ 2,894,172	
Commissions, expenses paid, and aggregate write-ins for deductions	1,617,885	
Federal and foreign income taxes paid (recovered)	<u>(62,837)</u>	
Total deductions		<u>4,449,220</u>
Net cash from operations		846,825
Proceeds from investments sold, matured, or repaid:		
Bonds	\$2,816,545	
Miscellaneous proceeds	<u>186</u>	
Total investment proceeds		2,816,731
Cost of investments acquired (long- term only):		
Bonds	<u>2,717,461</u>	
Total investments acquired		<u>2,717,461</u>
Net cash from investments		99,270
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>8,657</u>	
Net cash from financing and miscellaneous sources		<u>8,657</u>
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		954,752
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>3,696,572</u>
End of Year		<u>\$4,651,324</u>

**Pacific Star Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2022**

Assets		\$ 17,834,457
Less liabilities		<u>6,828,043</u>
Adjusted surplus		11,006,414
Annual premium:		
Lines other than accident and health	\$ 6,726,958	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 9,006,414</u>
Adjusted surplus (from above)		\$ 11,006,414
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%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$ 8,206,414</u>

**Pacific Star Insurance Company  
Analysis of Surplus  
For the Four-Year Period Ending December 31, 2022**

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

	2022	2021	2020	2019
Surplus, beginning of year	\$ 11,303,757	\$ 11,247,516	\$ 10,768,082	\$ 10,424,382
Net income	(333,715)	33,139	490,309	298,568
Change in net unrealized capital gains/losses	(15,267)	16,678	8,583	3,378
Change in net deferred income tax	<u>51,639</u>	<u>6,423</u>	<u>(19,458)</u>	<u>41,755</u>
Surplus, End of Year	<u>\$ 11,006,414</u>	<u>\$ 11,303,757</u>	<u>\$ 11,247,516</u>	<u>\$ 10,768,082</u>

**Growth of Pacific Star Insurance Company**

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2022	\$17,834,457	\$6,828,043	\$11,006,414	\$(333,715)
2021	16,127,221	4,823,464	11,303,757	33,139
2020	15,231,716	3,984,200	11,247,516	490,309
2019	16,016,304	5,248,222	10,768,082	298,568
2018	16,808,594	6,384,212	10,424,382	135,518

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2022	\$11,943,158	\$6,726,958	\$5,350,019	74.6%	27.4%	102.0%
2021	8,335,405	1,229,501	1,298,062	54.4	51.6	106.0
2020	7,308,494	1,827,067	2,001,379	34.4	45.9	80.3
2019	10,017,659	2,504,522	2,644,514	58.6	37.6	96.2
2018	12,162,303	3,040,768	3,007,829	65.4	35.0	100.4

Gross premiums written have fluctuated over the last four years, with an overall decrease of 2% since the last examination. In 2020, a significant decrease in direct premiums written was driven primarily by the stay-at-home orders related to the COVID-19 pandemic disruptions. Fluctuation in net premium written has been primarily driven by the changes in the company's quota share retention. In 2022, the company's net premium written increased by 447% due to a change in its quota share retention to 55% from 15% in 2021. PSIC reported net income in three of the last four years. The company's loss

ratio was the highest at 74.6% in 2022 and the lowest at 34.4% in 2020, with an average of 55.5% over the last four years. The company's underwriting results in 2021 and 2022 were affected by higher claims frequency and severity, partially driven by the supply chain disruption caused by COVID-19. The expense ratio varied during the period under examination, affected primarily by the changes in the company's quota share retention.

**Reconciliation of Surplus per Examination**

No adjustments were made to the surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2022, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There was one specific recommendation in the previous examination report. The action taken by the company as a result of the recommendation was as follows:

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

Action—Compliance.

### Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

## 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 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.

The company experienced a decline in premiums written in 2020 and 2021 due to the disruptions caused by the COVID-19 outbreak. It increased its retention under quota share reinsurance program from 15% in 2021 to 55% in 2022, and further to 67.5% in 2022. Policyholders' surplus increased 5.6% over the period under examination. The company complied with the recommendation of the prior examination report. The current examination resulted in no recommendation, adjustments to policyholders' surplus or reclassifications to the balance sheet.

## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no recommendations made as a result of this examination.



**X. ACKNOWLEDGMENT**

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination 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:

<b>Name</b>	<b>Title</b>
Terry Lorenz, CFE	Quality Control Specialist

Respectfully submitted,



Nicholas Hartwig, AFE  
Examiner-in-Charge