

REPORT OF EXAMINATION
OF THE
ASPIRE GENERAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2023

Commissioners Signature

A handwritten signature in blue ink, appearing to be 'D. DeLa', is written over a horizontal line.

Filed on January 10, 2025

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Los Angeles, California
December 18, 2024

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). The Company's statutory 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, 2020. This examination covered the period from January 1, 2021 through December 31, 2023.

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. 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 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 will 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 is a California domiciled stock insurance company, wholly-owned by California General Insurance Services, LLC (CGIS). CGIS is 65% owned by Alder Investment LLC and 35% owned by the Cove Group, LLC. CGIS changed its name to Aspire General Holding Company, LLC on April 1, 2024.

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, 2023, there were 40,000 shares outstanding and held by CGIS.

During the examination period, the Company received cash capital contributions from CGIS as follows:

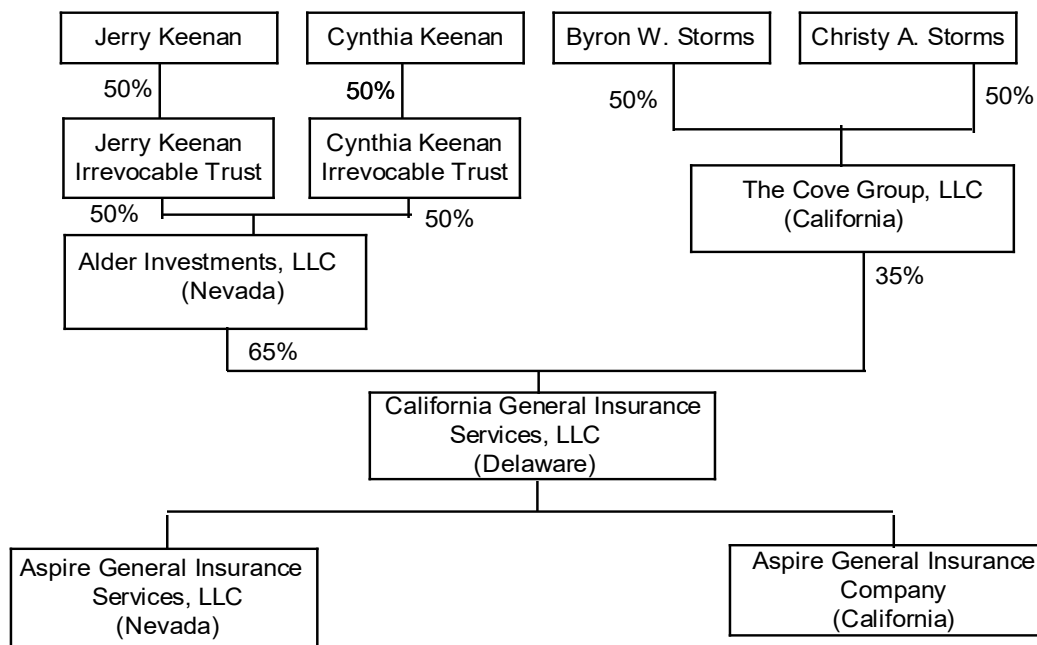
<u>Year</u>	<u>Amounts</u>
2021	\$ 1,000,000
2022	4,500,000
2023	20,000,000
2024*	44,100,000

*subsequent to the examination date of December 31, 2023

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of California General Insurance Services, LLC (CGIS). CGIS is 65% owned by Alder Investment LLC and 35% owned by the Cove Group, LLC. The Company is ultimately controlled by four individuals: Jerry Keenan, Cynthia Keenan, Byron W. Storms, and Christy A. Storms.

The following organizational chart depicts the inter-relationship of the companies as of December 31, 2023 (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, 2023:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Chandah M. Burton Sacramento, California	Chief Underwriting Officer Aspire General Insurance Company
Jerry L. Keenan Reno, Nevada	Trustee Aspire General Holding Company, LLC
Byron W. Storms Rancho Cucamonga, California	Chairman of the Board, President, and Chief Executive Officer Aspire General Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Byron W. Storms	President and Chief Executive Officer
Laune Teitelroitt	Chief Financial Officer and Treasurer
Chandah M. Burton	Chief Underwriting Officer and Secretary
Brad Hinkle	Chief Claims Officer

The following new principal officers were elected subsequent to the examination date:

- Tom Del Corso was elected Vice President of Claims effective January 2024.
- Jeff Faulkner was elected Vice President of Claims effective June 2024.

Management Agreements

General Agency Agreement: Effective November 1, 2015, 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, collect and remit premiums, account for premiums, provide all customer services and policy servicing functions in connection with the issuance of the Company's policies on behalf of the Company. The Company will compensate AGIS with a 15.5% commission on the direct written premiums and 100% of any fees charged to the policyholders for the services provided. The Agreement was approved by the California Department of Insurance (CDI) on September 19, 2016, as required under the California

Insurance Code (CIC) Section 1215.5(b)(4). Subsequent amendments to change the commission rate were made on October 26, 2017, November 15, 2017, November 30, 2017, December 19, 2017, December 31, 2018, and November 1, 2020. All amendments were approved by CDI as required by CIC Section 1215.5(b)(4). Effective August 1, 2024, the Agreement was again revised to update the commission rates on a sliding scale with a provisional rate of 15.5% of direct written premiums, subject to an increased commission rate up to a maximum of 18.9% depending on the net loss and loss adjustment expense ratio. The amendment was approved by the CDI on June 19, 2024, as required under CIC Section 1215.5(b)(4). The Company paid AGIS \$13,819,131, \$21,008,096, and \$49,363,765 in commission expenses and \$14,790,315, \$19,569,635, and \$53,199,445 in service fees in 2021, 2022, and 2023, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a licensed property and casualty insurer that writes private passenger non-standard automobile liability and physical damage coverage under the brand names “Savings” and “Advantage”. The Company started writing private passenger non-standard automobile policies in Arizona in 2023. The Company plans to expand into Colorado, Ohio, Oregon, and Washington in the next few years.

Although it is licensed in Arizona, California, and Texas, currently it writes 99.9% in California, mainly through its affiliate Aspire General Insurance Service, LLC and a network of independent insurance agents and brokers. Direct premiums written during the examination period is as follows:

Year	Direct Premium Written
2021	\$ 93,702,976
2022	141,269,022
2023	334,142,496

REINSURANCE

Assumed

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

Ceded

The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2023:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Automobile Excess of Loss (Catastrophe)	General Reinsurance Corporation (authorized)	First \$500,000 of ultimate net loss	100% of the amount of ultimate net loss in excess of \$500,000, but not exceeding the limit of liability of the reinsurer of 100% of the next \$2,500,000 of the ultimate net loss in excess of the Company retention; but not exceeding 100% of \$3,000,000 each loss occurrence
Automobile Quota Share	General Reinsurance Corporation (authorized)	50% of \$500,000 each loss occurrence	50% of \$500,000 each loss occurrence
Automobile Quota Share	Everspan Insurance Company (authorized)	90% of \$100,000 each loss occurrence	10% of \$100,000 each loss occurrence
Automobile Quota Share	Clear Spring Property and Casualty Company (authorized)	92.5% of \$100,000 each loss occurrence	7.5% of \$100,000 each loss occurrence
Automobile Quota Share	R.V.I. Guaranty Co., Ltd. (unauthorized)	97.5% of \$100,000 each loss occurrence	2.5% of \$100,000 each loss occurrence

ACCOUNTS AND RECORDS

Annual Statement Instructions

According to the National Association of Insurance Examiners (NAIC) Annual Statement Instructions, Notes to Financial Statements, Note 25, the Company should disclose the reasons for changes to incurred losses and loss adjustment expenses. The Company's 2022 and 2023 Annual Statement, Note 25 did not comply with the NAIC's Annual

Statement Instructions and the Company failed to disclose the reasons for the changes to incurred losses and loss adjustment expenses. It was recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions, Notes to Financial Statements, Note 25. Based on this recommendation, the Company's June 30, 2024 Quarterly Statement, Notes to Financial Statements, Note 25 properly disclosed the reason for changes made to incurred losses and loss adjustment expense.

In accordance with the NAIC Annual Statement Instructions, the meeting minutes of the board of directors should indicate that the Appointed Actuary has presented the Actuarial Opinion and Report to the board and identify the manner of presentation (e.g., webinar, in-person presentation, written). Although evidence was obtained of the Appointed Actuary's presentation to the board, the meeting minutes from 2021 to 2023 did not reflect this presentation or identify the manner of presentation. It is recommended that the Company implement procedures to ensure that the Appointed Actuary's presentation to the board of directors and the manner of the presentation are clearly indicated in the board minutes, in accordance with the NAIC Annual Statement Instructions.

Board Review and Approval of Investments

Based on the review of the board of directors meeting minutes for the period under examination, it was observed that the board's action regarding the authorization and approval of investments did not comply with the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The board did not enter the investment authorization or approval in the meeting minutes in accordance with CIC Section 1200. In addition, specific references to amounts, facts, and the value of the investments were not recorded in the minutes as required by CIC Section 1201. It was recommended that the Company implement procedures to ensure full compliance with CIC Sections 1200 and 1201. Based on this recommendation, the June 13, 2024 board meeting minutes documented the authorization and approval of its investment securities and specific references to amounts, facts, and the value of the investments in accordance with CIC Sections 1200 and 1201.

Corporate Records

CIC Section 735 requires that a designated officer of the Company inform the board of directors regarding the receipt of the report of examination and that the fact that such officer did so inform the members present be entered in the minutes of such meeting. The Company was not in compliance with CIC Section 735 because no entry was made in the meeting minutes of the board of directors noting that the members were informed about the receipt of the prior report of examination. It is recommended that the Company implement procedures to ensure compliance with CIC Section 735.

Custodian Agreement

CIC Section 1104.9(c) mandates that securities shall not be deposited in or with a qualified custodian, qualified depository, or qualified subcustodian except as authorized by an agreement between the insurer and the qualified custodian, if the agreement is satisfactory to and has been approved by the Commissioner. As a result of Principal Financial Group's acquisition of the trust and custody business from Wells Fargo Bank, effective February 22, 2022, Principal Bank became the custodial bank for the Company. The Company did not execute a new custodial agreement with Principal Bank to reflect the change. It was recommended that the Company enter into a new custodial agreement with Principal Bank and submit the custodial agreement to the California Department of Insurance for approval in accordance with CIC Section 1104.9(c). Based on this recommendation, and during the course of examination, the Company filed a newly executed custodian agreement with Principal Bank to comply with CIC 1104.9(c). The CDI approved this custodian agreement on August 8, 2024.

Insurance Holding Company System Annual Registration Statement (Form B) Filing Instructions

CIC Section 1215.4(b) requires, in part, that every insurer file a registration statement with the Commissioner on a form and in a format prescribed by the NAIC. According to the NAIC's Form B filing instructions, the Company should identify the Ultimate Control Person (UCP) in the insurance holding company system and provide specific information regarding the UCP. During the review of the Company's Form B filings for the period under examination, it was observed that the Company failed to identify all UCPs. Consequently, the financial statements of each UCP were not provided with the Form Bs submitted to the Commissioner, as required by the NAIC's Form B filing instructions. It is recommended that the Company identify all UCPs in its Form B and submit copies of the financial statements for each UCP to ensure compliance with CIC Section 1215.4(b) and the NAIC's Form B filing Instructions.

FINANCIAL STATEMENTS

The following financial 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, 2023. The accompanying comments to the amounts reported in the annual 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, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2020
through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 18,771,963	\$	\$ 18,771,963	
Cash, cash equivalents, and short-term investments	111,150,950		111,150,950	
Investment income due and accrued	284,657		284,657	
Uncollected premiums and agents' balances in the course of collection	10,056,941	201,187	9,855,754	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	84,837,150		84,837,150	
Amounts recoverable from reinsurers	26,266,000		26,266,000	
Net deferred tax asset	2,020,230		2,020,230	
Furniture and equipment	129,549	129,549	0	
Aggregate write-ins for other than invested assets	<u>1,277,633</u>	<u>1,048,962</u>	<u>228,671</u>	
Total assets	<u>\$ 254,795,074</u>	<u>\$ 1,379,698</u>	<u>\$ 253,415,376</u>	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 32,490,206	(1)
Loss adjustment expenses			7,254,138	(1)
Commissions payable, contingent commissions, and other similar charges			19,647,330	
Other expenses			2,111,921	
Taxes, licenses, and fees			3,966,423	
Current federal and foreign income taxes			68,392	
Unearned Premiums			34,225,882	
Payable for parent, subsidiaries, and affiliates			99,421	
Ceded reinsurance premiums payable			108,214,204	
Aggregate write-ins for liabilities			<u>228,671</u>	
Total liabilities			208,306,588	
Common capital stock	\$	3,000,000		
Gross paid-in and contributed surplus		36,011,540		
Unassigned funds (surplus)		<u>6,097,248</u>		
Surplus as regards policyholders			<u>45,108,788</u>	
Total liabilities, surplus, and other funds			<u>\$ 253,415,376</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Income Statement

Underwriting Income

Premium earned		\$ 103,610,604
Deductions:		
Losses incurred	\$ 55,839,602	
Loss adjustment expenses incurred	11,111,519	
Other underwriting expenses incurred	<u>33,096,339</u>	
Total underwriting deductions		<u>100,047,460</u>
Net underwriting gain		3,563,144

Investment Income

Net investment income earned	\$ 2,848,740	
Net realized capital gain	<u>9</u>	
Net investment gain		2,848,749

Other Income

Finance and service charges not included in premiums	\$ 24,060,911	
Aggregate write-ins for miscellaneous income: Service fee expense	<u>(24,060,911)</u>	
Total other income		<u>0</u>

Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	6,411,893	
Federal and foreign income taxes incurred	<u>2,104,486</u>	
Net income		<u>\$ 4,307,407</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		\$ 20,450,788
Net income	\$ 4,307,407	
Change in net deferred income tax	870,022	
Change in nonadmitted assets	(519,429)	
Surplus adjustments: Paid-in	<u>20,000,00</u>	
Change in surplus as regards policyholders for the year		<u>24,658,000</u>
Surplus as regards policyholders, December 31, 2023		<u>\$ 45,108,788</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2020 through December 31, 2023

Surplus as regards policyholders, December 31, 2020			\$ 13,783,096
	Gain in Surplus	Loss in Surplus	
Net income	\$ 4,981,820	\$	
Change in net deferred income tax	1,471,934		
Change in nonadmitted assets		628,062	
Surplus adjustment: Paid-in	<u>25,500,000</u>		
Total gains and losses	<u>\$ 31,953,754</u>	<u>\$ 628,062</u>	
Net increase in surplus as regards policyholders			<u>31,325,692</u>
Surplus as regards policyholders, December 31, 2023			<u>\$ 45,108,788</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis conducted by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2023, were found to be reasonably stated and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Annual Statement Instructions (Page 6): It is recommended that the Company implement procedures to ensure that the Appointed Actuary's presentation to the board of directors and manner of the presentation be indicated in the board minutes in accordance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

Accounts and Records – Corporate Records (Page 8): It is recommended that the Company institute procedures to ensure compliance with California insurance Code (CIC) Section 735.

Accounts and Records – Insurance Holding Company System Annual Registration Statement (Form B) Filings Instructions (Page 9): It is recommended that the Company identify all ultimate controlling persons (UCPs) in its Form B and submit copies of the financial statements for each UCP to ensure compliance with CIC Section 1215.4(b) and the NAIC's Form B filing Instructions.

Previous Report of Examination

Accounts and Records – Annual Statement Instructions (Notes to Financial Statement, Note 14D): It was recommended that the Company implement procedures to ensure compliance with the NAIC's Annual Statement Instructions. The Company has complied with this recommendation.

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,

Amy Voong, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Cuauhtemoc Beltran, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California