

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

STAR CASUALTY INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED 7/19/02



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EXECUTIVE SUMMARY

Star Casualty Insurance Company (Company) is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination. The scope of this examination was January 2001 through March 2002. The examination began March 31, 2002 and ended May 18, 2002. The last property and casualty market conduct examination of this insurer by the Florida Department of Insurance was concluded in February 2000.

The purpose of this examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance. From a review of the consumer complaints filed against the Company, the Department focused on claim delays and three (3) complaints involving timely payment of court ordered judgements.

A total of two hundred seventy-three (273) files were examined for this Company with ten (10) errors. The following represents general findings; however, specific details are found in each section of the report.

Forty-three (43) complaint files were examined with two (2) errors. The company failed to act promptly upon communications with claims, which caused delayed claim closure.

Fifty (50) private passenger automobile policies were examined with seven (7) errors. These errors were caused by a computer error in which incorrect point factors were applied to the base rates for 1 through 6 point surcharges.

Fifty (50) cancellations were examined with no errors.

One hundred (100) claim files were examined with one (1) error. The Company failed to forward requested policy information within the required thirty (30) days to the claimant's attorney.

Thirty (30) files were examined for the agents/MGA/advertising review with no errors.

The Company was requested to complete all corrective actions within ninety (90) days of receipt of this examination report.

As a result of the findings of this examination, \$363.00 was returned to Florida consumers due to overcharges of premium. Additional refunds totaling \$120,000 will be made by the Company due to a rerate of the private passenger automobile policies for incorrect point surcharge factors which were applicable to points 1 through 6. See Pending Issues Section.

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES

GENERAL COMMENTS

The Certificate of Authority and Renewal Invoices were reviewed for all years within the scope of the examination.

EXAM FINDINGS

The review included verification of the lines of business the Company was authorized to write during the scope of the examination versus those lines actually being written. It also included verification that notification requirements were met for any lines of business that were discontinued.

No errors were found.

COMPANY OPERATIONS/MANAGEMENT

HISTORY/MANAGEMENT

Star Casualty Insurance Company is a Florida domestic insurer organized on August 20, 1987. The Company was authorized to transact business in the State of Florida on July 25, 1988. The Company's home office is located at 3750 West Flagler Street, Miami, Florida. Mr. Nicholas Estrella wholly owns the Company. Star Casualty is part of Estrella Group Holdings, Inc. The affiliated companies are Estrella Insurance, Inc., Value Underwriters, Inc., Estrella Insurance Franchising Corporation and Centrex Premium Finance Corporation.

The Company's directors are Nicolas Estrella, President; Lidia Hernandez, Vice President; Richard Estrella, Secretary; Josefina Estrella, and Maria Remudo.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

Star Casualty uses an IBM AS/400 server. The system is housed in Miami, Florida. Policy quoting, administration, printing and processing are made by software written on Report Program Generator (RPG) computer language.

Anti-Fraud Plan

The Company filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

The Plan does meet the requirements by establishing a Special Investigation Unit. The plan was initially filed in 1996. In September of 1999, the claims department was closed and files were transferred to NAC, an independent adjusting firm, who had their own anti-fraud plan. In January 2001, the Company reopened its claim department utilizing the initial filed plan, and is in the process of developing a broader anti-fraud plan due to the increase of business written subsequent to 1996.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. In the event of a disaster, the Company maintains an off-site facility with the hardware needed to continue business operations. Incoming calls would be forwarded to this location in Miami, Florida. In addition, daily backups are stored at the International Data Depository in Miami, Florida.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Internal audit procedures are in place to ascertain that policy information is correctly entered into the computer system and that claims are serviced timely. Also,

specific controls are designed to regulate cash transactions and payroll systems. The Company has designated a Company employee for this function.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Plan is communicated to the policyholders by a policyholder notice.

Statistical Affiliations

The Company uses National Association of Independent Insurers (NAII) as its statistical agent.

Credit Reports

The Company does not use Credit Reports as an underwriting tool.

OPERATIONS/MARKETING

Marketing

The Company writes non-standard private passenger automobile business in Florida. Business is written throughout the State of Florida, however, the majority of the business is written in the southeast area.

Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet/Adjusters and Claims Handling

The Company markets its private passenger automobile insurance products through licensed and appointed agents at the Estrella Insurance Agencies and Estrella Insurance Franchise offices only. Individuals are required to go to these offices to purchase their insurance. Value Underwriters, Inc. is the managing general agency in charge of all policy processing and underwriting operations. Claims are adjusted by licensed and appointed Company adjusters at the home office.

The Company does not maintain a website.

Lines of Business

Currently the Company writes only private passenger automobile insurance.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

This is a monoline program for non-standard risks. Credit reports and rating tiers are not used. The amount of premium charged depends upon the make and age of vehicle, usage of the vehicle, point surcharges from MVR, age of the driver, multi-car discounts, safety device discounts, renewal policy discount, amount of coverage selected, and other normal underwriting criteria.

Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
2001	\$12,694,155	6,450
*2002	\$ 128,771	448

*As of February 28, 2002

Examination Findings

Fifty (50) policy files were examined.

Seven (7) errors were found.

Errors affecting premium resulted in seven (7) overcharges totaling \$363.

The errors are broken down as follows:

1. Seven (7) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.0651, Florida Statutes, and is considered a business practice. These errors were caused by a computer error in which incorrect point surcharge factors were applied to the base rates for points 1 through 6. These errors resulted in seven (7) overcharges totaling \$363.00, which have been refunded by the Company. In addition, the Company was requested to rerate those policies in effect for the scope of this examination based on the aforementioned error and provide estimates as to the number of insureds affected and amounts of refunds. Exhibit I. Refunds will go to approximately 3,369 insureds with an estimated total of \$120,000. See Pending Issues Section.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

From the sample reviewed, the Company mails cancellation notices to insureds and lienholders a minimum of 45 days in advance for Company cancellations/nonrenewals, and a minimum 10 days in advance for nonpayment of premium. Unearned premium is computed using pro-rata from the effective date of the policy to the effective date of cancellation for Company cancelled policies, and 90% of pro rata for insured request or premium finance cancelled policies. The date and accuracy of unearned premium was documented in the files provided. A proof of mailing register is maintained.

CANCELLATION REVIEW

Fifty (50) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

There were no nonrenewals for review for the scope of this examination.

COMPLAINTS/INVESTIGATION REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company.

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

COMPLAINTS RECEIVED FROM DOI

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S-0102-0050542		Cancellation refund	None	None
S-0102-0043263		Agent handling	None	None
S-0102-0042248		Application handling	None	None
S-0102-0025342		Cancellation refund	None	None
S-0102-0028916		Premium refund	None	None
S-0102-0024389		Binder Cancellation	None	None
S-0102-0023410		Cancellation refund	None	None
S-0001-0057842		Reason for Canc	None	None
S-0102-0016798		Claim settlement	None	None
S-0102-0034757		Claim delay	None	None
S-0102-0021832		Claim settlement	None	None
S-0102-0045582		Claim delay	None	None
S-0102-0045794		Claim delay	None	None
S-0102-0360140		PIP dispute	None	None
S-0102-0020389		PIP dispute	None	None
S-0102-0034436		PIP denial	None	None
S-0102-0018252		Claim denial	None	None
S-0102-0013631		PIP payment	None	None
S-0102-0013629		Payment dispute	None	None
S-0102-0013630		Claim mishandling	None	Under litigation
S-0102-0013628		Medical Payment	None	Under investigation
S-0001-0066732		Medical Payment	None	None
S-0001-0013306		Claim mishandling	None	Ongoing investigation
S-0001-0010840		Claim pay dispute	None	Under litigation
S-0001-0010341		Claim mishandling	None	Under litigation
S-0001-0095470		Claim mishandling	None	None
S-0001-0036012		Medical payment	None	Ongoing investigation
S-0001-0097980		PIP Payments	None	Under litigation
S-0001-0091600		Claim payment delay	None	Under litigation
S-0001-0095020		Claim payment delay	None	Under litigation
S-0001-0033065		Claim pay dispute	None	None
S-0001-0036032		Judgement not paid	None	None
S-0001-0047284		Claim delay	626.9541 (1) (i) 3c	None
S-0001-0047565		Claim pay delay	None	None
S-0001-0044452		Claim denial	None	None
S-0001-0049704		Settlement dispute	None	None
S-0001-0053032		Claim delay	None	None
S-0001-0066731		PIP payment denial	None	None
S-0102-0008973		Judgement not paid	None	None
S-0102-0028853		Subro request	None	None
S-0102-0037487		Judgement not paid	None	None
S-0102-0037674		Claim delay	626.9541 (1) (i) 3c	None

Forty-two (42) complaints received from DOI were reviewed.

Two (2) errors were found.

The errors are broken down as follows:

1. Two (2) errors were due to failure to act promptly upon communications with respect to claims. This constitutes a violation of Section 626.9541 (1) (i) 3.c., Florida Statutes. These errors were caused by excessive gaps of claim inactivity. This resulted from a failure to maintain a minimum 14 day diary necessary to avoid delays in claim handling and expedite claim closure. The Company used an independent adjusting firm, NAC, at the time these errors occurred for adjusting claims. Presently the Company does not employ the services of this firm. Since January 2001, all claims have been adjusted from the home office. This has enabled the Company to closely monitor claim activity more efficiently. These were isolated incidences and do not constitute a business practice.

The purpose of this examination was to address the issues behind the volume of consumer complaints received by the Florida Department of Insurance. Claim delays constituted the largest number of the complaints reviewed and have been addressed above. Three (3) of the claim delay complaints were due to delays in payment of court-ordered judgements. In one case the payment due date was moved forward and was paid within the required sixty (60) days, which is in compliance with Section 627.427, Florida Statutes, one judgement was set aside by the court, and the remaining judgement is being appealed by the Company. There is no business practice in violation of Statutes.

COMPLAINTS COMPANY RECEIVED FROM CONSUMERS

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Comments
	Marks	Settlement dispute	None	None

One (1) consumer-received complaint was reviewed.

No errors were found.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

The types of claims reviewed included private passenger automobile first-and third-party claims, litigated claims, and subrogated claims. The types of losses included bodily injury, property damage liability, PIP, comprehensive, and collision.

Examination Findings

Fifty (50) claims were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to a failure to provide requested policy information to the claimant's attorney within the required thirty (30) day time limit. This constitutes a violation of Section 627.4137, Florida Statutes. This error occurred in the 1998 Examination, Page 8, Item 3. Exhibit II.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

The review included PIP claims referred to independent medical examiners (IME) for medical review.

Examination Findings

Fifty (50) PIP claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

Value Underwriters, Inc. is the MGA used by the Company, and is an affiliate of the Company as well. A review of the MGA relationship confirms that Value Underwriters, Inc. is properly licensed and appointed to act as an MGA for the Company. The MGA performs all the underwriting and policy issuance for the Company. The \$25 MGA policy fee has been filed and approved for use. The MGA agreement is in compliance with Florida Statutes.

Examination Findings

Thirty (30) applications/policies written during the scope of examination were examined.

No errors were found.

The Company advertises via the newspaper, radio, and television. The emphasis is on customer service. Cost comparisons with other Companies are not used. Advertising is not indicative of improper business practices.

PENDING ISSUES

The following issue was pending at the conclusion of the examination field work:

MONETARY ISSUE

In the Private Passenger Automobile Section, Item 1, the Company was directed on April 17, 2002 to rerate those private passenger automobile policies during the scope of this examination due to a computer error caused by the application of incorrect point surcharge factors for points 1 through 6. Per Company estimate, refunds will go to approximately 3,369 insureds with an estimated total of \$120,000. The Company was requested to provide documentation of the refunds to the Florida Department of Insurance within ninety (90) days of the receipt of this examination report. Exhibit I.

CORRECTIVE ACTIONS

Private Passenger Automobile – The Company is in violation of Section 627.0651, Florida Statutes, and is requested to correct the point surcharge factors applied to those policies surcharged for points 1 through 6. The Company should correct their computer program for this error and continually monitor computer performance.

Claims Review – The Company is in violation of Section 627.4137, Florida Statutes, and is requested to provide policy information within the required thirty (30) days.

Complaints Review – The Company is in violation of Section 626.9541 (1) (i) 3.c, Florida Statutes, and is requested to maintain a minimum 14-day diary necessary for prompt communication claim delays, specifically when requesting information or waiting for claimants responses.

The Company is requested to complete all corrective actions within ninety (90) days of the receipt of this examination report.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

PPA RERATE WITH COMPANY RESPONSE

I

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