REPORT OF EXAMINATION

OF

ASPIRE GENERAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

Filed on June 28, 2018

<u>TABLE OF CONTENTS</u>

Los Angeles, California
June 22, 2018

Honorable Dave Jones
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) at its home office located at 8885 Haven Avenue, Rancho Cucamonga, California 91730.

## SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. This examination covered the period from May 31, 2013, the date which California General Insurance Services, LLC acquired Majestic Insurance Company as a corporate shell, through December 31, 2016.

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 may include 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, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes no significant 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.

This was a non-coordinated examination since the Company only writes premium in the state of California.

## COMPANY HISTORY

The Company, formerly known as Majestic Insurance Company (Majestic), a California domiciled property and casualty insurance company, was incorporated under the laws of the state of California on March 17, 1980. On January 15 , 2013, California General Insurance Services, LLC, (CGIS) submitted a Form A application, pursuant to California Insurance Code Section 1215.2 (d), to purchase the corporate shell of Majestic, in conservation, from the Conservation and Liquidation Office of the California Department of Insurance (CDI). The purchase price totaled $5,154,210 and consisted of the fair market value of the various state statutory deposits of $4,604,210, plus an additional $550,000 paid to the Conservator (which included $500,000 in transaction consideration and $50,000 in transaction expense reimbursement). The $550,000 is considered an intangible asset and is non-admitted for statutory reporting. The Form A application was approved by the CDI on April 29, 2013. The Company was renamed Greenpath Insurance Company. On August 29, 2013, the National Association of Insurance

Commissioners (NAIC) issued the Company a new NAIC Code to disassociate it from the former Majestic.

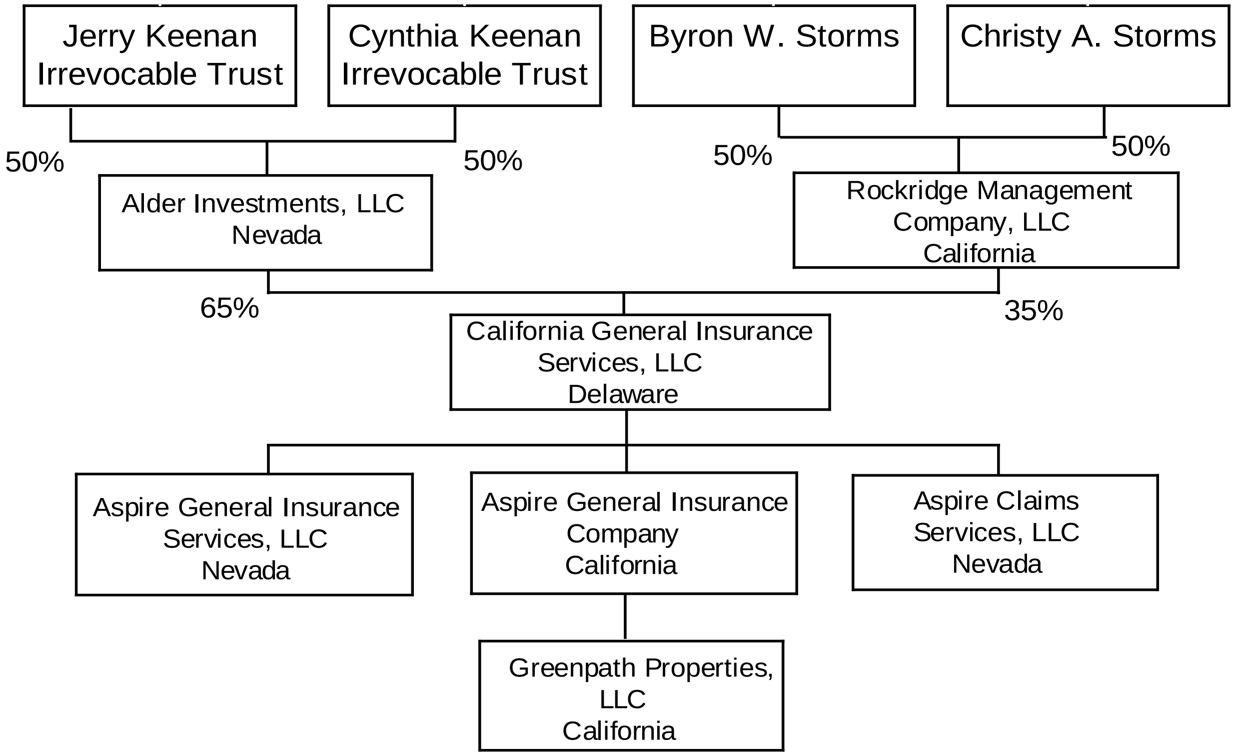
In conjunction with the purchase, CGIS contributed a total of $11,534,540 to the Company, which consisted of $7,764,540 in cash and a building with an appraised value of $3,770,000, which is occupied by the Company as its corporate office. Effective July 7, 2013, ownership of the building was transferred to Greenpath Properties, LLC, a wholly-owned subsidiary of the Company. On March 22, 2016, the Company changed its name from Greenpath Insurance Company to Aspire General Insurance Company.

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, 2016, there were 40,000 shares outstanding. On June 2, 2016, the Company's ultimate parent, California General Insurance Services, LLC (CGIS) contributed $500,000 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 person. The following organizational chart depicts the inter-relationship of the Company within the holding company system: (All ownership is 100%, unless noted otherwise).




The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2016:

Directors

| Name and Location | Principal Business Affiliation |
|---|---|
| Chandah M. Burton<br>Sacramento, California | Vice President of Operations<br>California General Insurance Services, LLC |
| Jerry L. Keenan<br>Reno, Nevada | Trustee<br>California General Insurance Services, LLC |
| Byron W. Storms<br>Alta Loma, California | Chief Executive Officer and President<br>California General Insurance Services, LLC |

Principal Officers

| Name | Title |
| --- | --- |
| Byron W. Storms | Chief Executive Officer and President |
| Chandah M. Burton | Vice President of Operations and Secretary |
| Arthur A. Terner(*) | Chief Financial Officer, Vice President, and Treasurer |

The following changes in management occurred subsequent to the examination date:
(*) Arthur A. Terner resigned on January 6, 2017 and was replaced by Luane Teitelroit.

Management Agreements

General Agency Agreement: Effective September 1, 2013, the Company entered into a General Agency Agreement (the agreement) with its affiliate, Aspire General Insurance Services, LLC (AGIS), formerly known as Sierra Holdings Group, LLC. 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 pay AGIS a 15% commission on direct written premium, and 100% of any fees charged to the policyholders for the services provided. This agreement was approved by the California Department of Insurance (CDI) on April 29, 2013 as part of the Form A application, pursuant to California Insurance Code Section 1215.2 (d).

Effective July 1, 2014, the agreement was amended to reflect an expense sharing arrangement in which all direct and indirect costs incurred will be allocated in accordance with Statement of Statutory Accounting Principle No. 70. Then on January 1, 2015, the agreement was amended to increase the commission rate to 19% of direct written premium and 50% of the service fees.

Effective November 1, 2015, the agreement was amended to reduce the commission rate from 19% to 13.5% of direct written premium and 100% of the service fees. The provisional commission rate adjusts annually in accordance with the net loss and loss adjustment expense ratio of each calendar year. The amended agreement was approved by the California Department of Insurance (CDI) on September 19, 2016. The Company paid $11,864, $441,274, $1,635,056, and $1,679,814 in commission expense and $1,664, $54,272, $536,334, and $1,954,951 in service fees in 2013, 2014, 2015, and 2016, respectively, for the services produced under the terms of the agreement.

Claims Administration Agreement: Effective January 1, 2013, the Company entered into a Claims Administration Agreement with its affiliate Aspire Claims Service, LLC (ACS), formerly known as PCS Claims Solutions, LLC. 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 claims. ACS will be compensated with a claim handling fee of 10% of net earned premium. This agreement was approved as part of the Form A application filing pursuant to California Insurance Code Section 1215.2 (d), as previously discussed in “COMPANY HISTORY” section on April 29, 2013.

Effective November 1, 2015, the Claims Administration Agreement was amended to reduce the claims handling fee to 8% of net earned premium. The amended agreement was approved by the CDI on January 12, 2016. The Company paid $142,200, $155,269, $773,030, and $929,128 in $2013, $2014, 2015, and 2016, respectively, for the services provided under the terms of the agreement.

## TERRITORY AND PLAN OF OPERATION

At the time of the purchase in 2013, the Company was authorized in seventeen states. During 2015, the Company voluntarily withdrew the Certificates of Authority in all states except California, Texas, and New Mexico. As of December 31, 2016, the Company had a withdrawal request pending with New Mexico.

The Company is authorized to write automobile, boiler and machinery, burglary, fire, liability, plate glass, and surety lines of business in the state of California. The Company writes non-standard private passenger automobile liability and physical damage policies in California through its affiliate, Aspire General Insurance Services, LLC and a network of independent insurance brokers. The Company began issuing policies in September, 2013. Direct premium written during the examination period, and subsequent, is as follows:

| Year | Direct Premium Written |
|---|---|
| 2013 | $ 79,094 |
| 2014 | 2,726,463 |
| 2015 | 8,970,831 |
| 2016 | 12,443,066 |
| 2017 | 21,451,891 |

## LOSS EXPERIENCE

The Company reported underwriting and net losses in all years under examination, including the subsequent year 2017, as follows:

| Year | Net Underwriting (Losses) | Net (Losses) |
|---|---|---|
| 2013 | $ (199,772) | $ (180,347) |
| 2014 | (1,667,445) | (1,331,419) |
| 2015 | (2,989,994) | (1,899,698) |
| 2016 | (964,881) | (950,453) |
| 2017 | (358,669) | (253,156) |

The losses sustained by the Company were primarily due to an increase in premiums written along with an above average expense ratio. The Company's surplus decreased by approximately $2.6 million as a result of the net losses for the years under examination. However, the Company’s net underwriting losses and net losses have been decreasing in the quarters subsequent to the examination date. The Company states its improved underwriting results is based on audits they have been performing for independent brokers with high loss ratios. Brokers who do not pass the Company's audit receives additional training from the marketing team. Brokers who do not improve will eventually be suspended or terminated.

To improve underwriting results, independent brokers with high loss ratios are audited. Brokers who do not pass the audit will receive additional training from the marketing team. Brokers who do not improve will eventually be suspended or terminated.

## REINSURANCE

### Assumed

In July 2014, the Company entered into a quota share reinsurance agreement with Benchmark Insurance Company, (Benchmark) wherein the Company assumes a 20% participation in a non-standard personal automobile insurance program that was underwritten and serviced by Sierra Holdings Group, LLC, now Aspire General Insurance Services, LLC. Effective January 1, 2015, the Company's participation was increased to 100%. Assumed premium written from the agreement with Benchmark totaled $40.6 thousand, $1.9 million, and $103.6 thousand in 2014, 2015, and 2016, respectively. Effective July 1, 2015, the agreement with Benchmark was terminated on a run-off basis.

### Ceded

The following is a summary of the ceded reinsurance treaties in-force as of December 31, 2016:

| Line of Business and Type of Contract | Reinsurer's Name | Company's Retention | Reinsurer's Limit |
|---|---|---|---|
| Automobile Quota Share | Maiden Re Authorized Unaffiliated Insurer | 50% of its net loss each loss occurrence on all business ceded | Loss per loss occurrence, not to exceed $25 thousand (50% of $50,000) per occurrence |
| Automobile Excess of Loss | Maiden Re Authorized Unaffiliated Insurer | First $50,0000 of ultimate net loss, for each loss occurrence | Ultimate net loss exceeds $50,000 each occurrence not to exceed $450,000 each occurrence |

As of December 31, 2016, reinsurance recoverable, on all paid and unpaid losses, unearned premiums, less contingent commissions totaled $4.5 million, or 55% of surplus as regards policyholders. All of the above ceded reinsurance recoverables were from authorized unaffiliated insurers.

## 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, 2016. The accompanying comments on financial statements reflect any examination adjustments or other comments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from May 31, 2013
through December 31, 2016

## Statement of Financial Condition
## as of December 31, 2016

| Assets | Ledger and Nonledger Assets | Assets Not Admitted | Net Admitted Assets | Notes |
|---|---|---|---|---|
| Bonds | $ 2,047,074 | $ | $ 2,047,074 | |
| Cash and short-term investments | 3,734,288 | | 3,734,288 | |
| Other invested assets | 3,899,738 | | 3,899,738 | (1) |
| Investment income due and accrued | 18,414 | | 18,414 | |
| Premiums and agents' balances in course of collection | 1,048,723 | 20,031 | 1,028,692 | |
| Premiums, agents' balances and installments booked but deferred and not yet due | 2,258,764 | | 2,258,764 | |
| Amount recoverable from reinsurers | 1,315,382 | | 1,315,382 | |
| Funds held by or deposited with reinsured companies | 364,000 | | 364,000 | |
| Net deferred tax asset | 1,442,421 | 361,833 | 1,080,588 | |
| Furniture and equipment | 6,465 | 6,465 | | |
| Receivable from parent, subsidiaries and affiliates | 157,621 | | 157,621 | |
| Aggregate write-ins for other than invested assets: | | | | |
| Intangible assets | 550,000 | 550,000 | | |
| Prepaids | 33,482 | 33,482 | 157,621 | |
| Total assets | $ 16,876,372 | $ 971,811 | $ 15,904,561 | |

| Liabilities, Surplus and Other Funds | | | Notes |
|---|---|---|---|
| Losses | | $ 2,410,186 | (2) |
| Loss adjustment expenses | | 221,000 | (2) |
| Commissions payable, contingent commissions and other similar charges | | 1,061,566 | |
| Other expenses | | 15,001 | |
| Taxes, licenses and fees | | 53,524 | |
| Unearned premiums | | 1,502,210 | |
| Ceded reinsurance premiums payable | | 2,363,000 | |
| Payable to parent, subsidiaries and affiliates | | 5,105 | |
| Total liabilities | | 7,631,592 | |
| Common capital stock | $ 3,000,000 | | |
| Gross paid-in and contributed surplus | 9,066,540 | | |
| Unassigned funds (surplus) | (3,793,571) | | |
| Surplus as regards policyholders | | 8,272,969 | |
| Total liabilities, surplus and other funds | | $ 15,904,561 | |

## Underwriting and Investment Exhibit
## for the Year Ended December 31, 2016

### Statement of Income

| | | |
|---|---|---|
| **Underwriting Income** | | |
| Premiums earned | | $ 5,867,756 |
| Deductions: | | |
| Losses | $ 5,005,304 | |
| Loss adjustment expenses incurred | 443,776 | |
| Other underwriting expenses incurred | 1,383,557 | |
| Total underwriting deductions | | 6,832,637 |
| Net underwriting loss | | (964,881) |
| **Investment Income** | | |
| Net investment income earned | $ 14,428 | |
| Net investment gain | | 14,428 |
| Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes | | (950,453) |
| Federal and foreign income taxes incurred | | 0 |
| Net loss | | $ (950,453) |

### Capital and Surplus Account

| | | |
|---|---|---|
| Surplus as regards policyholders, December 31, 2015 | | $ 8,553,184 |
| Net loss | $ (950,453) | |
| Change in net unrealized capital losses | (5,263) | |
| Change in net deferred income tax | 215,772 | |
| Change in nonadmitted assets | (40,271) | |
| Surplus adjustments: | | |
| Paid-in | 500,000 | |
| Change in surplus as regards policyholders for the year | | (280,215) |
| Surplus as regards policyholders, December 31, 2016 | | $ 8,272,969 |

## Reconciliation of Surplus as Regards Policyholders from May 31, 2013 through December 31, 2016

| | Gain in Surplus | Loss in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders, May 31, 2013 | | | $ 0 |
| Net loss | $ | $ 4,361,917 | |
| Net unrealized capital gains | 97,737 | | |
| Change in net deferred income tax | 1,442,420 | | |
| Change in nonadmitted assets | | 971,811 | |
| Capital changes: Paid-in | 3,000,000 | | |
| Surplus adjustments: Paid-in | 9,066,540 | | |
| Total gains and losses | $ 13,606,697 | $ 5,333,728 | |
| Net decrease in surplus as regards policyholders | | | 8,272,969 |
| Surplus as regards policyholders, December 31, 2016 | | | $ 8,272,969 |

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Other Invested Assets

This investment consisted of the Company's 100% ownership in Greenpath Properties, LLC, a California limited liability company created to hold the building occupied by the Company for its home office. As of December 31, 2016, the investment was classified as an other than invested assets (Schedule BA).

At September 30, 2017, this investment was reclassified as real estate (Schedule A) in accordance with Statement of Statutory Account Principle (SSAP) 40R, under property held for the production of income.

### (2) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2016, were found to be reasonably stated and have been accepted for purposes of this examination.

## SUBSEQUENT EVENTS

In May of 2017, the Company submitted a filing for a new commercial automobile program as part of its diversification strategy to begin in November 2017.

In November, 2017, the Company's withdrawal from New Mexico was approved.

On December 5, 2017, the Company's ultimate parent, California General Insurance Services, LLC, contributed another $500,000 in cash to the Company.

On December 19, 2017, the General Agency Agreement between the Company and its affiliate, Aspire General Insurance Services, LLC, was amended to reflect the changes in provisional commission rate of 11.5% to 19.5% to ensure the actual compensation more adequately aligns with the operational result of the Company. The amended agreement was approved by the CDI on December 20, 2017.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### 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,

_________/s/____________

Bridget Lopez, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_________/s/____________

Vivien Fan, CFE
Supervising Insurance Examiner
Department of Insurance
State of California