SNL INSURANCE INSIGHT

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Former Chubb shell ranks among P&C industry's fast-growing carriers

The following article was published by SNL Financial. Merger & Acquisition Services, Inc., (and its affiliated companies) a boutique investment banking firm and specialist in insurance company shell transactions served as the sole buy-side advisor to the affiliates of Genstar Capital Management LLC in the acquisition of Northwestern Pacific Indemnity as a shell from Chubb Corp. in 2014. Post-closing, Northwestern Pacific Indemnity was renamed Palomar Specialty Insurance Company.

By: Tim Zawacki

The new business plan of a private equity-backed insurer that long served as a Chubb Corp. subsidiary produced U.S. property and casualty industry-leading growth in direct premiums written during 2015 based on criteria established by SNL.

La Jolla, Calif.-based Palomar Specialty Insurance Co.'s direct premiums written soared 370.3% year over year to $52.5 million, representing the highest growth rate among SNL P&C groups and top-tier entities that produced at least $10 million in net premiums written in 2014 and achieved growth in both direct and net premiums written of at least 33% in 2015. Its net premiums written expanded 224.3%, trailing only the NMI Holdings Inc. group among entities that met the stated criteria.

Shaking up the earthquake market

Fastest-growing US P&C insurers*

Ranked by 2015 growth in direct premiums written

SNL P&C group/top-tier entity	Domicile	Business focus	DPW growth (%)	2015 DPW ($000)
Palomar Specialty Insurance Co.	Oregon	Commercial property	370.32	52,491
NMI Holdings Inc.	Wisconsin	Financial lines	235.63	114,211
Centauri Specialty Insurance Co.	Florida	Personal lines	58.80	118,320
Nations Insurance Co.	California	Personal lines	56.65	25,385
Adriatic Insurance Co.	North Dakota	Commercial property	52.62	24,302
Elephant Insurance Co.	Virginia	Personal lines	41.47	141,464
American Transit Insurance Co.	New York	Commercial property	39.72	227,472
PURE Group of Insurance Cos.	Florida	Personal lines	39.60	490,489
Tiptree Financial Inc.	Delaware	Commercial lines	35.70	480,935
Hiscox Ltd.	Illinois	General liability	33.30	211,206

Ranked by 2015 growth in net premiums written

SNL P&C group/top-tier entity	Domicile	Business focus	NPW growth (%)	2015 NPW ($000)
NMI Holdings Inc.	Wisconsin	Financial lines	235.63	114,211
Palomar Specialty Insurance Co.	Oregon	Commercial property	224.29	40,819
Tiptree Financial Inc.	Delaware	Commercial lines	64.88	106,824
Nations Insurance Co.	California	Personal lines	56.65	25,385
Adriatic Insurance Co.	North Dakota	Commercial property	52.16	24,156
Centauri Specialty Insurance Co.	Florida	Personal lines	50.61	61,916
PURE Group of Insurance Cos.	Florida	Personal lines	43.07	276,022
Elephant Insurance Co.	Virginia	Personal lines	41.48	47,206
American Transit Insurance Co.	New York	Commercial property	39.72	227,472
Hiscox Ltd.	Illinois	General liability	34.57	50,450

DPW = direct premiums written; NPW = net premiums written

Data compiled April 18, 2016. Results are limited to entities that filed 2015 annual statements with the NAIC as of April 1, 2016, and are subject to change.

* Rankings are limited to SNL P&C groups or top-tier P&C entities that meet the following criteria: 1) 2014 net premiums written of at least $10 million; 2) 2015 direct premiums written growth of at least 33%; and 3) 2015 net premiums written growth of at least 33%.

Source: SNL Financial, an offering of S&P Global Market Intelligence

Affiliates of Genstar Capital Management LLC acquired the former Northwestern Pacific Indemnity Co. in February 2014 from Chubb, which had gained control of the insurer's immediate parent, Pacific Indemnity Co., in 1967. Northwestern Pacific Indemnity transferred its liabilities to Pacific Indemnity prior to the completion of the sale, allowing for the new owners to gain control of the company as a clean shell.

Newly renamed Palomar Specialty, the company spent 2014 developing and introducing commercial and residential earthquake products, with a focus on earthquake-exposed states such as California, Oregon and Washington and within the New Madrid Seismic Zone. It achieved $11.2 million in direct premiums written and $12.6 million in net premiums written, with the earthquake business line accounting for all the production.

In 2015, the company posted dramatic growth in earthquake business, supplemented by significant new business in the homeowners, fire and allied lines.

Earthquake direct premiums written soared 188.2% to $32.2 million, and the company posted just more than $16 million in homeowners direct premiums written, the latter of which was the product of a partnership with Wellington Risk Insurance Agency Inc. for writing wind-exposed business in catastrophe-exposed counties in Texas. Palomar Specialty also generated all of its $2.4 million in allied lines direct premiums written from the Lone Star State, along with approximately $783,000 of its $1.8 million in fire direct premiums written. Hawaii accounted for most of the fire premiums, reflecting a hurricane product that covers damage to homes caused by named perils.

"Both new products provide portfolio diversification and risk uncorrelated with [Palomar Specialty's] core earthquake products," the company said in the management's discussion and analysis section of its 2015 annual statement. It noted that it "continues to identify opportunities for expansion into new lines of catastrophe insurance" in addition to the development and enhancement of its existing suite of products.

Within the earthquake line, the company said that what it defines as large commercial risks accounted for 48% of its $34.1 million in gross premiums written within the business line. Residential and small commercial risks accounted for 38.1% and 13.9% of the earthquake book, respectively.

"Palomar products offer insureds and distribution partners breadth of coverage, enhanced features such as lower deductibles, refined pricing and ease of use via system innovation," the company said in the MD&A. "At the same time, Palomar looks to diversify its product offering and geographic footprint in order to reduce concentration of risk and generate adequate risk-adjusted returns."

Palomar Specialty said it held seven active state licenses at the time of its sale. Since then, it obtained 14 additional licenses, with additional applications for licensure pending in Alabama and Georgia. The company generated $29.8 million of its 2015 earthquake direct premiums written from California, and the Golden State was the lone market in which its premium volume equaled or exceeded $1 million. SNL ranked Palomar Specialty No. 10 in the California earthquake market.

Palomar Specialty works with a range of distributors, including program administrators, wholesale brokers, retail agents and select carriers, depending on the specific product and geography. The company said it maintained quota-share reinsurance agreements during 2015 with three counterparties: Oregon Mutual Insurance Co., Wisconsin Reinsurance Corp. and Tokio Marine Holdings Inc. unit Houston Casualty Co. It seeks to maintain reinsurance in excess of the one-in-250-year probable maximum loss and one-in-100-year tail value at risk.

Mortgage insurance group NMI Holdings ranked second to Palomar Specialty in terms of growth in direct premiums written and led the industry in growth in net premiums written, according to the aforementioned criteria.

National Mortgage Insurance Corp. generated $114.2 million in direct premiums written in 2015, up 235.6%. The combination of the primary unit and National Mortgage Reinsurance Inc. One combined to generate the same amount of premium writings and the same growth rate on a net basis. National Mortgage Insurance Corp. reported $12.42 billion in gross primary new insurance written, up from $3.45 billion in 2014, and insurance in force as of Dec. 31, 2015, rose to $14.82 billion from $3.37 billion a year earlier.

Texas, taxis sources of growth

Florida-domiciled property insurers have ranked among the P&C industry's fastest-growing carriers in recent years, headlined by Heritage Property & Casualty Insurance Co., as they pursue opportunities created both directly and indirectly by the depopulation of Citizens Property Insurance Corp.

The Clearwater, Fla.-based unit of Heritage Insurance Holdings Inc. topped the rankings of the fastest-growing P&C carriers based on an identical set of criteria in 2013 and 2014, and it generated growth in direct premiums written of 71.7% in 2015. But it did not make the list of fastest-growing companies for the year as its rate of expansion in net premiums written slowed to 18.1%.

Two Florida-domiciled carriers did rank among the top 10 based on both direct and net premiums written: Sarasota, Fla.-based Centauri Specialty Insurance Co. and the group led by Privilege Underwriters Reciprocal Exchange. But unlike Heritage Property & Casualty, the two companies generated a majority of their writings from outside their domiciliary state.

Centauri Specialty, a writer of residential property insurance, reported in its 2015 MD&A that its written premium volume "increased substantially" during the year. Its total-filed direct premiums written of $118.3 million marked a year-over-year increase of 58.8%, and it largely reflected expansion of homeowners business in Texas. Its homeowners direct premiums written in the Lone Star State surged to $31.7 million in 2015 from $6.8 million in 2014. Its Florida homeowners premiums increased to $6.6 million in 2015 from a minimal amount in 2014. The company also generated a small amount of business from Florida through a new push into the commercial multiperil line.

"This growth is expected to continue in 2016, and as a result, management projects that the written and earned premiums for the company will increase," Centauri Specialty said in the MD&A.

The PURE group of companies, meanwhile, continued their track record of strong and steady growth in direct premiums written at 39.6% year over year in 2015. The group is focused on the high-net-worth market, a business line thrust into the spotlight during 2015 due to the blockbuster merger that resulted in the formation of Chubb Ltd. and Fireman's Fund Insurance Co.'s sale of a personal lines business focused on the affluent market to ACE Ltd. on a pre-merger basis. Premium writings in Texas, PURE's third-largest state, surged 42.7%

to $54.1 million. It generated triple-digit direct premiums written growth in nine states, highlighted by a 433.3% rate of expansion in California, a market it entered in 2014.

Another Florida-domiciled carrier, Lake Mary, Fla.-based First Protective Insurance Co., met the criteria for inclusion based on the manner in which SNL has archived its historical results, which does not account for its merger with Fidelity Fire & Casualty Co. that took effect April 1, 2015. SNL presents results for First Protective on an originally reported basis, such that the growth rates are considerably higher than they otherwise are under the company's restated financials. The restated results as reported by the company, which present the data as if the statutory merger occurred at the start of 2014, indicate growth rates of 16.3% in direct premiums written and 120.1% in net premiums written.

Other groups and top-tier entities that ranked among the top 10 in terms of direct and/or net premiums written growth included California nonstandard auto insurerNations Insurance Co.; commercial auto physical damage writer Adriatic Insurance Co.; direct-to-consumer private-passenger auto insurer Elephant Insurance Co.; taxi and livery insurer American Transit Insurance Co.; the Tiptree Financial Inc. group, which consists of the subsidiaries of the former Fortegra Financial Corp.; and Hiscox Ltd.'s Illinois-domiciled Hiscox Insurance Co. Inc.

Growth in direct premiums written of 52.6% for Adriatic Insurance and 39.7% for American Transit represented the highest rates either company had achieved in well more than a decade. For its part, American Transit described 2015 in its MD&A as "a banner year ... by nearly every metric" as it said it "embraced the opportunity" associated with the "explosive growth in new vehicles and new drivers on the road" through the transportation networking companies that have transformed the traditional livery market.