



**EXAMINATION REPORT  
OF**

**Star Casualty Insurance Company  
Miami, Florida**

**NAIC Company Code: 32387**

**as of  
December 31, 2020**

**By  
The Florida Office of Insurance Regulation**

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August 25, 2023

Michael Yaworsky  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (“the NAIC”), we have conducted an examination as of December 31, 2020, of the financial condition and corporate affairs of

**Star Casualty Insurance Company**

5539 SW 8 Street  
Miami, FL, 33134

hereinafter referred to as “the Company.” Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2016 through December 31, 2020 and the fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on August 6, 2021. The fieldwork concluded as of November 8, 2022. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2011 through December 31, 2015.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

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 the NAIC Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

## SUMMARY OF SIGNIFICANT FINDINGS

### Current Examination Findings

Using the information available at the time of review, the examination actuary of Taylor-Walker Consulting, LLC (“TW”) found that net loss and loss adjustment expenses reported on the Company’s December 31, 2020 statutory financial statements were understated by \$6,527,000.

A second examination actuary from Risk & Regulatory Consulting (“RRC”) was engaged and evaluated the net loss and loss adjustment expenses reported by the Company on both its December 31, 2020 and December 31, 2021 statutory financial statements. That evaluation found that the Company’s reported values for those categories were understated in both years.

The Company’s appointed actuary, Charles Emma, FCAS, MAAA of EVP Advisors, Inc. (“EVP”), opined that the Company’s loss and loss adjustment expense reserves were reasonable as of December 31, 2020 and December 31, 2021, on both a net and gross of reinsurance basis. The Company booked its reserves for 2020 and 2021 at the midpoint of EVP’s estimates. However, the Company has received additional capital contributions to address the loss reserve understatement determined by RRC and reflected in this Report. (See **COMMENTS ON FINANCIAL STATEMENT ITEMS** and **SUBSEQUENT EVENTS**)

### Previous Examination Findings

There were no significant findings in the previous examination.

## COMPANY HISTORY

### General

The Company was formed and organized under the laws of the State of Florida on August 20, 1987 and commenced business on July 25, 1988. The Company is a stock insurer authorized to write Private Passenger Auto Liability, Private Passenger Auto Physical Damage and Other Liability Insurance. The Company is represented by about 146 agencies in Florida, and 12

agencies in Arizona. The Company has 5,000,000 authorized common shares, 750,000 of which are issued and outstanding at par value. The Company has no preferred stock outstanding.

## **Dividends**

The Company did not declare or pay any dividends during the period under examination.

## **Capital Stock and Capital Contributions**

As of December 31, 2020, the Company's capitalization was as follows:

Number of authorized common capital shares	\$5,000,000
Number of shares issued and outstanding	\$750,000
Total common capital stock	\$1,005,000
Par value per share	\$1.34

There were no capital contributions during the period under examination.

## **Surplus Notes**

On March 20, 2017, Nicolas Estrella executed a surplus note for \$300,000. This note was repaid on May 6, 2019. Interest was due at the annual rate of 6%. Total interest paid was \$37,000.

On April 20, 2017, Nicolas Estrella executed a surplus note for \$500,000. This note was repaid on May 6, 2019. Interest was due at the annual rate of 6%. Total interest paid was \$60,833.33

## **Acquisitions, Mergers, Disposals, Dissolutions**

The Company had no acquisitions, mergers, disposals, or dissolutions during the period under examination.

# **MANAGEMENT AND CONTROL**

## **Corporate Governance**

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2020, are shown below:

<b>Directors</b>		
<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Nicolas Estrella, Sr.	Key Biscayne, FL	Retired, Director, Business Owner of Various Entities
Nicolas Estrella, Jr.	Key Biscayne, FL	Attorney, Insurance Executive, Estrella General Agency
Jose E. Estrella	Key Biscayne, FL	Chief Executive Officer, Star Casualty Insurance Company
Amanda J. Estrella	Marina del Ray, CA	Self-employed, Therapist
Maria Remudo	Miami, FL	Director of Operations, Estrella General Agency (retired)
Lidia Hernandez	Miami, FL	Audit and Compliance, Estrella General Agency

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

<b>Senior Officers</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
Jose E. Estrella	Key Biscayne, FL	Chief Executive Officer
Rakesh Mishra	Weston, FL	President
Francis W. Brill	Miramar, FL	Senior Vice President Claims
Alejandro R. Zajac	Miami, FL	Treasurer

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2020. The first person listed for each committee is the chairman.

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

**Audit Committee**

Nicolas Estrella, Jr.	Jose E. Estrella	Lidia Hernandez	Maria Remudo
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**Investment Committee**

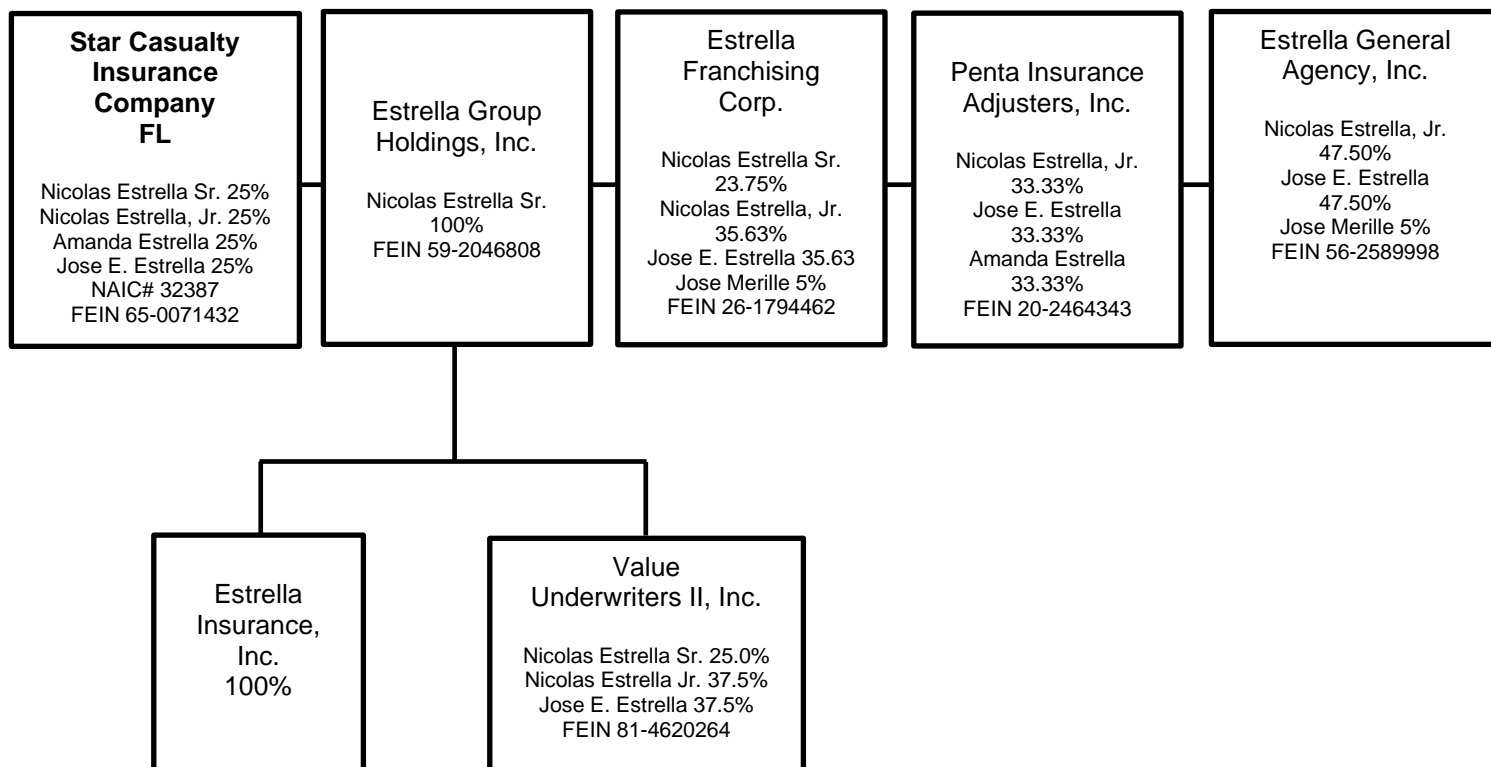
Nicolas Estrella, Jr.	Jose E. Estrella	Lidia Hernandez	Maria Remudo
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## Holding Company System

A simplified organizational chart as of December 31, 2020, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2020 annual statement provided a list of all related companies of the holding company group.

The Company is a family-owned organization. The Company is owned by Nicolas Estrella Sr., Nicolas Estrella Jr., Jose Estrella and Amanda Estrella. Each owns 25% of the shares of the Company.

### Star Casualty Insurance Company Simplified Organizational Chart December 31, 2020



The following agreements were in effect between the Company and its affiliates:

### **Managing Agency Contract**

The Company and its affiliate, Value Underwriters II, Inc. (Value Underwriters) have a Managing Agency Contract that was amended and restated January 3, 2006. Under this agreement, the Company retained Value Underwriters II, Inc., to provide management and administration services of the Company's insurance business, including: underwriting and policy issuance; reinsurance program management; loss prevention and analysis; premium collection; regulatory liaison; business policy advisor and consultant; accounting; maintenance of books and records; retention of certified public accountants and actuaries; marketing and agent relations; and ministerial functions. The manager undertook the duties and responsibilities set forth on behalf of, and subject to, the supervision of the Company and its Board. The managing General Agency shall receive as compensation, in all the lines of insurance the Company is authorized to transact unless specifically excluded from this Agreement, twenty-eight percent (28.0%) of the Company's Direct Written Premium. Such fees shall be payable on the 15th day of each month beginning January 2018 and each and every consecutive month thereafter during the Term of the Agreement. Compensation paid to Value Underwriters in 2020 totaled \$3,213,627.

### **Cost Sharing Agreement**

The Company was party to a Cost Sharing Agreement with Value Underwriters II, Inc., Centrex Premium Finance, Estrella Insurance, Inc., Penta Insurance Adjusters, Inc. (Penta), and Estrella General Agency, with an inception date of May 1, 2010. This agreement provided for an allocation of office and salary expenses in cases where an affiliate paid for expenses incurred for costs that pertained to another affiliate or affiliates. Amounts due from affiliates under this agreement as of December 31, 2020 totaled \$54,688; Penta \$124,050, Value Underwriters (\$69,362), and Estrella General Agency, Inc. \$0.

### **Claims Handling Agreement**

The Company has a Claims Handling Agreement with Penta with an inception date of March 5, 2010. Under this agreement, Penta functions as the claims department for the Company. In return, the Company pays a fee based on a schedule in the agreement that is linked to the type

of claim being settled. This fee is reported as Allocated Loss Adjustment Expense. Fees incurred in 2020 totaled \$3,890,888.

### **Producer's Agreement**

The Company has a Producer's Agreement with Estrella Insurance, Inc. (Estrella Insurance) with an inception date of January 3, 2006. This agreement provided the agency the right to solicit, quote, receive applications, bind coverage, and collect, receive, and issue receipts for premiums. In return, the Company pays a commission on policies and renewals based on applicable commission schedules in effect as of the inception date of each policy or renewal. In May 2008, Estrella Insurance changed its agency distribution structure by forming Estrella Franchising Corp. (Estrella Franchising) and offered to sell through Estrella Insurance the franchise rights to market business as independent agents. The Company continued to distribute all Florida business through this agency force. Upon restructure, Estrella Insurance's sole business is the sale of agency franchises and the collection of franchise fees. According to management, franchisee agencies pay a "royalty" of fifteen percent (15%) of commissions paid to franchise agents for the issuance of Company policies. The Company paid commissions of \$7,347,570 to franchisee agencies in 2020.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Miami, FL.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following 12 states:

Arkansas	Arizona	Florida
Georgia	Kentucky	Nebraska
Nevada	Indiana	Iowa
Idaho	West Virginia	Tennessee

The Company was authorized to transact insurance in Florida on August 20, 1987, and is currently authorized for the following lines of business as of December 31, 2020:

Private Passenger Auto Liability  
Other Liability

Private Passenger Auto Physical Damage

The Company primarily writes private passenger auto liability, private passenger auto physical damage and other liability Insurance policies in the states on Florida and Arizona. A total of \$49 million was written as of December 31, 2020 with \$1 million being written in Arizona and the balance occurring in Florida

## **REINSURANCE**

### **Reinsurance Assumed**

The Company did not assume any reinsurance during the period of this examination.

### **Reinsurance Ceded**

The Company makes extensive use of a quota share reinsurance contract with a single reinsurer on all of its coverages. The Company also has excess of loss reinsurance that covers all of its lines and catastrophic coverage related to its physical damage policies.

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income; Capital and Surplus Account; and the Reconciliation of Capital and Surplus for the year ended December 31, 2020. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2020. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Star Casualty Insurance Company**  
**Assets**  
**December 31, 2020**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$10,401,472	\$0	\$10,401,472
Properties occupied by the company	2,135,681	0	2,135,681
Cash and short-term investments	10,867,751	0	10,867,751
Subtotals, cash and invested assets	23,404,904		23,404,904
Investment income due and accrued	80,491		80,491
Uncollected premiums and agents' balances	1,465,664	10,075	1,455,589
Deferred Premiums	17,850,658		17,850,658
Amounts recoverable from reinsurers	5,402,759	0	5,402,759
Furniture and equipment	4,805	4,805	0
Receivable from parent, subsidiaries and affiliates	54,688		54,688
Aggregate write-in for other than invested assets	198,301	53,201	145,100
<b>Total</b>	<b>48,462,270</b>	<b>68,081</b>	<b>48,394,189</b>

**Star Casualty Insurance Company  
Liabilities, Surplus and Other Funds  
December 31, 2020**

	Per Company
Losses	\$4,253,376
Loss adjustment expenses	2,106,347
Commissions payable, contingent commissions and other similar charges	617,811
Other expenses	379,250
Taxes, licenses and fees	40,275
Net deferred tax liability	79,151
Borrowed money and interest thereon	614,300
Unearned premiums	6,391,738
Ceded reinsurance premiums payable	22,399,923
Drafts outstanding	2,149,643
Payable to parent, subsidiaries and affiliates	474,862
Total liabilities excluding protected cell liabilities	39,506,676
Total liabilities	39,506,676
Common capital stock	1,005,000
Gross paid-in and contributed surplus	1,407,325
Unassigned funds (surplus)	6,475,188
Surplus as regards policyholders	8,887,513
Totals	48,394,189

**Star Casualty Insurance Company**  
**Statement of Income**  
**December 31, 2020**

	Per Company
<b>Underwriting Income</b>	
Premiums earned	\$13,678,035
<b>Deductions</b>	
Losses Incurred	9,334,782
Loss adjustment expenses incurred	1,930,737
Other underwriting expenses incurred	2,110,201
Total Underwriting deductions	13,375,720
Net underwriting gain (loss)	302,315
<b>Investment Income</b>	
Net investment income earned	246,479
Net realized capital gains or (losses)	15,721
Net investment gain or (loss)	262,200
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	(203,442)
Finance and service charges not included in premiums	89,444
Total other income	(113,998)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	450,517
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	450,517
Federal & foreign income taxes incurred	79,151
Net Income	371,366

	Per Company
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$8,471,954
Net Income	371,366
Change in net deferred income taxes	44,468
Change in non-admitted assets	(275)
Change in surplus as regards policyholders for the year	415,559
Surplus as regards policyholders, December 31, current year	8,887,513

**Star Casualty Insurance Company  
Reconciliation of Capital and Surplus  
December 31, 2020**

<b>Capital/Surplus Change during Examination Period</b>			
Surplus at December 31, 2015, per Company			\$7,716,465
	Increase	Decrease	
Loss in surplus	990,447		990,447
Change in net deferred income tax	44,468		44,468
Change in non-admitted assets		(497,880)	(497,880)
Change in provision for reinsurance	634,013		634,013
Change in surplus notes	800,000		800,000
Surplus withdrawn from protected cells		(800,000)	(800,000)
Net increase			1,171,048
Surplus at December 31, 2020 per Company			8,887,513

**Star Casualty Insurance Company  
Analysis of Changes to Surplus  
December 31, 2020**

Surplus at December 31, 2020, per Company's Annual Statement			8,887,513
	Increase	Decrease	
Increase in Loss Reserve		6,527,000	
Surplus at December 31, 2020 per the Examination's Adjustment*			2,360,513

\* See **SUBSEQUENT EVENTS, Capital and Surplus**

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Loss and Loss Adjustment Expenses

Solomon L. Frazier, FSA, FCAS, MAAA, Senior Consulting Actuary with Taylor-Walker Consulting, LLC and Brent M. Sallay, FCAS, MAAA, also with the same actuarial consulting firm, reviewed the Company's booked net loss and loss adjustment expense reserves as of December 31, 2020 and determined that they were understated by \$6,527,000. The application of this examination adjustment results in a corresponding decrease to the Company's capital and surplus as of December 31, 2020.

The Company's appointed actuary, Charles Emma, FCAS, MAAA of EVP Advisors, Inc. ("EVP"), opined that the Company's loss and loss adjustment expense reserves were reasonable as of December 31, 2020 and December 31, 2021, on both a net and gross of reinsurance basis. The Company booked its reserves for 2020 and 2021 at the midpoint of EVP's estimates.

(see **SUBSEQUENT EVENTS**)

### Capital and Surplus

The amount of capital and surplus as determined by the examination on December 31, 2020 was \$2,360,513. (see **SUBSEQUENT EVENTS**)

## **SUBSEQUENT EVENTS**

### **Loss and Loss Adjustment Expenses**

David Heppen, FCAS, MAAA, an actuary with Risk & Regulatory Consulting (“RRC”) and Jennifer Balester, FCAS, MAAA, an actuary with the same firm, examined the net loss and loss adjustment expenses reported by the Company for 2021 and reviewed the finding by Taylor-Walker’s actuary for 2020. RRC’s reserves estimates for 2021 indicated that the reserves were deficient by \$5,430,000.

### **Capital and Surplus**

The capital and surplus reported by the Company as of December 31, 2021 was \$9,273,708. Once this amount is adjusted for the loss reserve understatement of \$5,430,000 determined by RRC, the examination adjusted capital and surplus as of December 31, 2021, is \$3,843,708. This is below the minimum capital requirement established by Consent Order 207477-17 of \$4,600,000 and below the statutory minimum capital and surplus requirement of \$4,000,000.

On November 30, 2022, the Company received capital infusions totaling \$757,000. The capital and surplus reported by the Company as of December 31, 2022 was \$8,576,980, which exceeds the minimum capital requirement established by Consent Order 207477-17 of \$4,600,000 and the statutory minimum capital and surplus requirement of \$4,000,000. The capital and surplus reported by the Company as of December 31, 2022 included an increase in its loss reserves of \$5,429,706 as of December 31, 2022.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Star Casualty Insurance Company as of December 31, 2020, consistent with the insurance laws of the State of Florida.

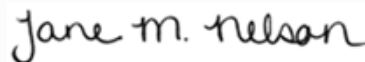
In addition to the undersigned, the following individuals from The NOVO Consulting Group ("NOVO"), Taylor-Walker Consulting, LLC ("TW"), Exam Resources, LLC ("ER"), and Risk & Regulatory Consulting ("RRC") also participated in the examination:

Jeffrey Good, CFE, CIE, CPCU, AIAF ARC, MCM	Participating Examiner	NOVO
Ray Conover, AIE, Are, FLMI, MCM	Participating Examiner	NOVO
Clifton Day, MPA, MCM, CPM, CSM	Participating Examiner	NOVO
Casey Hengstebeck	Participating Examiner	Office
Sol Frazier, FCAS, MAAA	Senior Consulting Actuary	TW
Brent Sallay, FCAS, MAAA	Senior Consulting Actuary	TW
Sonya Bergquist	Actuarial Analyst	TW
James Gowins, AES, AFE	IT Specialist	ER
Steven Sigler, CFE, AES, AMCA, CISA	IT Specialist	ER
David Heppen, FCAS, MAAA	Actuarial Specialist	RRC
Jennifer Balester, FCAS, MAAA	Actuarial Specialist	RRC
Lisa Chanzit, FCAS, MAAA, ARM	Actuarial Specialist	RRC
Dan Applegarth, CPA, CFE, PIR	Chief Financial Examiner	Office

Respectfully submitted,



Lori Ruggiero, CFE, CIE, MCM  
Principal  
The NOVO Consulting Group, LLC  
Representing the Florida Office of Insurance Regulation



Jane Nelson, PIR  
Director  
Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation