REPORT OF EXAMINATION
OF THE
COASTAL SELECT INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on February 4, 2020

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San Francisco, California
January 14, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

COASTAL SELECT INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1455 Oliver Road, Fairfield, California 94534.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2018.

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 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 coordinated examination with California as the lead state of the GeoVera Holdings, Inc., Group. It was conducted concurrently with other insurance entities in the holding company group, including GeoVera Insurance Company (California) and GeoVera Specialty Insurance Company (Delaware). The Delaware Department of Insurance participated on this examination.

COMPANY HISTORY

On August 31, 2017, the Company filed with the California Secretary of State a Certificate of Amendment to its Articles of Incorporation to increase the par value of its common stock from $100 to $200 per share. As of December 31, 2018, there were 1,000,000 shares of common stock authorized and 26,000 shares of common stock issued and outstanding.

During the examination period, the Company paid ordinary cash dividends of $10.9 million, $8.5 million, $0, $3.5 million, and $2.4 million to its parent, GeoVera Holdings, Inc. in 2015, 2016, 2017, 2018, and 2019, respectively.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which private equity investor Flexpoint Fund II (Cayman), L.P. is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2018 (all ownership is 100% unless otherwise noted):

- Flexpoint Fund II, L.P. (Cayman Islands) [78.19%]
- New Capital Partners II – GV, L.P. (Cayman Islands) [9.89%]
- Fundamental Insurance Investments, Ltd. (Bermuda) [9.89%]
- Members of GeoVera Insurance Holdings, Ltd. Senior Management [2.03%][1]
  - GeoVera Investment Group, Ltd. (Cayman Islands)
    - GeoVera Insurance Holdings, Ltd. (Bermuda)
      - GeoVera UK Holdings, Ltd. (United Kingdom)
        - GeoVera Luxembourg I S.a.r.l (Luxembourg)
        - GeoVera (Bermuda) Holdings, Ltd. (Bermuda)
          - GeoVera Reinsurance, Ltd. (Cayman Islands)
          - GeoVera Luxembourg II S.a.r.l (Luxembourg)
            - GeoVera Holdings, Inc. (Delaware)
              - GeoVera Specialty Insurance Company (Delaware)
              - GeoVera Advantage Insurance Services, Inc. (Delaware)
              - GeoVera Insurance Company (California)
              - **Coastal Select Insurance Company (California)**
                - 1455 Oliver Road LLC (California)

A four-member board of directors, elected annually, manages the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2018:

Directors

Name and Location	Principal Business Affiliation
Nesrin I. Basoz Benicia, California	Chief Underwriting Officer and Chief Risk Management Officer GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company
Robert B. Hagedorn Davis, California	Vice President and General Counsel and Assistant Secretary GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company
Vida D. Loya Fairfield, California	Accounting Director GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company
Thomas E. Hanzel Walnut Creek, California	Chief Administrative Officer and Treasurer GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company

Principal Officers

Name	Title
Kevin M. Nish	President and Chief Executive Officer
Karen M. Padovese	Executive Vice President, Chief Operations Officer, and Secretary
Brian T. Sheekey	Senior Vice President and Chief Financial Officer
Nesrin I. Basoz	Chief Underwriting Officer and Chief Risk Management Officer
Thomas E. Hanzel[a]	Chief Administrative Officer and Treasurer
Robert B. Hagedorn	Vice President and General Counsel

The following changes in management occurred subsequent to the examination date:

[(a)] Thomas E. Hanzel left the Company on February 22, 2019. Brian Conner was elected Treasurer effective October 21, 2019.

Management Agreements

Services Agreement: Effective November 1, 2005, the Company entered into a Services Agreement with its parent, GeoVera Holdings, Inc. (GVH) which was approved by the California Department of Insurance (CDI) on October 31, 2005 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). Under the terms of this agreement, GVH provides financial reporting, tax compliance, treasury services, budget and cost accounting, human resources, payroll, electronic fund transfer, investments, legal, office services, actuarial services, computer services, policy administration including claims administration, marketing and corporate affairs services, graphic arts, and other additional services to the Company as needed. As compensation for these services, the Company reimburses GVH at cost for all direct and allocable expenses, and overhead expenses paid by GVH on behalf of the Company.

Services Agreement: Effective October 3, 2014, the Company entered into a Services Agreement with GeoVera Advantage Insurance Services, Inc. (GVA) and was approved by the CDI on the same day pursuant to CIC Section 1215.5(b)(4). The Agreement is for administrative services provided to the Company in the admitted states of Alabama, Louisiana, and South Carolina. Under the terms of the agreement, GVA provides to the Company the following administrative services: financial reporting, tax compliance, treasury services, budget and cost accounting, human resources, payroll, electronic fund transfer, legal, office services, actuarial services, computer services, policy administration, marketing and corporate affairs services, graphic arts, and additional services. As consideration for the services, the Company reimburses GVA the amount determined in accordance with time allocations, expense sharing, and/or other appropriate methods of measurement.

Tax Sharing Agreement: The Company’s federal income tax return is filed on a consolidated basis with its parent company, GVH, and its affiliates, GeoVera Insurance Company (GVIC), GeoVera Speciality Insurance Company (GVSIC), and GeoVera

Advantage Insurance Services, Inc. pursuant to a Tax Sharing Agreement effective November 1, 2005, and was approved by the CDI on October 28, 2005 pursuant to CIC Section 1215.5(b)(4). Under this agreement, GVH will prepare and file a consolidated federal income tax return on behalf of the participants. The annual tax liability of the participants to the agreement is based on the participants' separate taxable income with credits for operating losses or other items used in the consolidated return. Each participant is required to pay its share of the consolidated tax liability to GVH no later than 40 days after the filing date of the consolidated federal income tax return.

Operating Agreement: On January 31, 2014, 1455 Oliver Road LLC (a California limited liability company) was formed as a joint venture between the Company, GVIC, and GVSIC for the purpose of purchasing the office building located at 1455 Oliver Road, Fairfield, California as the companies' new corporate headquarters. In conjunction with this transaction, the Company, GVIC, and GVSIC also entered into an Operating Agreement on February 28, 2014, whereby the Company is the manager of 1455 Oliver Road LLC. Effective March 21, 2014, the parties entered into a Second Amended Operating Agreement (Second Agreement) to reflect a revision to the ultimate purchase price of the property. This Second Agreement was approved by the CDI on May 6, 2015 pursuant to CIC Section 1215.5(b)(4). On August 5, 2015, an Addendum No. 1 was added to update the total capital contribution for the purchase and remodel of 1499 Oliver Road, Fairfield, California. On July 1, 2016, an Addendum No. 2 was added to reflect the transfer of GVIC's and GVSIC's membership interests in 1455 Oliver Road LLC to the Company, thereby making the Company the sole owner of 1455 Oliver Road LLC. Addendum 1 and Addendum 2 was approved by the CDI on February 3, 2016 and September 22, 2016, respectively, pursuant to CIC Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is licensed to transact property and casualty insurance business in Alabama, California, Hawaii, Louisiana, Massachusetts, New Jersey, Ohio, and South Carolina, and is a qualified and/or accredited reinsurer in Arizona and Maryland.

Direct premiums written during 2018 totaled $35.3 million and were written in South Carolina (27.7%), Hawaii (25.2%), California (24.9%), Alabama (22%), and Louisiana (0.2%). The Company's principal lines of business during 2018 were homeowners multiple peril (49.8%), allied lines (25.3%), earthquake (24.7%), and fire (0.2%).

The Company provides residential earthquake insurance products on an admitted basis in California; homeowner insurance products on an admitted basis in Alabama, Louisiana, and South Carolina; and named hurricane coverage in Hawaii. The Company's business is distributed through a network of independent brokers and agents plus direct channels.

The Company has no employees. The day-to-day operation of the Company is managed by GeoVera Holdings, Inc., and its employees in accordance with the aforementioned Services Agreement. The Company's home office is located in Fairfield, California. The Company also has a branch office in Sheboygan, Wisconsin, where certain information technology personnel are based, and a claims office in Tallahassee, Florida.

REINSURANCE

Intercompany Reinsurance Agreement

Effective December 31, 2017, GeoVera Insurance Company (GVIC), the Company, and GeoVera Specialty Insurance Company (GVSIC) entered into a Third Amended and Restated Intercompany Reinsurance Pooling Agreement. This agreement was approved by the California Department of Insurance (CDI) on December 27, 2017 pursuant to California Insurance Code (CIC) Section 1215.5(b)(3).

Under the terms of this Agreement, GVIC replaces the Company as the pool leader. The Company and GVSIC cede 100% of their net retained liabilities to GVIC after giving effect to the external reinsurance agreements and the quota share agreement with an affiliate, GeoVera Reinsurance Ltd (GeoVera Cayman). GVIC then cedes back to the participants a quota share of the adjusted net combined liability equal to their respective pool participation percentages as follows:

Pool Member	State of Domicile	Pooling Percentage
GeoVera Insurance Company (Pool Leader)	CA	36.5%
Coastal Select Insurance Company	CA	46.5%
GeoVera Specialty Insurance Company	DE	17.0%
		100.0%

Quota Share Reinsurance Agreement

The Company has a Quota Share Reinsurance Agreement (Agreement) with GeoVera Re Ltd. (GeoVera Bermuda) dated November 1, 2005. On March 1, 2014, the Agreement with GeoVera Bermuda was novated to an affiliate, GeoVera Reinsurance Ltd. (GeoVera Cayman). In conjunction with the novation, the Company also entered into a Trust Agreement with Brown Brothers Harriman Trust Company, LLC (BBH Trust Company) as Trustees to secure the obligations of GeoVera Cayman with respect to the Agreement. Under the terms of the agreement, the Company cedes a 60% quota share of its pre-pool business (net of external reinsurance) to GeoVera Cayman. The Company receives a 32.75% ceding commission on the business ceded under this agreement. The Agreement and Trust Agreement were approved by the CDI on February 28, 2014 pursuant to CIC Section 1215.5(b)(3).

Effective January 23, 2019, GeoVera Cayman changed the method for securing GeoVera Cayman’s obligations under the Agreement from the trust account to funds held. The fair value of assets equal to the GeoVera Cayman’s obligations as of December 31, 2018 was transferred to the funds held account of the Company. On May 14, 2019, the Trust Agreement between the Company, GeoVera Cayman and BBH Trust Company was terminated.

Effective March 1, 2019, the Company amended the Agreement to increase the ceding commission from 32.75% to 34.0%. The Agreement was approved by the CDI on September 3, 2019 pursuant to CIC Section 1215.5(b)(3).

Assumed

The Company has no assumed reinsurance during the examination period other than the business assumed under the Intercompany Reinsurance Pooling Agreement described above.

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2018:

Type of Contract	**Line(s) of Business**	**Reinsurer(s) and Participation**	**Company's Retention**	**Reinsurer's Limit**
Catastrophe Excess of Loss Underlying 1 Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Certified: Lloyd's of London – Various (35%) Unauthorized: Aeolus Re Ltd. (25%)	$15 million each loss occurrence	$10 million excess of $15 million each loss occurrence, $10 million in aggregate
Catastrophe Excess of Loss Underlying 2 Layer – First Event	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Unauthorized: Aeolus Re Ltd. (100%)	$25 million each loss occurrence	$25 million excess of $25 million each loss occurrence, $25 million in aggregate
Catastrophe Excess of Loss Underlying 2 Layer – Second Event	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Unauthorized: Aeolus Re Ltd. (100%)	$25 million each loss occurrence	$25 million excess of $25 million each loss occurrence, $25 million in aggregate
Catastrophe Excess of Loss First Layer	Personal Lines (including risks modeled as residential	Certified: Lloyd's of London – Various (19.75%) Other reinsurers (38.15%)	$50 million each loss occurrence	$25 million excess of $50 million each loss occurrence, $25 million in aggregate

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
	property), and Monoline Residential Earthquake coverage	Authorized: Various reinsurers (10%) Unauthorized: Various reinsurers (32.1%)		
Catastrophe Excess of Loss Second Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Certified: Lloyd's of London – Various (25.25%) Other reinsurers (28%) Authorized: Various reinsurers (34.25%) Unauthorized: Various reinsurers (12.5%)	$75 million each loss occurrence	$175 million excess of $75 million each loss occurrence, $175 million in aggregate
Catastrophe Excess of Loss Third Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Certified: Lloyd's of London – Various (25%) Other reinsurers (33.35%) Authorized: Various reinsurers (26.55%) Unauthorized: Various reinsurers (15.1%)	$250 million each loss occurrence	$250 million excess of $250 million each loss occurrence, $250 million in aggregate
Catastrophe Excess of Loss Fourth Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Certified: Lloyd's of London – Various (18.5%) Other reinsurers (48%) Authorized: Various reinsurers (15%) Unauthorized: Various reinsurers (18.5%)	$500 million each loss occurrence	$250 million excess of $500 million each loss occurrence, $250 million in aggregate
Catastrophe Excess of Loss Fifth Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential	Certified: Lloyd's of London – Various (12.15%) Other reinsurers (18%) Authorized: Various reinsurers (10.8%)	$750 million each loss occurrence	$300 million excess of $750 million each loss occurrence, $300 million in aggregate

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
	Earthquake coverage	Unauthorized: Various reinsurers (59.05%)		
Catastrophe Excess of Loss Sixth Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Certified: Renaissance Reinsurance Ltd. (37.5%) DaVinci Reinsurance Ltd. (12.5%) Authorized: Lancashire Insurance Company Limited (50%)	$1.05 billion each loss occurrence	$75 million excess of $1.05 billion each loss occurrence, $75 million in aggregate
Catastrophe Excess of Loss Seventh Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	Unauthorized: Aeolus Re Ltd. (100%)	$1.125 billion each loss occurrence	$75 million excess of $1.125 billion each loss occurrence, $75 million in aggregate

**Reinsurers will indemnify the Company for 100% of the loss arising from the Company's reinstatement premium calculation attributed to the First Layer, Second Layer, Third Layer, and Fourth Layer Catastrophe Excess of Loss Contracts, and Earthquake and Personal Lines Property Catastrophe Excess of Loss Reinsurance Contract.*

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, 2018. 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 financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2018

Underwriting and Investment Exhibit for the Year Ended December 31, 2018

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 72,580,585	$	$ 72,580,585	
Real Estate: Property occupied by the company	10,060,784		10,060,784	
Cash, cash equivalents, and short-term investments	15,210,495		15,210,495	
Receivables for securities	9,007		9,007	
Investment income due and accrued	362,903		362,903	
Uncollected premiums and agents' balances in the course of collection	2,957,097		2,957,097	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,251,390		2,251,390	
Amount recoverable from reinsurers	1,490,636		1,490,636	
Other amounts receivable under reinsurance contracts	593,249		593,249	
Net deferred tax asset	3,820,870	47,243	3,773,627	
Electronic data processing equipment and software	92,017		92,017	
Furniture and equipment	220,496	220,496	0	
Receivables from parent, subsidiaries and affiliates	210		210	
Aggregate write-ins for other than invested assets	209,868	55,188	154,680	
Total assets	$ 110,546,117	$ 322,927	$ 110,223,190	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 7,744,222	(1)
Reinsurance payable on paid loss and loss adjustment expenses		2,070,374	
Loss adjustment expenses		5,606,672	(1)
Commissions payable, contingent commissions and other similar charges		2,321,511	
Other expenses		148,239	
Taxes, licenses and fees		175,164	
Unearned premiums		34,930,317	
Advance premiums		827,486	
Ceded reinsurance premiums payable		7,572,242	
Payable for parent, subsidiaries and affiliates		1,431,920	
Payable for securities		922,086	
Aggregate write-ins for liabilities		8,715,430	
Total liabilities		72,465,663	
Common capital stock	$ 5,200,000		
Gross paid-in and contributed surplus	24,508,355		
Unassigned funds (surplus)	8,049,172		
Surplus as regards policyholders		$ 37,757,527	
Total liabilities, surplus and other funds		$ 110,223,190	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2018

Underwriting Income		
Premiums earned		$ 47,278,374
Deductions:		
Losses incurred	$ 18,538,856	
Loss adjustment expenses incurred	7,120,145	
Other underwriting expenses incurred	15,478,445	
Total underwriting deductions		41,137,446
Net underwriting loss		6,140,928
Investment Income		
Net investment income earned	$ 1,427,725	
Net realized capital losses	(14,319)	
Net investment gain		1,413,406
Other income		
Net loss from agents' or premium balances charged off	$ (79,963)	
Finance and service charges not included in premiums	253,429	
Aggregate write-ins for miscellaneous income	(7,015)	
Total other income		166,451
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		7,720,785
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		7,720,785
Federal and foreign income taxes incurred		1,760,683
Net income		$ 5,960,102

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		$ 35,158,711
Net income	$ 5,960,102	
Change in net deferred income tax	149,950	
Change in nonadmitted assets	4,635	
Dividends to stockholders	(3,515,871)	
Change in surplus as regards policyholders for the year		2,598,816
Surplus as regards policyholders, December 31, 2018		$ 37,757,527

Reconciliation of Surplus as Regards to Policyholders from December 31, 2014 through December 31, 2018

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2014			$ 42,255,198
Net income	$ 19,960,003	$	
Change in net unrealized capital gains	66,143		
Change in net deferred income tax		1,110,617	
Change in nonadmitted assets		308,005	
Cumulative effect of changes in accounting principles		167,827	
Capital change: Pain-in	2,600,000		
Surplus adjustment: Pain-in		2,600,000	
Total gains and losses	$ 22,626,146	$ 27,123,817	
Net decrease in surplus as regards policyholders			(4,497,671)
Surplus as regards policyholders, December 31, 2018			$ 37,757,527

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2018 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2018 were reasonable and have been accepted for purposes of this examination.

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/________________________

Allen Lau, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

___/S/________________________

Ber Vang, CFE, AES, CISA
Supervising Examiner
Department of Insurance
State of California