

# IS PALOMAR HOLDING INC. (PLMR) ABOUT TO LOSE \$150 MILLION OF ITS REVENUE?

By Hardnumbers Research

## ***Update April 6, 2025: We Were Right About Loss of Revenue***

Our original article (see below) said that Palomar may be about to lose its biggest fronting client, Omaha National Insurance Co.

Palomar has now released its 10-K for the year ending December 31, 2024. The 10-K showed fronting revenue down 33% in the fourth quarter of 2024.

In its fourth quarter conference call, CEO Mac Armstrong was asked about the fronting segment. His reply:

“Yeah. I mean, I think it’s gonna be disproportionately impacted for the next two quarters by the loss of the Omaha national deal, and then it’s probably flattish to slightly up on a same-store basis. . . . So it’s gonna be a bit of a laggard for the year [2025].”

## ***Original Article January 12, 2025***

- The “revenue” that Palomar may lose is revenue it has received from Omaha National Insurance Company (“Omaha National”). Over the past couple years, Palomar has written workers compensation insurance policies in California on behalf of Omaha National. Palomar has bought reinsurance for 100% of these policies from Omaha National. The end result is that Palomar is obligated to pay the claims that arise from the policies, but (at least in theory) Omaha National is obligated to reimburse Palomar for those claims. That’s called “fronting”. Palomar charges “fronting fees” to Omaha National for this “service”.
- Why do we say “at least in theory”? Because the actual reinsurance agreement between Palomar and Omaha National has not been disclosed to the public.
- Why didn't Omaha National just write the insurance policies itself? One possible reason is that Omaha was not admitted in California to write those policies. California law forbids an unadmitted company from DIRECTLY writing workers compensation insurance in the state. But for the past couple years, via this fronting arrangement, Omaha National has been INDIRECTLY writing workers compensation insurance in the state.
- But the fronting fees that Palomar charges to Omaha National have been a drag on its profits. According to state financial filings, Omaha National approximately broke even on underwriting in fiscal year 2023 and lost money in underwriting in the first nine months of 2024. So . . .

**It looks like Omaha National has a big motivation to eliminate the fronting fees it pays to Palomar.**

- In June 2024, Omaha National bought Sutter Insurance Company (“Sutter”), a California-domiciled company that can write workers compensation policies in the state.

**By acquiring Sutter, Omaha National appears to have found a way to write workers compensation insurance in California without paying**

### **fees to Palomar.**

- If Palomar loses Omaha National as a fronting client, it will take a substantial hit to revenue. In fiscal year 2023, Palomar says it fronted \$152 million worth of written premiums for Omaha National. That amounts to about 13% of Palomar's gross written premiums for 2023. There is evidence that the fronting arrangement was also an important part of Palomar's revenue in the first 6 months of 2024.