

STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES
DIVISION OF FINANCIAL
REGULATION



REPORT OF FINANCIAL EXAMINATION
OF
PALOMAR SPECIALTY INSURANCE COMPANY
PORTLAND, OREGON
AS OF
DECEMBER 31, 2020

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DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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OF

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NAIC COMPANY CODE 20338

AS OF

DECEMBER 31, 2020

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SALUTATION

December 14, 2021

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**PALOMAR SPECIALTY INSURANCE COMPANY
1050 SW 6th Avenue, Suite 1100
Portland, Oregon 97204**

NAIC Company Code 20338

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our regular, multi-state, full-scope coordinated group examination of Palomar Specialty Insurance Company. The last examination of this property and casualty insurer was completed as of December 31, 2015. This examination covers the period of January 1, 2016, to December 31, 2020.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company 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 significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary

information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was initially formed by Pacific Indemnity Company and incorporated under the laws of the state of Oregon on February 14, 1963, as Northwestern Pacific Indemnity Company. The original Certificate of Authority was issued by the Oregon Insurance Division on March 1, 1963. On December 11, 2013, the Oregon Division of Financial Regulation approved a Form A - Change of Control filing and the Company was sold to Palomar Insurance Holdings, Inc. Concurrently, the Company's name was changed to Palomar Specialty Insurance Company.

Capitalization

The Company's capitalization consists of 100,000 shares of common stock authorized, issued and outstanding with a par value of \$50 per share. The parent entity owns all outstanding shares. During the period under examination, the parent made capital and surplus contributions to the Company, as follows:

	<u>Capital</u>	<u>Paid In Surplus</u>	<u>Surplus Notes</u>
Prior Exam	\$ 3,000,000	\$ 44,309,639	\$ 17,500,000
2018	-	18,000,000	(17,500,000)
2019	2,000,000	62,012,578	-
2020	-	2,167,484	-
Totals	<u>\$ 5,000,000</u>	<u>\$ 126,579,702</u>	<u>\$ -</u>

Dividends and Other Distributions

During the period under examination, the Company did not declare or pay any cash dividends or distributions to its sole shareholder.

CORPORATE RECORDS

Board Minutes

In general, the review of Board meeting minutes of the Company indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors. A quorum, as defined by the Company's Bylaws, met at all the meetings held during the period under review.

The Bylaws authorize the Board to designate any committees which shall have such powers and perform such duties as from time to time may be prescribed by the Board. Each committee shall consist of one or more of the Directors of the Company.

However, the Board did not annually appoint its consulting actuary, and the Company's appointed actuary did not report to and present the Actuarial Opinion and the Actuarial Memorandum to the Board of Directors, in accordance with ORS 731.574 and OAR 836-011-0000. These actions were not recorded in the minutes to the Board.

I recommend the Company to comply with the *NAIC Annual Statement Instructions for P&C manual*, as noted in ORS 731.574 and OAR 836-011-0000 regarding actuarial reporting.

Articles of Incorporation

The Company's Articles of Incorporation were last restated on October 4, 2019. The Articles of Incorporation conform to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated on February 12, 2014. The Company made no amendments during the period under examination. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article II - Section I, state that the business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, none of whom need be shareholders of the Corporation. The lesser of five directors or one-quarter of the entire Board of Directors must be residents of the state of Oregon. The number of directors constituting the Board of Directors shall be fixed from time to time by resolution passed by a majority of the Board of Directors. The amended Article of Incorporation, under Article II state the Board of Directors shall consist of not less than five (5) directors. As of December 31, 2020, the Company was governed by a five-member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
David McDonald Armstrong * La Jolla, California	Chief Executive Officer Palomar Specialty Insurance Company	2014
Heath Adam Fisher Coto de Caza, California	President Palomar Holdings, Inc.	2020
Francis Kyuk Lee Portland, Oregon	VP, Global Marketing & Sports Marketing Finance Nike, Inc.	2014
Cameron King Martin Eugene, Oregon	Chief Investment Officer & Co-founder Martin Capital Partners	2016
Toshio Christopher Uchida San Diego, California	Chief Financial Officer Palomar Specialty Insurance Company	2020

*Chairman

Under Oregon law, ORS 732.305, at least five (5) or one-quarter of the Directors, whichever is fewer, must be residents of Oregon and a majority of Directors must be non-salaried officers of the Company. The Company was in compliance with this statute. The Directors as a group has

experience in insurance, accounting and management, in accordance with the provisions of ORS 731.386.

Officers

Principal Officers serving at December 31, 2020, were as follows:

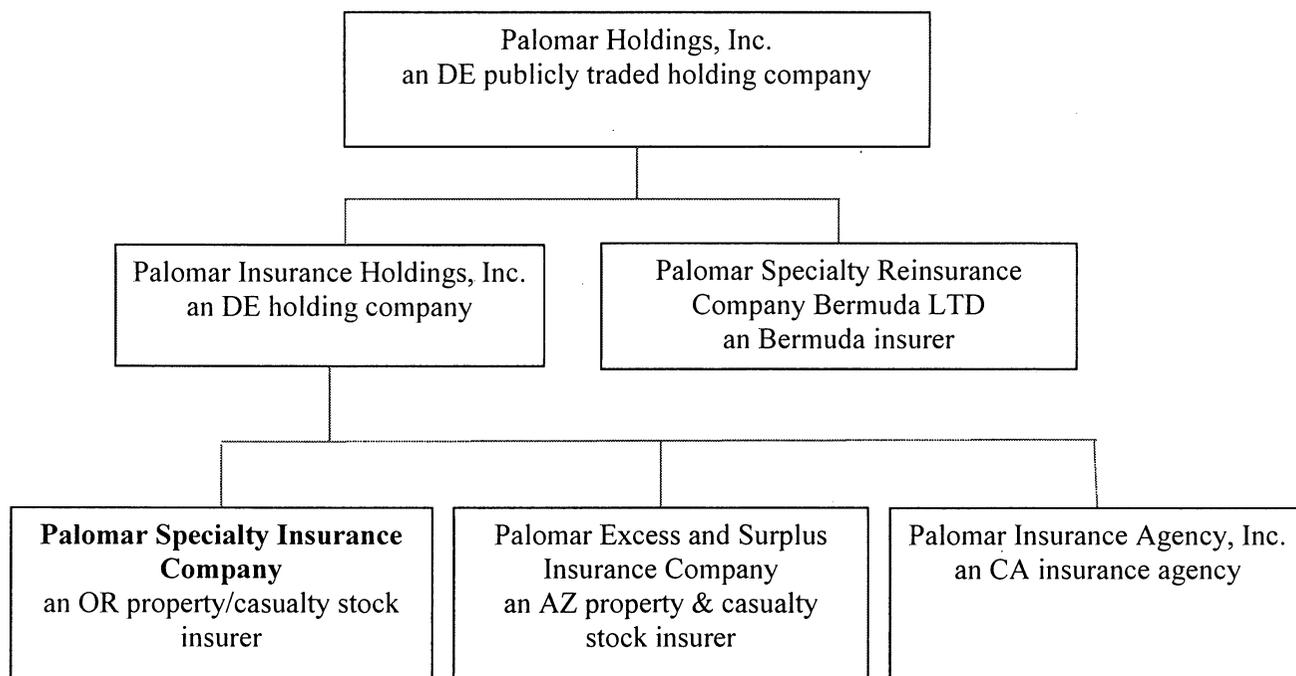
<u>Name</u>	<u>Title</u>
David McDonald Armstrong	President & CEO
Heath Adam Fisher	Executive Vice President & Secretary
Elizabeth Whitaker Seitz	Chief Accounting Officer & Treasurer
Jon Marcus Christianson	Vice President, Chief Underwriting Officer
Jeffrey David Lim	Senior Vice President, Legal Compliance and Claims

Conflict of Interest

The Board adopted an employee handbook that contains guidelines on confidentiality and reporting of conflicts of interest. Board members, executive officers and key employees are required to complete and periodically sign a conflict of interest declaration. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

Insurance Company Holding System

The Company is a member of an insurance company holding system, in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following organizational chart depicts the relationships of the Company within the holding company system:



A description of each of the entities above is as follows:

Palomar Holdings Inc. (PHI) is a Delaware corporation formerly known as GC Palomar Holdings, formed for the purpose of aggregating investments into the Palomar group. It would be considered the ultimate controlling entity of the Company.

Palomar Specialty Reinsurance Company Bermuda Ltd. (PSRE) is a captive reinsurer that reinsures premium on a quota share basis exclusively for Palomar Specialty Insurance Company. As of July 1, 2019, no active quota share treaty was in force. As of December 31, 2020, a property per risk agreement was in place between the Company on PSRE.

Palomar Insurance Holdings, Inc. (PIH) is a Delaware corporation which holds and consolidates the ownership of shares of companies within the group. It would be considered the direct parent of the Company.

Palomar Excess and Surplus Insurance Company (PESIC) is an Arizona domiciled surplus lines carrier formed in June, 2020, licensed to write all of the Company's existing lines of specialty property business, including but not limited to casualty and surety lines.

Palomar Insurance Agency, Inc. (PIA) is a California corporation formed as an insurance agency that works with independent agents and brokers throughout the country to tailor insurance coverage options to policyholders.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company and members of the insurance holding company system:

Cost Sharing and Allocation Agreement

The agreement was entered into on November 20, 2014, between the Company and PIH. Under this agreement, PIH is reimbursed for certain services which are for the use and benefit of the Company. Costs incurred by PIH are reimbursed by the Company on a monthly cost basis without any additional charges.

Intercompany Affiliated Services Agreement

Effective of March 1, 2017, the company entered into an Agreement with an affiliated entity, PIA. Under the terms of the agreement, PIA provides services to the company including facilities to conduct its operations, including but not limited to data processing, equipment, business property, communication equipment, accounting, tax and auditing, underwriting, claims, investments, and other function support services. The charges for such services shall include all direct and indirect allocable expenses determined to be attributable to the company. Within thirty (30) days after the end of each calendar quarter, group members submit to each

other a detailed written statement of the charges due for services and the use to the facilities. Payments are due within thirty (30) days following receipt of such written statement.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Company's insurance coverages are provided through insurance policies covering Palomar Insurance Holdings, Inc., and all majority owned subsidiary companies as a named insured. As a named insured, the Company is insured up to \$1,000,000 per fidelity loss after a \$25,000 deductible and up to \$1,000,000 per loss after a \$25,000 retention against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

The Company was also included in the following insurance coverages in force at December 31, 2020, which were found to be adequate:

Director's and officers liability	Commercial property liability
ERISA liability	Employment practices liability
Workers' compensation	Kidnap and Ransom
Cyber liability	Fiduciary Liability
Identity Fraud Expense Reimbursement	

TERRITORY AND PLAN OF OPERATION

The Company is a catastrophe insurer licensed in 32 states with a focus on residential and commercial earthquake markets in earthquake-exposed states such as California, Oregon, and Washington. In 2015, the Company entered into two uncorrelated types of catastrophe insurance coverage, specifically Texas multi-peril homeowners and Hawaiian residential hurricane. In 2016, the Company began writing wind insurance. In 2017, the Company began

writing flood insurance, and is currently offered in 11 states. The Company has Certificates of Authority in the 32 States. Direct premiums written in 2020 were:

<u>State</u>	<u>Direct Premiums Written</u>	<u>Percentage</u>
California	\$ 143,579,618	48.2%
Hawaii	16,272,989	5.5%
Mississippi	7,461,081	2.5%
North Carolina	10,619,970	3.6%
Oregon	7,600,586	2.6%
South Carolina	9,108,450	3.1%
Texas	67,072,322	22.5%
Washington	13,594,286	4.6%
All other	<u>22,453,725</u>	<u>7.5%</u>
Total	<u>\$ 297,763,027</u>	<u>100.0%</u>

The following is a breakdown of the direct premiums written in 2020:

<u>Lines of Business</u>	<u>Premium</u>	<u>Percentage</u>
Fire	\$ 45,702,045	15.3%
Allied lines	33,289,797	11.2%
Homeowners multiple peril	37,822,980	12.7%
Inland marine	13,273,305	4.5%
Earthquake	166,346,942	55.9%
Workers' compensation	78	0.0%
Other liability - occurrence	164,995	0.1%
Other liability - claims-made	569,406	0.2%
Boiler and machinery	<u>593,479</u>	<u>0.2%</u>
Totals	<u>\$ 297,763,027</u>	<u>100.0%</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2016	\$ 121,076,755	\$ 53,829,293	\$ 67,247,462	\$ (2,324,167)
2017	137,408,546	76,036,322	61,372,224	(4,094,235)
2018	152,411,488	88,680,895	63,730,593	9,608,841
2019	248,745,137	132,449,290	116,295,847	(17,910,982)
2020 *	301,335,094	187,997,960	113,337,134	3,480,325

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were obtained from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	(1) <u>Net Premiums Earned</u>	(2) <u>Total Losses Incurred</u>	(2)/(1) <u>Pure Loss Ratio</u>	(3) <u>LAE & Other Expenses Incurred</u>	(2)+(3)/(1) <u>Combined Ratio</u>
2016	\$ 32,378,209	\$ 5,527,099	17.1%	\$ 29,784,754	109.1%
2017	49,384,420	9,616,188	19.5%	45,013,025	110.6%
2018	41,486,120	5,619,274	13.5%	31,266,427	88.9%
2019	81,248,250	4,826,250	5.9%	73,248,731	96.1%
2020 *	151,111,823	57,207,554	37.9%	96,664,443	101.8%

*Per examination

A combined ratio of more than 100% would indicate an underwriting loss. The Company has reported net underwriting losses in three of the past five years.

REINSURANCE

Assumed

During 2020, the Company assumed a small book of business through an arrangement with other insurance companies.

Ceded

The Company purchases a significant amount of reinsurance from third parties that the Company believe enhances its business by reducing exposure to potential catastrophe losses, limiting volatility in underwriting performance, and providing greater visibility into future earnings. The Company uses treaty reinsurance and, on a limited basis, facultative reinsurance coverage. Additionally, the Company buys program specific reinsurance coverage for specific lines of business on a quota share, property per risk or a facultative basis.

The Company has a robust program utilizing a mix of traditional reinsurers and insurance linked securities. Reinsurance contracts include special termination provisions that allow the Company to cancel and replace any participating reinsurer. In addition to limit purchased from traditional reinsurers, the Company has historically incorporated collateralized protection from the insurance linked securities market. In May 2017, the Company closed a \$166 million 144A catastrophe bond offering completed through Torrey Pines Re Ltd., a special purpose insurer in Bermuda, that provided fully collateralized protection over a three-year risk period ending in May, 2020.

Catastrophe Excess of Loss (XOL) Reinsurance Coverage

As of December 31, 2020, the Company's catastrophe event retention was \$10 million for all perils and with a retain of \$1 million as a vertical co-participation in selected layers of the reinsurance program. The reinsurance coverage exhausts at \$1.4 billion for earthquake events and \$600 million for hurricane events, providing coverage in excess of 1:250 year peak zone Probable Maximum Loss (PML) and in excess of the A.M. Best requirement. In addition, the

Company maintains reinsurance coverage equivalent to or better than the 1 in 250 year PML for other lines.

In the event that multiple catastrophe events occur in a period, many contracts include the right to reinstate reinsurance limits for potential future recoveries during the same contract year and preserve the limit for subsequent events.

To assess the sufficiency of the catastrophe Excess of Loss (XOL) reinsurance coverage, the Company continuously quantifies the exposure to catastrophes including earthquakes, hurricanes, tornadoes and hail storms. The Company evaluates and monitors the total policy limit insured for each peril and in each geographic region, and uses third-party catastrophe models to evaluate the AAL as well as the estimated PML at various intervals. The Company's PML modeling is consistent with standards established by A.M. Best and includes "demand surge," and loss amplification.

Program Specific Reinsurance Coverage

In addition to the catastrophe XOL coverage, the Company purchases reinsurance for specific programs in order to control the net exposure for any single risk, manage the exposure to attritional losses and improve the economics through ceding a portion of the risk to reinsurers in exchange for a ceding commission. The Company's purchase program specific reinsurance, consisting primarily of quota share coverage, for Commercial Earthquake, Commercial All Risk, Specialty Homeowners, Inland Marine and Flood lines of business.

Each of the reinsurance agreements described above contained a proper in solvency clause that specified payments would be made to a statutory successor without diminution in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

The maximum retained risk on any one person is \$7,000,000. In view of the Company's capital and surplus of \$113,337,134 at December 31, 2020, it does not maintain risk on any one subject in excess of ten percent of its surplus to policy holders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2020, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. However, during the fieldwork portion of the examination, the Company could not produce a policy in place to ensure that all of its unclaimed funds and property held in safekeeping for escheatment are being reported and paid to the Oregon Department of State Lands in an accurate and timely manner, pursuant to ORS 98.352 and OAR 141-045-0015.

I recommend the Company develop policies and procedures to annually report its unclaimed money and property to the Oregon Department of State Lands accurately and timely in accordance with the provisions of ORS 98.352 and OAR 141-045-0015.

STATUTORY DEPOSIT

As of the examination date, the Company maintained \$3,890,000 (par value) in bonds on deposit at the Oregon Division of Financial Regulation, which meets the requirements of ORS 750.045(2). The deposit was verified from the Division of Financial Regulation. The statutory deposit was properly listed in the 2020 annual statement on Schedule E – Part 3.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no comments or recommendations in the prior examination, but the examiners did decrease surplus by \$1,104,012 due to an overstatement of earned premiums.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review of the Company noted that there has not been a significant impact, primarily due to the Company shifting its workforce to a remote work-from-home model. Alternatively, there are no known material concerns or findings related to the insurer's operations, solvency, and liquidity. The Oregon Division of Financial Regulation has been in communication with company regarding the impact of COVID-19 on its business operations and financial position. The Division continues to closely monitor the impact of the pandemic on the company, and will take necessary actions if a solvency concern arises.

In January, 2021, the company hired Mark Brose as the Chief Technology Officer. Effective June, 2021, Britt Morries, resigned as Chief Operating Officer.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

Statement of Assets

Statement of Liabilities, Surplus and Other Funds

Statement of Income

Reconciliation of Capital and Surplus Since the Last Examination

PALOMAR SPECIALTY INSURANCE COMPANY
ASSETS
As of December 31, 2020

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 198,554,529	\$ -	\$ 198,554,529	1
Common stocks	20,680,557	-	20,680,557	1
Cash, cash equivalents and short-term investments	17,770,237	-	17,770,237	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>237,005,323</u>	<u>\$ -</u>	<u>237,005,323</u>	
Investment income due and accrued	1,409,682	-	1,409,682	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	24,688,860	-	24,688,860	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,113,953	-	10,113,953	
Reinsurance				
Amounts recoverable from reinsurers	10,161,518	-	10,161,518	
Funds held by or deposited with reinsurance companies	20,000	-	20,000	
Net deferred tax assets	6,379,712	-	6,379,712	
Receivable from parent, subsidiaries and affiliates	10,974,171	-	10,974,171	
Aggregate write-ins for other than invested assets	<u>581,875</u>	<u>-</u>	<u>581,875</u>	
Total Assets	<u>\$ 301,335,094</u>	<u>\$ -</u>	<u>\$ 301,335,094</u>	

PALOMAR SPECIALTY INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2020

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 30,974,808	\$ -	\$ 30,974,808	2
Reinsurance payable on paid losses and lae	-	-	-	
Loss adjustment expenses	3,396,757	-	3,396,757	2
Commissions payable, contingent commissions and other similar charges	1,752,959	-	1,752,959	
Other expenses	7,015,290	-	7,015,290	
Taxes, licenses and fees	1,775,539	-	1,775,539	
Current federal income taxes	4,501,598	-	4,501,598	
Unearned premiums	130,140,037	-	130,140,037	
Advance premium	909,969	-	909,969	
Ceded reinsurance premiums payable	2,704,304	-	2,704,304	
Funds held by company under reinsurance treaties	4,514,927	-	4,514,927	
Amounts Withheld or retained by company for account of others		-		
Provision for reinsurance	267,000	-	267,000	
Payable to parent, subsidiaries or affiliates	44,772	-	44,772	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	<u>\$ 187,997,960</u>	<u>\$ -</u>	<u>\$ 187,997,960</u>	
Common capital stock	\$ 5,000,000	\$ -	\$ 5,000,000	
Gross paid-in and contributed capital	126,579,702	-	126,579,702	
Unassigned funds (surplus)	<u>(18,242,568)</u>	-	<u>(18,242,568)</u>	
Surplus as regards policyholders	<u>113,337,134</u>	-	<u>113,337,134</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 301,335,094</u>	<u>\$ -</u>	<u>\$ 301,335,094</u>	

PALOMAR SPECIALTY INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2020

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ 151,111,823	\$ -	\$ 151,111,823	
Deductions				
Losses incurred	57,207,554	-	57,207,554	
Loss adjustment expenses incurred	6,809,755	-	6,809,755	
Other underwriting expenses	89,854,688	-	89,854,688	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>153,871,997</u>	<u>-</u>	<u>153,871,997</u>	
Net underwriting gain or (loss)	(2,760,174)	-	(2,760,174)	
Investment income				
Net investment income earned	5,694,518	-	5,694,518	
Net realized gains or (losses)	<u>120,298</u>	<u>-</u>	<u>120,298</u>	
Net investment gain or (loss)	5,814,816	-	5,814,816	
Other income				
Net gain or (loss) from agents' or premium balances charges off	(222,195)	-	(222,195)	
Finance and service charges not included in premiums	689,357	-	689,357	
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	
Total other income	<u>467,162</u>	<u>-</u>	<u>467,162</u>	
Net income before dividends to policyholders and income taxes	3,521,804	-	3,521,804	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>(41,479)</u>	<u>-</u>	<u>(41,479)</u>	
Net income	<u>\$ 3,480,325</u>	<u>\$ -</u>	<u>\$ 3,480,325</u>	

PALOMAR SPECIALTY INSURANCE COMPANY
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2020	2019	2018	2017	2016
Surplus as regards policyholders, December 31, previous year	<u>\$116,295,847</u>	<u>\$ 63,730,593</u>	<u>\$ 61,372,224</u>	<u>\$ 67,247,462</u>	<u>\$ 69,622,194</u>
Net income (loss)	3,480,325	(17,910,982)	9,608,841	(4,094,235)	(2,324,167)
Change in net unrealized capital gains or (losses)	715,181	2,540,024	(5,666,416)	2,141,281	2,441,272
Change in net deferred income tax	1,613,193	4,460,803	1,070,980	(3,828,093)	97,666
Change in non-admitted assets	(10,375,538)	(1,140,169)	(3,223,238)	288,809	(1,170,148)
Change in provision for reinsurance	(183,000)	513,000	102,000	(383,000)	(316,000)
Change in surplus notes	-	-	(17,500,000)	-	-
Cumulative effects of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	2,000,000	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	2,167,484	62,102,578	18,000,000	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Distributions to parent (cash)	-	-	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustment	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>(376,358)</u>	<u>-</u>	<u>(33,798)</u>	<u>-</u>	<u>(1,103,355)</u>
Change in surplus as regards policyholders for the year	<u>(2,958,713)</u>	<u>52,565,254</u>	<u>2,358,369</u>	<u>(5,875,238)</u>	<u>(2,374,732)</u>
Surplus as regards policyholders, December 31, current year	<u>\$113,337,134</u>	<u>\$116,295,847</u>	<u>\$ 63,730,593</u>	<u>\$ 61,372,224</u>	<u>\$ 67,247,462</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At December 31, 2020, the Company's long-term bond investments were in US Treasury obligations, commercial & residential mortgage backed securities, US political subdivisions, US special revenue issuer obligations, and corporate issues. The Company had a moderate exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated, with a carrying book value of \$50.0 million, which comprised 25% of the total long-term bond portfolio and 21% of all invested assets.

Common stocks included a mutual fund and shares of the Federal Home Loan Bank of San Francisco.

Cash and short-term deposits consisted of a checking account at US Bank and two money market mutual funds held in the custodial account at US Bank.

A comparison of the major investments over the past five years shows the following:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2016	\$76,771,874	\$18,110,266	\$10,143,893	63.41%	15.0%	8.4%
2017	88,733,915	21,207,146	9,531,010	64.58%	15.4%	6.9%
2018	102,431,236	19,433,662	6,918,919	67.21%	12.8%	4.5%
2019	148,181,886	18,752,249	30,110,639	59.57%	7.5%	12.1%
2020 *	198,554,529	20,680,557	17,770,237	65.89%	6.9%	5.9%

* Balance per examination

As of December 31, 2020, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, in compliance with ORS 733.580. The Board formally approved the investment transactions in each of the years under review, as required by ORS 733.730.

Effective May 22, 2014, the Company entered into a custodial agreement with US Bank, NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l), except for OAR 836-027-0200(4)(f). During the examination, the Company provided an addendum to the custodial agreement that included the provision that complied with the Administrative Rule.

Note 2 – Actuarial Reserves

A review of the unpaid loss and LAE reserves for the Company was performed by David Dahl, FCAS, MAAA, and Ying Liu, ASA, MAAA, Property & Casualty actuaries for the Oregon

Division of Financial Regulation. As part of the review, the actuaries examined the supporting statements prepared by the Company’s appointed actuary, Sheri Scott, FCAS, MAAA, Consulting Actuary of Milliman, Inc.

The actuaries review was based on the data, methods and assumptions supporting the unpaid loss and LAE amounts reported in the Actuarial Opinion as of December 31, 2020; a reconciliation of the data used in the Company’s actuarial report to the data in the actuarial work-papers, and the Company’s reserve position as measured by the appointed actuary’s range estimate. They also reviewed the 2021 subsequent loss reserve development and prepared their own independent reserve calculations. Finally, they relied on work performed by the examiners who reviewed the underlying claims data used to create the annual statement filing. The Company reported the following reserves net of ceded reinsurance:

	Exam Estimate	Annual Statement
Losses Unpaid	\$ 30,776,808	\$ 30,974,808
Loss Adjustment Expenses (CAE)	3,396,757	3,396,757
Premium Deficiency Reserves	<u> -</u>	<u> -</u>
Total Actuarial Liabilities	<u>\$ 34,173,565</u>	<u>\$ 34,371,565</u>

The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2020, were reasonable. Mr. Dahl and Ms. Liu’s total estimate found the Company was deficient by approximately \$198,000 compared to the appointed actuary’s estimate, an immaterial amount. They concurred that the reserves of the Company were reasonably stated as of December 31, 2020.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination, however, the following is a summary of the recommendations made as a result of this examination.

Page:

- 6 I recommend the Company to comply with the *NAIC Annual Statement Instructions for P&C* manual, as noted in ORS 731.574 and OAR 836-011-0000 regarding actuarial reporting.

- 18 I recommend the Company develop policies and procedures to annually report its unclaimed money and property to the Department of State Lands accurately and timely in accordance with the provisions of ORS 98.352 and OAR 141-045-0015.

CONCLUSION

During the five-year period covered by this examination, the surplus of the Company has increased from \$68,518,182, as presented in the December 31, 2015, report of examination to \$113,337,134, as shown in this report. The comparative assets and liabilities are:

	<u>2020</u>	December 31, <u>2015</u>	<u>Change</u>
Assets	\$ 301,335,094	\$ 104,126,822	\$ 197,208,272
Liabilities	<u>187,997,960</u>	<u>35,608,640</u>	<u>152,389,320</u>
Surplus	<u>\$ 113,337,134</u>	<u>\$ 68,518,182</u>	<u>\$ 44,818,952</u>

ACKNOWLEDGMENT

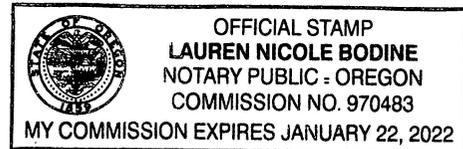
The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Jordan Mills, insurance examiner, and David Dahl, FCAS, MAAA, and Ying Liu, ASA, MAAA, Property & Casualty Actuaries for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, and Daniel Judge, CFE, Supervisor, and Kathleen Wilson, Supervising Examiner, from Risk & Regulatory Consulting, LLC., participated in this examination.

Respectfully submitted,

/s/ Tho Le

Tho Le, CFE, PIR
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon



AFFIDAVIT

STATE OF OREGON)

County of Marion)

Tho Le, CFE, PIR, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Palomar Specialty Insurance Company, Portland, Oregon.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Palomar Specialty Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Tho Le

Tho Le, CFE, PIR
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 19 day of January, 2021.

/s/ Lauren Nicole Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

