BEST'S RATING REPORT

Coastal Select Insurance Company

1455 Oliver Road, Fairfield, California, United States 94534

AMB #: 012042	**NAIC #:** 10887	**FEIN#:** 94-3266086
Phone: 415-591-7500	**Fax:** 415-591-7510	**Website:** N/A

Financial Strength Rating

A Excellent

Coastal Select Insurance Company

Disclosure Information: View A.M. Best's Rating Disclosure Form

Ultimate Parent: 059563 - Flexpoint Ultimate Management II (Cayman), Ltd.

A.M. Best Rating Unit: 088611 - GeoVera Insurance Group

Best's Credit Ratings:

Rating Effective Date: February 28, 2019

Best's Financial Strength Rating:	A	**Outlook:**	Stable	**Action:**	Affirmed
Best's Issuer Credit Rating:	a	**Outlook:**	Stable	**Action:**	Affirmed

Five Year Credit Rating History:

	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
Date	**Rating**	**Outlook**	**Action**	**Rating**	**Outlook**	**Action**
02/28/2019	A	Stable	Affirmed	a	Stable	Affirmed
01/31/2018	A	Stable	Affirmed	a	Stable	Affirmed
11/16/2016	A	Stable	Affirmed	a	Stable	Affirmed
06/05/2015	A	Stable	Affirmed	a	Stable	Affirmed
06/12/2014	A	Stable	Affirmed	a	Stable	Affirmed

Rating Rationale:

Coastal Select Insurance Company is a member of the GeoVera Insurance Group rating unit reflecting its overall strategic importance within the group, as demonstrated by the intercompany reinsurance arrangement between the affiliated group members.

The following text is derived from Best's Credit Report on GeoVera Insurance Group (AMB#088611)

Balance Sheet Strength: Very Strong

- The group's available capital is considered to be at the strongest level as measured by Best's Capital Adequacy Ratio (BCAR) score, although its surplus has generally declined since 2011 as profits considered as excess capital have been distributed to shareholders annually. Its quality of capital and asset/liability management (ALM) are also very strong.
- Given the nature of its business, GeoVera's balance sheet may be subject to higher than expected calls on capital and liquidity depending on catastrophic loss frequency and severity. The group has exposure to certain extreme "tail" events related to wind and earthquake.
- Management contributed $10 million of capital in the fourth quarter of 2017 to bolster capital in support of growth initiatives and to offset multiple catastrophic event losses experienced since September 2017.
- The group prudently preserves its balance sheet through guidelines to cover in excess of a 250-year modeled all perils event. The current multi-year program covers a modeled 275-year all peril event. AM Best considers its program appropriate for its given risk appetite.

Operating Performance: Strong

- Historical operating performance is strong and consistent. Prospective operating performance is expected to remain strong, including forecast catastrophe loads. Volatility of key metrics is relatively low to moderate.
- The group posted weaker than expected underwriting and operating results in both 2018 and 2017 due to abnormally high, but manageable, catastrophe activity.

- GeoVera has potentially higher than average earnings volatility given its significant property business orientation and its inherent risk exposure to catastrophes. "Normalized" earnings (absent severe changes in loss and frequency and severity) are expected to produce returns in line with shareholder expectations.
- Revenues are expected to stabilize in 2019 after expansion initiatives introduced in 2015 subside. Further scaling of the business should help lower the overall expense ratio, which is significantly higher than that of peers.
- While soft reinsurance pricing has been beneficial to GeoVera, high reinsurance dependence leaves the group somewhat susceptible to changes in reinsurance pricing and conditions.

Business Profile: Neutral

- The company is not a market leader but is viewed as competitive in chosen markets. It has some concentration and limited control of distribution. It has elevated product risk but a strong management team that has proven capable of managing severity and frequency of loss through its policy forms. Its use of technology is evolving, and its business spread of risk is adequate.
- The group focuses on underwriting catastrophe-exposed residential property risks, primarily in California, Florida, Texas, Louisiana, Washington, Alabama, South Carolina and Hawaii. The group's current mix of business is approximately 53% (of 2018 gross written premium) homeowners, 28% residential earthquake coverage, and 18% wind-only.
- Management is diversifying the group's business profile away from its prior concentration in California earthquake exposure through increased Washington and Oregon earthquake coverage, as well as southeastern homeowners insurance, and recent expansion into the Northeast through non-admitted offerings, while admitted products await approval. The company is also gaining acceptance of a single-peril wind product through national carrier partnerships and pricing granularity.
- GeoVera combines an established catastrophe-modeled and web-based quoting and binding system to ensure proper pricing with an extensive catastrophe reinsurance program to mitigate its exposure.

Enterprise Risk Management: Appropriate

- The insurer's ERM framework is well developed and/or appropriate given the size and complexity of its operations. Risk management capabilities are very good and are well aligned with the risk profile of the company.
- GeoVera's biggest individual risk is its susceptibility to a severe continental US hurricane event with surge. Combined all peril PMLs are high in the course of its normal business, but management has diversified its book to minimize correlation geographically and by products, and risks are further mitigated by a strong reinsurance program and favorable surplus position.
- The group's reinsurance strategy endeavors to preserve capital in excess of 250-year combined all perils VaR. Current market conditions and models in 2019 resulted in the purchase of 275-year combined all perils VaR coverage with retention decreasing to $19 million from $25 million. Individual, uncorrelated perils are covered for return periods of 500 to 1,000 years.
- GeoVera's underwriting, investment and market risks are readily manageable by its solid capital structure and highly experienced, knowledgeable, and hands-on senior management team.
- GeoVera has moderate to high underwriting risk, with its products in personal lines homeowners and earthquake coverages concentrated in California, Florida and Texas.

Outlook

The stable outlooks reflect AM Best's expectation that GeoVera will continue to maintain the strongest risk-adjusted capitalization as measured by BCAR, weighing dividends against its operating performance and prospective business planning in its capital management, while continuing to generate strong underwriting and operational results.

Rating Drivers

Positive rating action may result from improving risk-adjusted capitalization driven by continued solid operating performance that compares favorably with the group's composite of personal property companies and similarly rated entities.

Negative rating action may result from operating performance that falls materially short of AM Best's expectations.

Negative rating action may result from a significant deterioration in capital strength.

Financial Statements:

Balance Sheet:

Balance Sheet:

Admitted Assets	Year End - December 31			
	2017 ($000)	2016 ($000)	2017 (%)	2016 (%)
Bonds	61,822	22,739	58.4	19.2
Preferred Stock	...	...	...	...
Common Stock	...	...	...	...
Cash and Short-term Invest	16,678	5,052	15.7	4.3
Real Estate, Investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	7	16	...	...
Investments in Affiliates	...	...	...	...
Real Estate, Offices	10,307	9,365	9.7	7.9
Total Invested Assets	88,814	37,172	83.9	31.4
Premium Balances	9,447	20,683	8.9	17.5
Accrued Interest	248	73	0.2	0.1
All Other Assets	7,409	60,283	7.0	51.0
Total Assets	105,918	118,211	100.0	100.0

Liabilities & Surplus	Year End - December 31			
	2017 ($000)	2016 ($000)	2017 (%)	2016 (%)
Loss and LAE Reserves	11,033	9,048	10.4	7.7
Unearned Premiums	34,660	29,467	32.7	24.9
Derivatives	...	...	...	...
Conditional Reserve Funds	...	...	...	...
All Other Liabilities	25,066	42,964	23.7	36.3
Total Liabilities	70,759	81,479	66.8	68.9
Surplus notes	...	...	...	...
Capital and Assigned Surplus	29,708	29,708	28.0	25.1
Unassigned Surplus	5,450	7,023	5.1	5.9
Total Policyholders' Surplus	35,159	36,732	33.2	31.1
Total Liabilities and Surplus	105,918	118,211	100.0	100.0

Source: Bestlink - Best's Statement File - P/C, US

Company History:

Date Incorporated: 03/05/1997 **Date Commenced:** 02/20/1998 **Domicile:** United States: California

The company was incorporated in California on December 31, 1996 as Pacific Select Insurance Company, changed its name to Pacific Select Property Insurance Company on February 2, 1999 and commenced business on February 26, 1999. The present name of the company was changed on June 24, 2014. The company offers residential earthquake products on an admitted basis in California.

Company Management:

Last significant update on 04/23/2019

Officers

President: Kevin Nish
Chief Underwriting Officer and Chief Risk Officer: Nesrin Basoz
SVP and CFO: Brian Sheekey
SVP, Secretary and Chief Operations Officer: Karen Padovese
Vice President and General Counsel: Robert Hagedorn
Director: Vida Loya (Accounting)

Directors

Nesrin Basoz
Robert Hagedorn
Vida Loya

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