News

Core Specialty targets ~20% GPW growth in 2022 after breaking $2bn mark

31 March 2022

Jeff Consolino has told this publication that Core Specialty's gross premium written could increase around 20 percent this year after breaking the $2bn mark in its first full year after being recapitalised, with the president and CEO stating he would "relish the opportunity" to go public at the right time.

Core Specialty is the former StarStone US business that in late 2020 was recapitalised to over $900mn with $610mn from Dragoneer Investment Group, SkyKnight Capital and Aquiline Capital Partners, along with a rollover of Enstar's existing holding and $60mn from management and other investors.

In an interview with ***The Insurer***, Consolino stated that in 2021 the StarStone companies had $1.8bn in gross premium, with Lancer representing roughly a further $250mn.

Core Specialty had announced the completion of its merger with Lancer at the end of 2021, with the deal for the commercial auto insurer having first been announced in April last year.

The combined Lancer and Core Specialty has around 600 total employees, and over $1.1bn in equity capital.

"I believe that if you include Lancer in the denominator, we could still grow 20 percent plus or minus during the course of the year," said Consolino, when asked how much gross premiums could grow this year.

With over $2bn of premiums in 2021, Core Specialty has grown rapidly since the business was rebooted. In full-year 2019, StarStone US had reported $458mn in gross premium written.

Out of the $1.8bn non-Lancer premiums, Consolino said workers' compensation and fronting accounts for around $500mn, property and short-tail around $900mn, with the balance being specialty casualty business, including excess casualty, healthcare liability, D&O and E&O.

CORE SPECIALTY divisions

Agriculture
Commercial auto Lancer Insurance
Directors and officers management professional liability
Errors and omissions professional liability
Excess casualty
Fronted programs
Healthcare professional liability
Marine and energy
Property
Workers' compensation

CORE SPECIALTY insurance platforms

Excess and surplus lines insurer:
- StarStone Specialty Insurance Company

Admitted markets insurers:
- StarStone National Insurance Company
- Lancer Insurance Company
- Lancer Insurance Company of New Jersey

This breaks down to Core Specialty's business being approximately 55 percent short-tail and 45 percent long-tail.

Since the 30 June 2020 agreement to recapitalise StarStone US, the company has grown from four business units to 10.

This included forming a new E&S property division, establishing a marine and energy division from the StarStone London managed business, separating and hiring new leadership for the E&O professional liability and D&O management professional liability divisions, initiating an agriculture division and completing the Lancer merger.

Earlier this month, a fronting division was the most recent business unit to be added. Consolino suggested that an 11th business unit will be announced soon but would not divulge what it will be.

The executive added that Core Specialty last year recorded a 96 percent combined ratio on a consolidated basis, excluding Lancer which did better than that. This included 4 percentage points of catastrophe losses.

There was no prior reserve development, positive or negative, because Enstar entered into a loss portfolio transfer with respect to StarStone US's legacy liabilities.

The underlying combined ratio was 92 percent.

"That is not only a sign of the fundamental health of the StarStone companies that we recapitalised but, further, the reflection of the pricing momentum in the market and the fact that rates are better than adequate for the lines of business we are writing currently," Consolino said.

"Sensible" acquisitions part of the roadmap

As part of the capital infusion, Core Specialty appointed a new management team with Consolino brought in as president and CEO and Ed Noonan as executive chairman, with the two executives having previously worked together at Validus.

Talking to this publication, the executives pointed to their success growing Validus, and suggested Core Specialty could follow its playbook of growing through acquisitions and going public.

Consolino described Dave Delaney-led Lancer – the rebooted Core Specialty's first acquisition – as "a strong performer in a tough market".

"Lancer is the best passenger transportation insurer in the market," he said, pointing to its underwriting outperformance and status as a 13 percent after-tax return company in the year preceding the merger.

He added: "The roadmap is we're going to continue to grow organically and by adding teams and, where we can do something sensible, through acquisition. In the case of Lancer, that's as much a long-time relationship of Ed and of mine choosing to invest in our company and merge for stock.

"We've seen other opportunities where we could make an acquisition for cash, and then maybe those will come to fruition if they're priced at the right level and with the right terms. But if not, no tears, we move on and focus on other opportunities."

However, one area that is not of interest any time soon is a Lloyd's deal, unlike what the executives previously pulled off at Validus with the Talbot acquisition. Consolino stressed that Core Specialty has a US-focused business plan.

"We had the opportunity with StarStone to recapitalise the entirety, which would've included their entire global business which Lloyd's was a part of," said Consolino. "Our feeling was that the US is the world's largest insurance market and it's the place where rates were escalating the most significantly, so we thought deploying our capital in a US business plan was most likely to result in the best return and also the best opportunity."

He added that US specialty insurance companies are more attractive currently, and have been for some time as compared to global insurance and reinsurance conglomerates.

An "unmet desire" to be public

Consolino said that Core Specialty has all the capital it needs to address its business plan, "even given our ambitious growth plans".

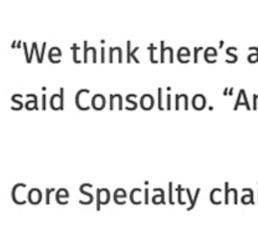
An agreement put in place in October last year gives additional financial flexibility, providing for a $300mn unsecured revolving credit facility with an accordion feature allowing for an additional $100mn of capacity.

But going public is definitely in mind in the longer term.

Consolino said being public allows companies to manage capital in a more effective way and gives a currency to pursue acquisitions.

"The public company format is very supportive of our business plans overall," he said. "Being public allows you to raise capital in a number of different forms, not only public equity, but public debt and other things like that."

The executive added that being public imposes a discipline of quarterly investor communications and conference calls, which is useful for thinking through a business's assumptions.



"We think there's an unmet desire for us to be a public company. And we would relish the opportunity to do that at the right time"
Jeff Consolino, president and CEO of Core Specialty

"We think there's an unmet desire for us to be a public company, to be on these calls again," said Consolino. "And we would relish the opportunity to do that at the right time."

Core Specialty chairman Noonan told this publication the company is not looking to "buy low, grow fast and sell".

"We're builders," he said. "We expect this company to be an outstanding company 20 years from now. So access to capital in all of its forms is critical."

He added that at any point in time an insurance company has built up too much capital or needs more capital.

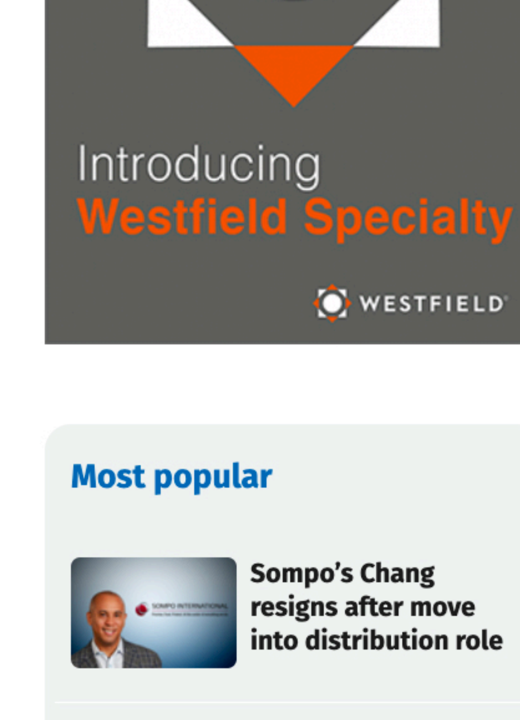
"When you have built up too much capital, you can do a special dividend," he said. "A private company can do a special dividend. That's fine, you can return it that way. But being a public company, you have that additional ability to buy back your own stock and to do it in a way that actually compounds value."`

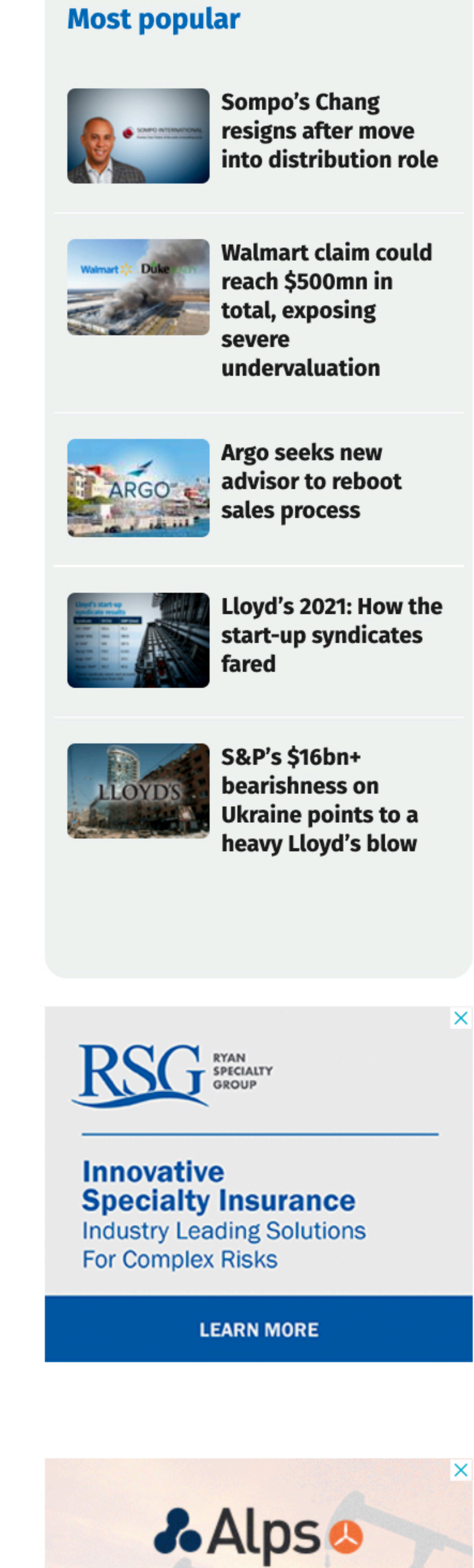
As an example, Noonan pointed to Validus' acquisition of fellow Bermuda-based reinsurer IPC Holdings in 2009 as "maybe our favourite deal of all time".

Validus issued $1.7bn in stock to buy IPC, which had a $2bn valuation. Validus then used the $300mn to invest in its own stock and compound the gain because property catastrophe companies were not highly valued at that time.

Noonan added: "Our expectation is that we should be double-digit return on equity this year. We should continue to see growth across the year, certainly in written premium. I think it will be a maturing year for the business."

Core Specialty | The Insurer Interview





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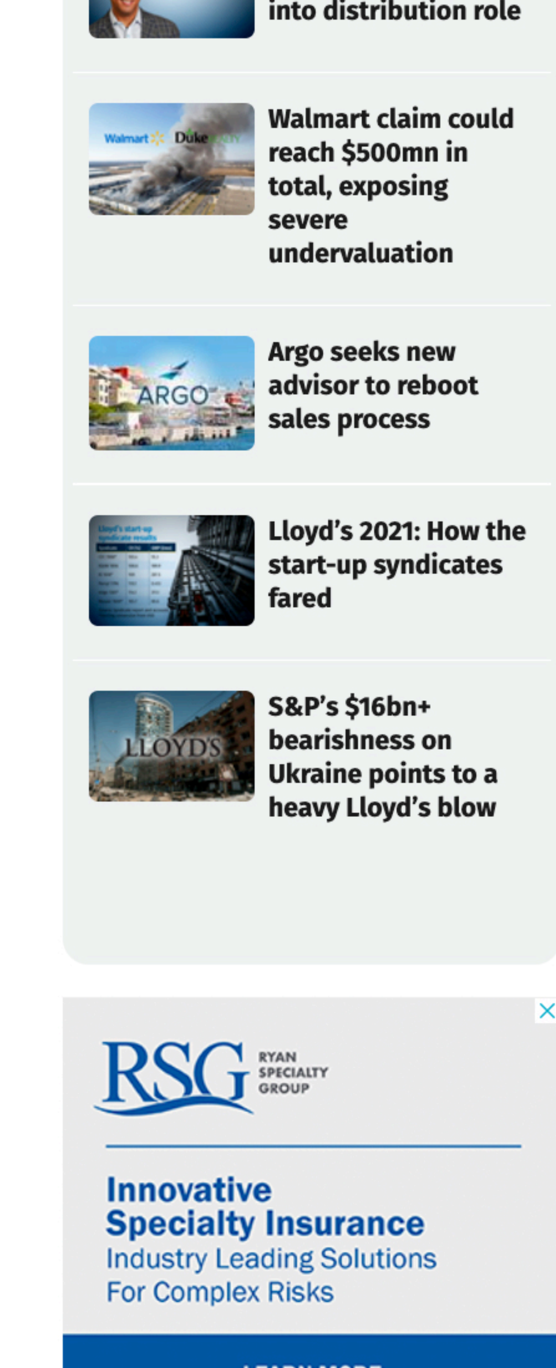

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