



**REPORT ON EXAMINATION
OF
COALITION INSURANCE COMPANY**

AS OF DECEMBER 31, 2022

**EXAMINER:
DATE OF REPORT:**

**KAREN GARD, CFE
JANUARY 19, 2024**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

January 19, 2024

Honorable Adrienne A. Harris
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32560 dated July 18, 2023, attached hereto, I have made an examination into the condition and affairs of Coalition Insurance Company as of December 31, 2022, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Coalition Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Coalition Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2017. This examination covered the five-year period from January 1, 2018 through December 31, 2022. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Coalition Insurance Company was incorporated under the laws of the State of New York on September 17, 1986, as the Nordstern Insurance Company of America. It became licensed on February 9, 1987 and commenced business on that same date.

In 1997, the Company was acquired by AXA, a societe anonyme organized under the laws of France. In October 1998, the Company's name was changed to AXA Nordstern Art Insurance Corp. In April 2001, its name was changed to AXA Art Insurance Corporation. The Company specialized in writing inland marine and related business.

On January 1, 2014, the Company stopped writing U.S. business and sold the rights to renew its policies to an affiliate.

On April 1, 2017, the Canadian operations of the Company were transferred to an affiliate via an assumption reinsurance and business transfer agreement. As of December 31, 2017, the Company was effectively a shell.

On July 31, 2018, the Company was acquired by Munich Re Digital Partners US Holdings Corporation ("MRDP"). In December 2018, its name was changed to Digital Affect Insurance Company. MRDP never activated its plan for the Company and left it in an inactive status.

On August 4, 2022, the Company was acquired by Coalition, Inc. Its current title was adopted on August 26, 2022.

Subsequent to the examination date, in March 2023, the Company resumed underwriting operations as a writer of cyber liability and technology errors and omissions coverage.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than ten members.

At December 31, 2022, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Nicholas Aeppel New Haven, Connecticut	Head of Special Projects, Coalition, Inc.
John Hering Los Angeles, California	Director, Coalition Insurance Company
John Littzi New York, New York	General Counsel and Secretary, Coalition, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joshua Motta Los Angeles, California	Chief Executive Officer, Coalition, Inc.
Shawn Ram Elk Ridge, Utah	Vice President, Coalition Insurance Company
Dovid Tkatch Englewood, New Jersey	Head of Insurance and Actuarial Science, Coalition, Inc.
James Young Greenwich, Connecticut	Chief Financial Officer and Treasurer, Coalition, Inc.

As of December 31, 2022, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joshua Motta	President
John Littzi	Secretary
James Young	Treasurer
Peter Joy	Assistant Secretary
Nicholas Aeppel	Vice President
Shawn Ram	Vice President
Beth Levy	Vice President
Dovid Tkatch	Vice President

B. Territory and Plan of Operation

As of December 31, 2022, the Company was licensed to write business in all 50 states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision

<u>Paragraph</u>	<u>Line of Business</u>
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended). In addition, the Company is licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,100,000.

The Company did not write or assume business during the examination period.

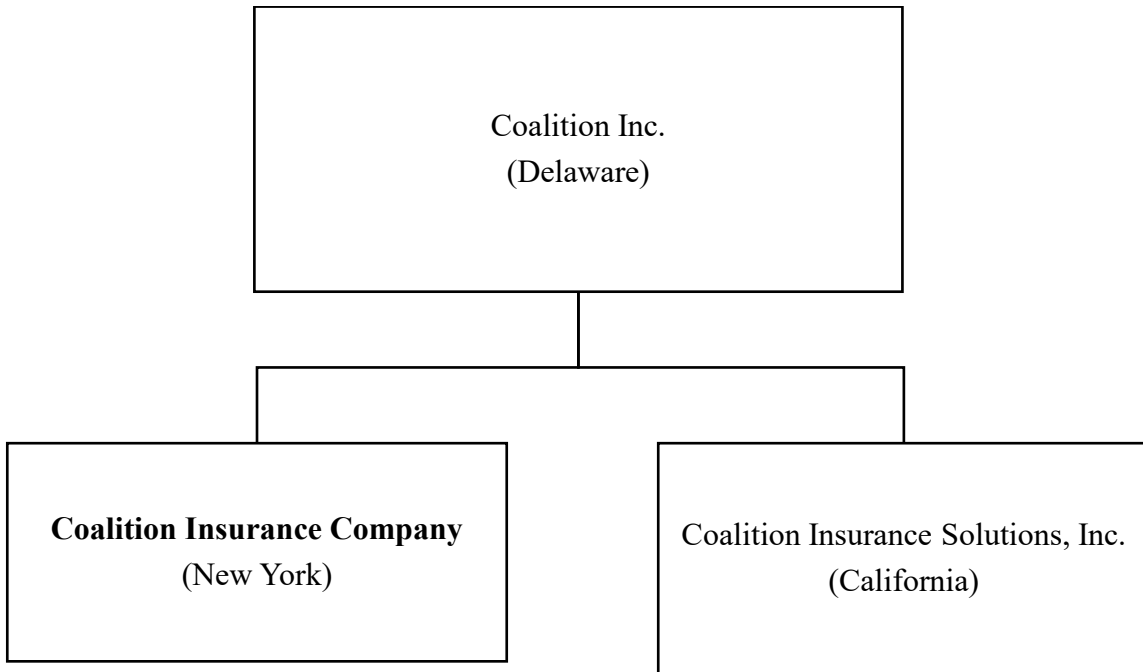
C. Holding Company System

The Company is a wholly-owned subsidiary of Coalition Inc. ("Coalition"), a Delaware corporation. Coalition was founded in 2017 and is an active insurance provider designed to help businesses manage and mitigate digital risks by providing threat intelligence, automated security alerts, expert guidance, and cyber security tools. It provides active insurance products in the U.S., Canada, and the United Kingdom, through relationships with global insurers. Coalition acquired the Company to provide cyber capacity via an admitted carrier. Prior to the acquisition, Coalition Insurance Solutions, Inc. ("CIS"), an affiliated managing general agent, was licensed to produce the coverage in New York on behalf of an insurance company in the Swiss Re Group. After Coalition acquired the Company, subsequent to the examination date, CIS began producing the coverage for the benefit of the Company.

As of December 31, 2022, the Coalition Inc. Group consisted of ten wholly owned direct subsidiaries (comprised of both domestic and international entities) and 3 indirect subsidiaries of Coalition.

As of the examination date, the Company had not entered into any transactions within its holding company system.

The following is an abridged chart of the holding company system at December 31, 2022:



3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2022, as reported by the Company:

<u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$42,347,884
Cash, cash equivalents and short-term investments	7,704,890
Investment income due and accrued	<u>247,002</u>
Total assets	<u>\$50,299,776</u>
 <u>Liabilities, Surplus and Other Funds</u>	
<u>Liabilities</u>	
Losses and Loss Adjustment Expenses	\$ 0
Other expenses (excluding taxes, licenses and fees)	102,248
Taxes, licenses and fees (excluding federal and foreign income taxes)	<u>45,000</u>
Total liabilities	<u>\$ 147,248</u>
 <u>Surplus and Other Funds</u>	
Common capital stock	\$ 3,000,001
Gross paid in and contributed surplus	43,931,809
Unassigned funds (surplus)	<u>3,220,718</u>
Surplus as regards policyholders	<u>\$50,152,528</u>
Total liabilities, surplus and other funds	<u>\$50,299,776</u>

Note: The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net loss for the examination period as reported by the Company was \$1,399,614, as detailed below:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$	0	
Other underwriting expenses incurred		<u>2,889,029</u>	
Total underwriting deductions			<u>2,889,029</u>
Net underwriting gain or (loss)			\$(2,889,029)

Investment Income

Net investment income earned	\$	926,909	
Net realized capital gain or (loss)		<u>(248,991)</u>	
Net investment gain or (loss)			<u>677,918</u>
Net income before dividends to policyholders and before federal and foreign income taxes			\$(2,211,111)
Dividends to policyholders			<u>0</u>
Net income after dividends to policyholders and before federal and foreign income taxes			\$(2,211,111)
Federal and foreign income taxes incurred			<u>(811,497)</u>
Net income (loss)			<u>\$(1,399,614)</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$39,332,256 during the five-year examination period January 1, 2018 through December 31, 2022, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2017			\$10,820,269
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$1,399,614	
Change in net unrealized foreign exchange capital gain (loss)	\$ 237,949		
Change in net deferred income tax	1,882,296		
Surplus adjustments paid in	39,000,000		
Dividends to stockholders	<u>0</u>	<u>388,375</u>	
Total gains and losses	\$41,120,245	\$1,787,989	
Net increase (decrease) in surplus			<u>39,332,256</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2022			<u>\$50,152,525</u>

Capital paid in is \$3,000,001 consisting of 2,332 shares of \$1,286.45 par value per share common stock. Gross paid in and contributed surplus is \$43,931,810. During the examination period, gross paid in and contributed surplus increased by \$39,000,000. Pursuant to the terms of the acquisition approval, on August 18, 2022, Coalition injected \$39,000,000 into the Company to bring the Company's surplus to at least \$50,000,000.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2022, the Company reported \$0 for loss or loss adjustment expense reserves. This is consistent with the Company's lack of underwriting activity since its acquisition by Coalition.

5. SUBSEQUENT EVENTS

In March 2023, the Company started writing cyber liability policies (other liability-claims made). On March 6, 2023, the Company entered into the following agreements with its affiliates:

- Program Administrator Agreement (the “PAA”) with CIS, wherein the Company appoints CIS as its program administrator with the right to bind and underwrite business as specified in the Company’s underwriting guidelines. This agreement was amended, effective March 6, 2023, to provide that premiums collected by CIS are to be remitted to the Company on a monthly basis.
- Claims Services Agreement (“CSA”) with CIS, wherein the Company appoints CIS as the service provider for claim handling with respect to insurance policies issued under the PAA. This agreement was amended, effective March 6, 2023, to modify specified services; and,
- Employee Leasing Agreement (the “ELA”) with Coalition, wherein the Company appoints Coalition as the provider of day-to-day services, including but not limited to managerial, supervisory, general administrative, and back office support services.

All agreements and amendments were submitted to the Department pursuant to Section 1505 of the New York Insurance Law.

Prior to writings, the Company entered into a quota share reinsurance agreement with Ferian Re Ltd. (“Ferian Re”), an unauthorized reinsurer based in Bermuda, effective March 9, 2023. The reinsurance agreement with Ferian Re starts at 75% quota share and decreases (down to a minimum of 45%) as the Company enters into reinsurance agreements with other reinsurers. Effective June 21, 2023, a trust was established by Ferian Re for the benefit of the Company to hold collateral for the ceded business. The initial deposit into the trust was \$5.1 million. The trust account was reviewed for compliance with Department Regulation 114. No exceptions were noted.

Effective June 1, 2023, the Company entered into a 5% quota share reinsurance agreement with MS Amlin AG, an authorized reinsurer based in Switzerland. This agreement lowered the quota share with Ferian Re from 75% to 70%, effective June 1, 2023.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

_____/S/_____
Karen Gard, CFE
Examiner-in-Charge

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Karen Gard, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/_____
Karen Gard

Subscribed and sworn to before me

this _____ day of _____, 2024.

APPOINTMENT NO. 32560

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Karen Gard

as a proper person to examine the affairs of the

Coalition Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 18th day of July, 2023

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

