

# BEST'S RATING REPORT



## Palomar Specialty Insurance Company

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# Palomar Specialty Insurance Company

**Disclosure Information:** View A.M. Best's [Rating Disclosure Form](#)

**Ultimate Parent:** [033566 - Palomar Holdings, Inc.](#)

**A.M. Best Rating Unit:** [033566 - Palomar Holdings, Inc.](#)

## Best's Credit Ratings:

Rating Effective Date: April 18, 2019

<b>Best's Financial Strength Rating:</b>	A-	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	a-	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed

## Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
04/18/2019	A-	Stable	Affirmed	a-	Stable	Affirmed
02/26/2019	A-	Stable	Affirmed	a-	Stable	Affirmed
02/07/2018	A-	Stable	Affirmed	a-	Stable	Affirmed
02/15/2017	A-	Stable	Affirmed	a-	Stable	Affirmed
01/21/2016	A-	Stable	Affirmed	a-	Stable	Affirmed
01/08/2015	A-	Stable	Affirmed	a-	Stable	Affirmed

## Rating Rationale:

Palomar Specialty Insurance Company is the lead member of Palomar Holdings, Inc.'s rating unit and it plays a key role in the group's operations. This is further supported by common ownership and common management.

The following text is derived from Best's Credit Report on Palomar Holdings, Inc. (AMB#033566)

### Balance Sheet Strength: Very Strong

- Palomar Holdings, Inc., maintains the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR level.
- Quick, current and overall liquidity ratios exceed its industry composite average.
- Loss reserve development has been favorable in all calendar and accident years, and reserve leverage is significantly lower than industry norms.
- Significantly dependent on catastrophe reinsurance coverage for surplus protection.

### Operating Performance: Adequate

- Palomar Holdings, Inc., has produced solid operating earnings in recent years, despite the impact of Texas catastrophe losses.
- Operating earnings were tempered in 2016 and 2017 due to weather-related catastrophe losses.
- The group transitioned its Texas homeowners book to a fronted program on June 1, 2018, in which no net risk is retained.
- In 2018, the group has produced strong operating performance with net income of \$18.3 million, even with a full retention loss from Hurricane Florence.

- The Texas homeowners book produced strong results for the first five months of 2018, while the group was still on the risk.

## Business Profile: Limited

- Palomar Holdings, Inc., writes primarily California earthquake and Texas windstorm coverages.
- The group entered into a fronting agreement effective June 1, 2018, with all Texas windstorm business ceded to third-party reinsurers.
- Management has local market expertise in the California earthquake segment.
- The group has business concentration as primarily a California earthquake writer.
- Business partners include program administrators, wholesalers, retail agents and other insurance companies.

## Enterprise Risk Management: Appropriate

- Palomar Holdings, Inc., employs a conservative risk management philosophy.
- The group has a formalized ERM framework that includes risk identification and reporting, risk appetite and tolerances, risk management and controls, stress testing and corporate governance.
- Palomar Holdings, Inc.'s risk profile is appropriately matched against management's capabilities.
- The group utilizes probabilistic modeling and deterministic modeling of historical events to determine the adequacy of its reinsurance coverage.
- Catastrophe and quota share reinsurance contracts help to mitigate Palomar Holdings, Inc.'s risk; however, there is significant tail risk as reflected in the BCAR at the 99.8% VaR level.

## Outlook

The stable outlooks reflect the group's balance sheet assessment of Very Strong, improved earnings in recent years and management's experience in the residential and commercial earthquake markets.

## Rating Drivers

The ratings and/or outlooks could be negatively impacted by unexpectedly large losses that would materially impact risk-adjusted capitalization.

Deterioration in operating performance could result in negative rating pressure.

## Financial Statements:

### Balance Sheet:

### Balance Sheet:

Admitted Assets	Year End - December 31			
	2018 (\$000)	2017 (\$000)	2018 (%)	2017 (%)
Bonds	102,431	88,734	67.2	64.6
Preferred Stock	...	...	...	...
Common Stock	19,434	21,207	12.8	15.4
Cash and Short-term Invest	6,919	9,531	4.5	6.9
Real Estate, Investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	...	250	...	0.2
Investments in Affiliates	...	...	...	...
Real Estate, Offices	...	...	...	...
<b>Total Invested Assets</b>	<b>128,784</b>	<b>119,722</b>	<b>84.5</b>	<b>87.1</b>
Premium Balances	17,929	14,633	11.8	10.6
Accrued Interest	613	702	0.4	0.5
All Other Assets	5,085	2,351	3.3	1.7
<b>Total Assets</b>	<b>152,411</b>	<b>137,409</b>	<b>100.0</b>	<b>100.0</b>
<b>Liabilities &amp; Surplus</b>	<b>Year End - December 31</b>			
	<b>2018 (\$000)</b>	<b>2017 (\$000)</b>	<b>2018 (%)</b>	<b>2017 (%)</b>
Loss and LAE Reserves	4,165	4,432	2.7	3.2
Unearned Premiums	45,152	58,801	29.6	42.8
Derivatives	...	...	...	...
Conditional Reserve Funds	597	699	0.4	0.5
All Other Liabilities	38,767	12,105	25.4	8.8
<b>Total Liabilities</b>	<b>88,681</b>	<b>76,036</b>	<b>58.2</b>	<b>55.3</b>
Surplus notes	...	17,500	...	12.7
Capital and Assigned Surplus	65,310	47,310	42.9	34.4
Unassigned Surplus	-1,579	-3,437	-1.0	-2.5
<b>Total Policyholders' Surplus</b>	<b>63,731</b>	<b>61,372</b>	<b>41.8</b>	<b>44.7</b>
<b>Total Liabilities and Surplus</b>	<b>152,411</b>	<b>137,409</b>	<b>100.0</b>	<b>100.0</b>

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

## Company Management:

Last significant update on 03/28/2019

Palomar Insurance Holdings, Inc. (PIH) (formerly known as Cottage Insurance Holdings, Inc.) owns 100% of Palomar Specialty Insurance Company through common stock.

The principals of Palomar Specialty and Genstar Capital Management LLC committed \$75.0M of equity capital to the creation of Palomar Specialty.

Palomar Specialty is led by David "Mac" Armstrong, the former President and COO of Arrowhead General Insurance Agency, one of the largest program administrators in the P&C segment. Management and Genstar have developed a business plan that incorporates moderate growth and considerable reinsurance to endure catastrophic events and capitalize on opportunities post-event.

In early 2014, PIH acquired Northwestern Pacific Indemnity Company, an Oregon shell insurance company with active licenses in 7 states, from The Chubb Corporation.

## Officers

**President:** David M. Armstrong

**EVP and Secretary:** Heath A. Fisher

**SVP and Treasurer:** Elizabeth W. Seitz (Finance & Accounting)

**Vice President:** Jon M. Christianson

**Vice President:** Andrew T. Robinson

## Directors

David M. Armstrong (Chairman)

James R. Clark

Francis K. Lee

Cameron K. Martin

Geoffrey I. Miller

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