

REPORT OF EXAMINATION
OF
ASPIRE GENERAL
INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

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Filed on January 7, 2022

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Los Angeles, California
December 16, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ASPIRE GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office is located at 8885 Haven Avenue, Suite 250, Rancho Cucamonga, California 91730.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covered the period January 1, 2017 through December 31, 2020.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company'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 includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the

examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

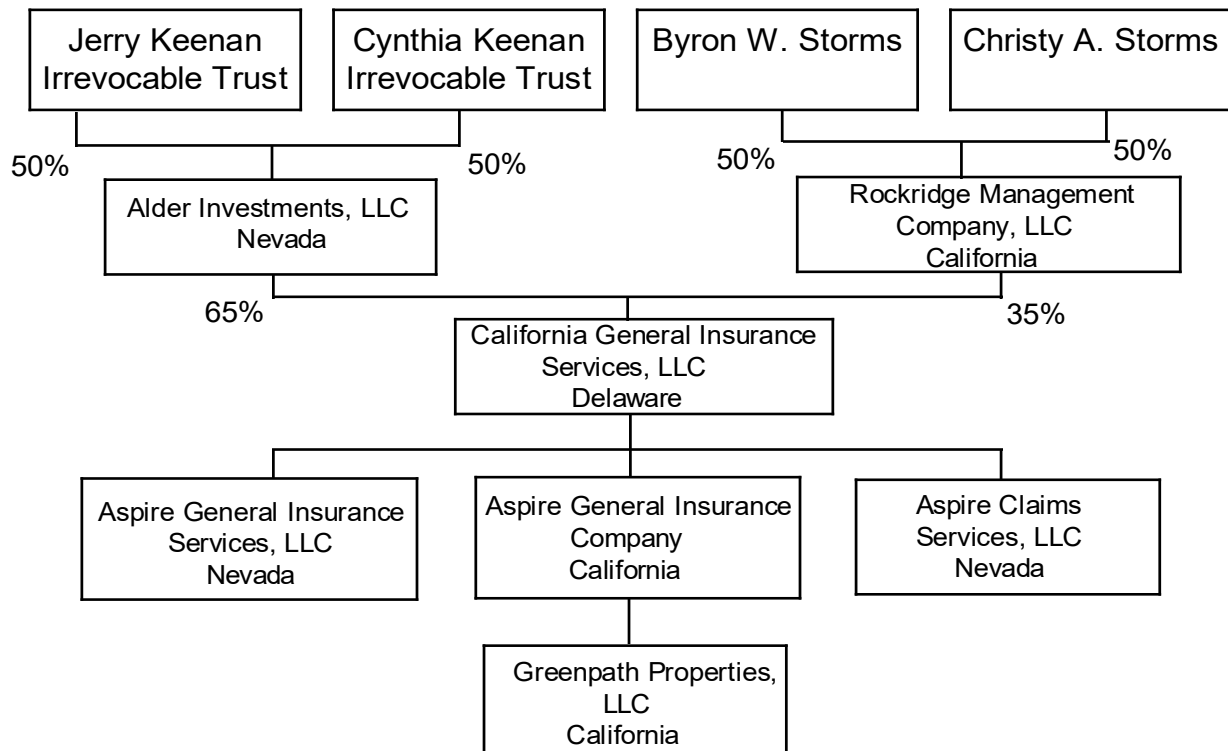
The Company, formerly known as Majestic Insurance Company (Majestic), a California domiciled property and insurance company, was incorporated under the laws of the State of California on March 17, 1980. Majestic was placed in conservation on April 21, 2011 by the California Department of Insurance (CDI). On May 31, 2013, California General Insurance Services, LLC purchased the corporate shell of Majestic, from the Conservation and Liquidation Office of the CDI, and renamed the Company to Greenpath Insurance Company. The Company changed its name to Aspire General Insurance Company on March 22, 2016.

Capitalization

The Company is authorized to issue 50,000 shares of common stock with a par value of \$75 per share as of December 31, 2020, there were 40,000 shares outstanding. In 2017, and 2019, the Company's ultimate parent, California General Insurance Services, LLC contributed \$500,000, and \$945,000 respectively in cash to the Company.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Alder Investment, LLC, a Nevada limited liability holding company, is the ultimate controlling party through its 65% ownership of California General Insurance Service, LLC (CGIS), and the direct parent of the Company. The following abridged organizational chart depicts the inter-relationship of the companies as of December 31, 2020 (all ownership is 100% unless otherwise noted):



The three members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2020:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Chandah M. Burton Sacramento, California	Chief Underwriting Officer Aspire General Insurance Company and Aspire General Insurance Company Services, LLC
Jerry L. Keenan Reno, Nevada	Trustee California General Insurance Services, LLC
Byron W. Storms Alta Loma, California	President and Chief Executive Officer California General Insurance Services, LLC

Principal Officers

<u>Name</u>	<u>Title</u>
Byron W. Storms Luane Teitelroit	Chief Executive Officer and President Chief Financial Officer, Vice President, and Treasurer
Chandah M. Burton	Chief Underwriting Officer and Secretary

Management Agreements

General Agency Agreement: Effective September 1, 2013, the Company entered into a General Agency Agreement with Aspire General Insurance Services, LLC (AGIS). Pursuant to the terms of the agreement, AGIS will solicit, accept, receive, bind, execute, issue and deliver policies on behalf of the Company, collect and remit premiums, account for premiums, provide all customer services and policy servicing function in connection with issuance of the Company's policies. The Company will compensate AGIS with 15.0% commission of direct written premium and 100.0% of any fees charged to the policyholders for the services provided. In 2015, this agreement was renegotiated multiple times. Effective December 19, 2017, the agreement was amended to stipulate that the sliding scale will include a downward adjustment to the commission of up to 2.0% of direct

written premium, should the combined ratio (net loss, loss adjusting expenses, and expenses) of the carrier exceed 100.0%. Effective November 1, 2020, the agreement was again revised to increase the commission rate to 15.5% from 13.5%, and to include a commission sliding scale range between 15.5% up to 21.5% in addition to the contingent 2.0% downward adjustment. The Company paid AGIS \$2,573,530, \$5,379,831, \$7,087,046, and \$15,827,506 in commission expense and \$3,358,988, \$6,516,048, \$8,588,748, and \$11,537,803 in service fees in 2017, 2018, 2019, and 2020, respectively.

Claims Administration Agreement: Effective January 1, 2013, the Company entered into a Claims Administration Agreement with Aspire Claims Service, LLC (ACS). Under the terms of the agreement, ACS will administer and adjust all claims in accordance with the terms and conditions of the issued policies. ACS will also perform all reasonable and necessary professional, administrative, and clerical work in connection with adjusting the claim. ACS will be compensated with a claim handling fee of 10.0% of the net earned premium.

Effective November 1, 2015, the agreement was amended to reduce the claims handling fee to 8.0% of net earned premium. This agreement was terminated, effective October 1, 2020, and the Company assumed all ACS's employees, vendors, and started to manage all claims handling functions in house. The Company paid \$1,451,261, \$2,803,382, \$4,017,623, and \$3,609,227, in service fees in 2017, 2018, 2019, and 2020, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled stock insurance company that primarily writes private passenger non-standard automobile liability and physical damage coverage under the brand names "Savings" and "Advantage". It also writes a small amount of commercial non-standard automobile business, namely Dealer's Contingent Liability and Physical Damage Insurance Program through automobile dealerships. Although it is licensed in

California and Texas it currently only writes in California through its affiliate, Aspire General Insurance Services, LLC and a network of independent insurance agents and brokers. Direct premium written during the examination period is as follows:

<u>Year</u>	<u>Direct Premium Written</u>
2017	\$ 21,451,891
2018	41,824,060
2019	55,491,415
2020	77,610,206

REINSURANCE

Assumed

In July 2014, the Company entered into a reinsurance agreement with Benchmark Insurance Company (Benchmark) wherein the Company assumes a 20.0% participation in a non-standard personal automobile insurance program that is underwritten and serviced by Aspire General Insurance Service, LLC. Effective January 1, 2015, the Company's participation was increased to 100.0%. The agreement with Benchmark was terminated, effective July 1, 2015, on a run-off basis. As of December 31, 2020, there are no policies inforce.

Ceded

The Company cedes 65.0% of its business on a quota share basis, with 40.0% ceded to General Reinsurance Company (Gen Re) and 25.0% ceded to Clear Spring Property and Casualty Company, authorized unaffiliated insurers. The Company also has an excess of loss treaty with Gen Re. The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2020:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Automobile Quota Share	General Reinsurance Corporation	\$30,000 (60.0% of \$50,000) each loss occurrence	\$20,000 (40.0% first \$50,000) each loss occurrence
Automobile Excess of Loss	General Reinsurance Corporation	\$100,000 of ultimate net loss, each loss occurrence	\$400,000 xs \$100,000 of ultimate net loss, each loss occurrence
Automobile Excess of Loss (Catastrophe)	General Reinsurance Corporation	First \$500,000 of ultimate net loss	\$500,000 of ultimate net loss in excess of \$500,000, not exceeding 100.0% of \$1 million for all loss events
Automobile Quota Share	Clear Spring Property and Casualty Company	\$37,500 (75.0% of \$50,000) each loss occurrence	\$12,500 (25.0% first \$50,000) each loss occurrence

ACCOUNTS AND RECORDS

Annual Statement Instructions

Pursuant to the National Association of Insurance Commissioners (NAIC) Annual Statements Instructions, Note to Financial Statements, 14D, Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the Company shall disclose the dollar amount paid (for the extra contractual and bad faith portion of the total claim amount) for claims related extra contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis. The Company's 2020 Annual Statement Note to Financial 14D was not prepared in accordance to the NAIC's Annual Statement Instructions and did not disclose the potential risk and/or uncertainties related to lawsuits in the manner or format required by the NAIC. The Company should compile its bad faith/extra contractual litigation settlements arising from claims and disclose it annually in the Notes to Financial Statements 14D. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2020

Underwriting and Investment Exhibit for the Year Ended December 31, 2020

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 5,150,734	\$	\$ 5,510,734	
Properties held for the production of income	3,153,590		3,153,590	
Cash and short-term investments	24,399,535		24,399,535	
Investment income due and accrued	52,314		52,314	
Premiums and agents' balances in course of collection	1,451,409	61,899	1,389,510	
Deferred premiums and agents' balance and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	18,567,124		18,567,124	
Amount recoverable from reinsurers	6,598,900		6,598,900	
Funds held by or deposited with reinsured companies	6,598,900		6,598,900	
Net deferred tax asset	548,295	893	547,402	
Furniture and equipment	14,544	14,544		
Receivable from parent, subsidiaries and affiliates	79,075		79,075	
Aggregate write-ins for other than invested assets	<u>733,237</u>	<u>674,300</u>	<u>58,937</u>	
Total assets	<u>\$ 60,848,757</u>	<u>\$ 751,636</u>	<u>\$ 60,097,121</u>	

Liabilities, Surplus and Other Funds

			<u>Notes</u>
Losses		\$ 7,026,821	(1)
Loss adjustment expenses		546,000	(1)
Commissions payable, contingent commissions and other similar charges		7,745,868	
Other expenses		645,931	
Taxes, licenses and fees		342,198	
Current federal and foreign income taxes		126,568	
Unearned premiums		8,444,763	
Ceded reinsurance premiums payable		21,196,055	
Payable to parent, subsidiaries and affiliates		28,874	
Payable for securities		100,000	
Aggregate write-ins for liabilities		<u>110,946</u>	
Total liabilities		46,314,024	
Common capital stock	\$ 3,000,000		
Gross paid-in and contributed surplus	10,511,540		
Unassigned funds (surplus)	<u>271,557</u>		
Surplus as regards policyholders		<u>\$ 13,783,097</u>	
Total liabilities, surplus and other funds		<u>\$ 60,097,121</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2020

Underwriting Income

Premiums earned		\$ 25,873,527
Deductions:		
Losses incurred	\$ 11,682,516	
Loss adjustment expenses incurred	2,005,907	
Other underwriting expenses incurred	9,749,599	
Total underwriting deductions		23,429,022
Net underwriting gain		2,444,505

Investment Income

Net investment income earned	\$ 170,604	
Net realized capital gains	16,179	
Net investment gain		186,783

Other income

Finance and service charges not included in premiums	4,873,918	
Aggregate write-ins for miscellaneous income	(4,873,918)	
Total other income		0
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		2,631,288
Federal and foreign income taxes incurred		632,465
Net Income		\$ 1,998,823

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2019		\$ 11,780,474
Net Income	\$ 1,998,823	
Change in net deferred income tax	86,119	
Change in nonadmitted assets	(82,320)	
Change in surplus as regards policyholders for the year		2,002,622
Surplus as regards policyholders, December 31, 2020		\$ 13,783,096

Reconciliation of Surplus as Regards Policyholders
from December 31, 2016 through December 31, 2020

Surplus as regards policyholders, December 31, 2016			\$ 8,272,969
	Gain in Surplus	Loss in Surplus	
Net income	\$ 4,739,078	\$	
Change in net deferred income tax		894,126	
Change in nonadmitted assets	220,175		
Surplus adjustments: Paid-in	<u>1,445,000</u>		
Total gains and losses	<u>\$ 6,404,253</u>	<u>\$ 894,126</u>	
Net increase in surplus as regards policyholders			<u>5,510,127</u>
Surplus as regards policyholders, December 31, 2020			<u>\$ 13,783,096</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2020, were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impact the U.S. and global financial markets, in particular, U.S. publicly traded equity securities, and impacts on yields and interest rates in the U.S. bond market. During the exam we reviewed COVID-19's impact on the Company's operations with no immediate solvency concerns noted. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance continues to closely monitor the impact of the pandemic on the Company and will necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records—Annual Statement Instructions (Page 7): It is recommended that the Company implement procedures to ensure compliance with the National Association of Insurance Commissioner’s Annual Statement Instructions.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

 Digitally signed by Lopez,
Bridget
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Bridget Lopez, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

 Digitally signed by Briggs,
Anjanette
Date: 2022.01.07 12:51:51
-08'00'

Anjanette Briggs, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California