

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION)	
OF CONTROL OF FIRST INDEMNITY OF)	HEARING OFFICER'S
AMERICA INSURANCE COMPANY BY)	REPORT
PALOMAR HOLDINGS, INC. AND)	
PALOMAR INSURANCE HOLDINGS, INC.)	

Procedural History

In accordance with N.J.S.A. 17:27A–2, by a filing dated July 10, 2024, as amended and restated as of October 2, 2024, Palomar Insurance Holdings, Inc. (“PIH”) and its parent Palomar Holdings, Inc. (“Palomar”) (each referred to hereafter as an “Applicant” and collectively, “Applicants”) filed with the New Jersey Department of Banking and Insurance (“Department”) an application to acquire control (“Form A filing”) of First Indemnity of America Insurance Company (“First Indemnity”), a New Jersey domiciled insurance company.

The proposed acquisition of control of First Indemnity will occur pursuant to a Securities Purchase Agreement, dated June 18, 2024, by and between PIH and A.B.S.C.O. Ltd. Corporation (“Seller”) (“SPA”). Per the SPA, PIH will acquire 100% of the voting securities of First Indemnity from the Seller. The voting securities consist of 200,000 shares of common stock at \$12.50 par value.

Pursuant to N.J.S.A. 17:27A–2(d), a public hearing relating to the Form A filing was held on November 4, 2024. Pursuant to N.J.A.C. 11:1–35.6(g), the public hearing was conducted based on the documents filed. The Department staff determined that the documents filed in connection with the proposed acquisition satisfied the requirements of N.J.S.A. 17:27A–2(b). Public comments were allowed to be submitted through the close of business on November 4, 2024. No

comments were received. No other documents were required, and the record was closed on November 4, 2024.

Findings of Fact

First Indemnity is a licensed property and casualty insurance company incorporated on December 15, 1978, under the laws of the State of New Jersey, and commenced business operations on December 17, 1979 under the name of FIA Insurance Company. Effective November 19, 1981, FIA Insurance Company's name was changed to the one presently in use. First Indemnity is a direct wholly owned subsidiary of A.B.S.C.O. Ltd. Corporation (i.e., the Seller), a corporation domiciled in New Jersey. First Indemnity is authorized to transact the business of fidelity and surety insurance as specified in N.J.S.A. 17:17-1(g). First Indemnity is licensed in 16 states, including New Jersey.

The Applicants intend to acquire 100% of the issued and outstanding shares of First Indemnity from the Seller. The Seller owns of 100% of the issued and outstanding securities of First Indemnity (200,000 issued and outstanding common shares at \$12.50 par value). In consideration of Proposed Acquisition of Control, PIH will pay Seller in cash the Closing Consideration¹, which shall be approximately \$28,900,000. Final consideration will be adjusted as of the date of closing subject to usual and customary valuations and in accordance with the terms and conditions outlined in the SPA.

Upon consummation of the proposed acquisition of control, First Indemnity will become a direct wholly owned subsidiary of PIH, which is a direct wholly owned subsidiary of Palomar, a publicly traded entity on the NASDAQ Stock Exchange under the symbol "PLMR." As of

¹ "Closing Consideration" – means an amount equal to: (i) the Book Value multiplied by the Ratio; minus (ii) the Closing Indebtedness; minus (ii) the Closing Selling Expenses.

December 31, 2023, BlackRock, Inc. (“BlackRock”) owned approximately 16% of all outstanding shares of common stock of Palomar (or PLMR).²

PIH was incorporated in Delaware on September 24, 2013 as Cottage Insurance Holdings, Inc. (“Cottage”). Cottage changed its name to PIH on February 12, 2014. Palomar was incorporated in Delaware on March 14, 2019. Prior to its domestication and incorporation in Delaware, Palomar was known as GC Palomar Holdings, a Cayman Islands exempted limited liability company incorporated on October 4, 2013. Palomar functions as a holding company and PIH functions as an insurance holding company. Palomar also directly owns Palomar Specialty Reinsurance Company Bermuda LTD, a Bermuda reinsurance corporation.

PIH is the immediate parent company of Palomar Underwriters Exchange Organization, Inc. (“Palomar Underwriters”), a Delaware corporation. Palomar Underwriters is the Attorney-in-Fact of Laulima Exchange (NAIC# 17521), a reciprocal insurance exchange domiciled in Hawaii. PIH is also the immediate parent of Palomar Specialty Insurance Company (“PSIC” NAIC# 20388), an Oregon domiciled insurance carrier licensed to write property and casualty business. PSIC directly owns Palomar Excess & Surplus Insurance Company, an Arizona domestic surplus lines insurer. PIH is also the immediate parent of Palomar Insurance Agency, Inc., an insurance producer domiciled in California.

The source of funds is existing cash on hand within Palomar. Immediately prior to the closing, Palomar will contribute the cash necessary to pay the Closing Consideration to PIH. Palomar will not finance any portion of PIH’s acquisition of First Indemnity. The nature and amount of consideration for the acquisition was determined through arms-length negotiations.

² On July 17, 2024, Blackrock requested a Disclaimer of Affiliation (“Disclaimer”) in relation to Palomar and First Indemnity pursuant to N.J.S.A. 17:27A-3(j) and N.J.A.C. 11:1-35.9. The Disclaimer was conditionally granted and will be effective upon an Order approving the proposed acquisition.

Applicants represent that they have no present plans for First Indemnity to declare dividends. Further, the Applicants have no plans to liquidate, sell any assets of First Indemnity other than asset sales in the ordinary course of business. The Applicants intend to appoint new directors for First Indemnity, each of whom is experienced in the insurance industry and currently affiliated with Palomar. The Applicants have no current plans to make any material changes in the business operations, other than those described in the Form A filing. Applicants plan to continue to operate First Indemnity as an issuer of surety bonds in the jurisdictions in which the First Indemnity is admitted and authorized to write surety business and to expand to business in other jurisdictions in the future. Palomar will also support First Indemnity's application to become authorized by the Bureau of the Fiscal Service, U.S. Department of the Treasury, to write Federal surety bonds post-acquisition.

The Applicants provided three years of pro-forma financial projections for First Indemnity. Surplus is projected to increase from \$15.9 million at year-end 2024 to \$20.2 million at year-end 2026. The Applicants project growth in direct premiums written through a continued focus in the jurisdictions it is currently licensed and expansion to other jurisdictions.

Applicants submitted Palomar's Audited Consolidated Financial Statements (Form 10-K filings with the Securities Exchange Commission) for the years ended December 31, 2019 through December 31, 2023. The Consolidated Financial Statements comprise the financial results of Palomar and all entities controlled by Palomar on a consolidated basis of presentation. Palomar's Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). Palomar's Consolidated Financial Statements at December 31, 2023 contain an unqualified audit opinion from Ernst & Young LLP, as well as for Palomar's Consolidated Financial Statements at December 31, 2019 through December 31, 2022. For the

years ended December 31, 2023, 2022, and 2021, Palomar's Consolidated Financial Statements report assets of \$1.7 billion, \$1.3 billion, and \$926 million, respectively.

Analysis

N.J.S.A. 17:27A-2(d)(1) provides that the Commissioner shall approve an acquisition of control of a domestic insurer unless he or she finds that one or more of the seven disqualifying factors set forth therein exist. The statute provides in pertinent part:

(1) The Commissioner shall approve any merger or other acquisition of control ... unless, after a public departmental hearing thereon, he [or she] finds that:

(i) After the change of control the domestic insurer ... would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

(ii) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in this State or tend to create a monopoly therein ... [applying the competitive standard as set forth in the statute];

(iii) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders;

(iv) The financial condition of any acquiring party is such that (a) the acquiring party has not been financially solvent on a generally accepted accounting principles basis, or if an insurer, on a statutory accounting basis, for the most recent three fiscal years immediately prior to the date of the proposed acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); (b) the acquiring party has not generated net before-tax profits from its normal business operations for the latest two fiscal years immediately prior to the date of acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been

in existence); or (c) the acquisition debt of the acquiring party exceeds 50% of the purchase price of the insurer;

(v) The plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest;

(vi) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger or other acquisition of control; or

(vii) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

Upon a review of the documents submitted into evidence, the Department staff has determined that none of the seven disqualifying factors set forth above should result if the proposed acquisition is effectuated. Each of these conditions is discussed below.

First, after the acquisition, First Indemnity will continue to meet the requirements to transact the business for which it is presently licensed pursuant to Title 17 of the New Jersey Statutes. There is nothing in the record to indicate that, after the proposed transaction, First Indemnity would not be able to continue to satisfy the requirements to transact the business for which they are presently licensed.

Second, it does not appear that the proposed transaction will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2(d)(1)(ii) provides that in applying this competitive standard, the standard set forth in N.J.S.A. 17:27A-4.1d shall apply. The statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. The statute by its terms does not apply if, as an immediate result of the acquisition, there would be no increase in the overall market share of the

involved insurer after the acquisition. See N.J.S.A. 17:27A-4.1(b)(2)(d). Here, the Applicants do not currently write surety business. Accordingly, there would be no increase post-acquisition in the market share of First Indemnity in the New Jersey insurance market. As a result, the Proposed Acquisition of Control will not violate the competitive standard set forth in N.J.S.A. 17:27A-4.1 because it does not substantially lessen competition in New Jersey or tend to create a monopoly therein.

Third, it does not appear that the financial condition of the Applicants will jeopardize the financial condition of First Indemnity. Palomar's Consolidated Financial Statements for the years ended December 31, 2021 through December 31, 2023 were reviewed for adequacy and the review revealed no concerns. As noted above, Palomar is a publicly traded entity listed on the NASDAQ Stock Exchange. For the years ended December 31, 2023, 2022, and 2021, Palomar's Consolidated Financial Statements report assets of \$1.7 billion, \$1.3 billion, and \$926 million, and stockholders' equity of \$471 million, \$385 million, and \$394 million, respectively. According to the Applicants' financial information, it does not appear that the financial condition of First Indemnity will be jeopardized.

Fourth, it appears that the financial condition of the Applicants is such that they have been solvent for the three-year period immediately prior to the date of the proposed acquisition. Palomar's Consolidated Financial Statements for the years ended December 31, 2022, 2021, and 2020 report positive adjusted net income from operations before taxes. For the years ended December 31, 2023, 2022, and 2021, Palomar's Consolidated Financial Statements report adjusted net income before taxes of \$104 million, \$68 million, and \$57 million, respectively. Furthermore, for the years ended December 31, 2023, 2022, and 2021, Palomar's Consolidated Financial Statements report stockholders' equity of \$471 million, \$385 million, and \$394 million,

respectively. Finally, no debt or loans will be utilized to fund the acquisition. As stated above, Applicants have not, and will not be borrowing or financing any funds for the acquisition. The source of funds for the acquisition is existing cash within Palomar. Immediately prior to the closing, Palomar will contribute the cash necessary to PIH to pay the Closing Consideration. Accordingly, the requirement that the acquisition debt may not exceed 50 percent of the purchase price is satisfied.

Fifth, the Applicants do not propose to liquidate First Indemnity nor sell its assets. No extraordinary dividends, liquidation, sale, merger, or other material change is anticipated in connection with this change of control, other than those described in the Form A filing.

Sixth, there is nothing in the record from which it may be concluded that the competence, experience, and integrity of the person who will control the operations of First Indemnity are such that it would not be in the best interest of the policyholders and of the public to permit the acquisition of control.

Seventh, there is nothing in the record from which it may be concluded that the proposed transaction is likely to be hazardous or prejudicial to the insurance buying public for the reasons set forth above.

Recommendation

Based on the foregoing analysis, the Department staff recommends that the proposed transaction be approved.

Upon a review of the foregoing, I concur with the findings, analysis and recommendations of the Department staff I therefore recommend that the proposed transaction be approved.

November 6, 2024
Date

Lauren Glantzberg

Lauren Glantzberg
Hearing Officer

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Exhibits List

In the Matter of the Acquisition of Control of First Indemnity of America Insurance Company by Palomar Insurance Holdings, Inc. and Palomar Holdings, Inc. (each an “Applicant” and collectively, the “Applicants”)

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| Exhibit 1 | Form A Statement and related filings dated July 10, 2024 |
| Exhibit 2 | Applicants submitted a Pre–Acquisition Notification & Exemption Request dated August 28, 2024 |
| Exhibit 3 | On August 28, 2024, Applicants responded to Department’s request for information |
| Exhibit 4 | Applicants submitted an Amended and Restated Form A Statement and related filings dated September 23, 2024 |
| Exhibit 5 | On September 23, 2024, Applicants submitted the Written Consent of the Directors of Absco Ltd. Corporation effective as of June 14, 2024 |
| Exhibit 6 | On October 2, 2024, Applicants submitted amended Exhibit 2(c)–1 Pre–Acquisition Organizational Chart and Exhibit 2(c)–2 Post–Acquisition Organizational Chart. Additionally, Applicants submitted supplement to Exhibit 5(a)–4 Certificate of Incorporation and Amendments for Palomar Holdings, Inc. and Exhibit 5(a)–6 Certificate of Incorporation and Amendment for First Indemnity of America Insurance Company. |
| Exhibit 7 | Applicants submitted a Second Amended and Restated Form A Statement dated October 2, 2024 |
| Exhibit 8 | Waiver of 20–day notice of hearing submitted by Paul Alongi, Sr., Vice President, on behalf of First Indemnity of America Insurance Company |
| Exhibit 9 | Waiver of 20–day notice of hearing submitted by Jon Christianson, President, on behalf of the Applicant, Palomar Insurance Holdings, Inc.. |
| Exhibit 10 | Waiver of 20–day notice of hearing submitted by Jon Christianson, President, on behalf of the Applicant, Palomar Holdings, Inc. |
| Exhibit 11 | Affidavit of Publication of Notice of Hearing in The Record, reflecting publication on October 28, 2024 |
| Exhibit 12 | Affidavit of Publication of Notice of Hearing in Courier Post, reflecting publication on October 28, 2024 |
| Exhibit 13 | Affidavit of Publication of Notice of Hearing in Star Ledger, reflecting publication on -October 28, 2024 |