inside P&C

Hallmark deal boosts growth in a 'harder-for-longer' post-Ian market: Consolino

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Hot on the heels of Core Specialty announcing its acquisition of Hallmark's E&S business, CEO Jeff Consolino and executive chairman Ed Noonan said the current E&S boom presents a "unique opportunity" for Core to grow its portfolio – and the latest deal pushes that advantage while the market remains robust post-Ian.

Consolino and Noonan have been amongst the most prolific – and successful – exponents of M&A on the carrier side.

In an interview with Inside P&C, Noonan said that "insurance companies are lethargic; they move about the same speed as cadavers. They move slowly – and they are not able to be nimble. Not having to compete on deals because you see them first, and are smarter and faster, it is huge."

Consolino added that the recent Hallmark acquisition places Core among the 20 largest E&S groups, based on 2021 data.

As this publication has extensively documented, the E&S market is in its "Golden Age", a period characterized by surging growth driven by standard lines business passing into non-admitted channels, and ~50% compound rate rises across E&S and admitted specialty.

Positive underwriting results, meanwhile, have been supported not only by rate increases, but by the below-the-radar improvement in portfolio quality resulting from limit compression, retention hikes and tightening T&Cs.

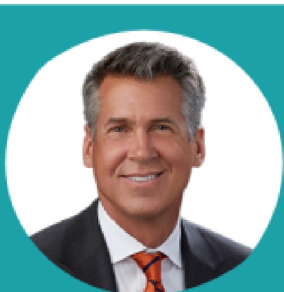
Against this backdrop, the executive duo said that the acquisition of Hallmark's E&S business represents the "furtherance" of their initial strategy – and that they expect the market to hold firm.

“Ian is going to make this harder for longer, and E&S is already headed for being a $100bn part of the market, so we really love what this transaction brings to us,” Consolino said.

Consolino in an earlier interview said that since launching Core Specialty in November 2020 by buying and recapitalizing StarStone's US operations, premium income has grown from $457mn to a total of $1.8bn. Including the merger of Lancer, the growth would be almost five-fold to $2.1bn.

Now, Consolino said Core Specialty expects to have about $2.5bn in gross premiums written this year, excluding the Hallmark transaction. “Hallmark is on pace to be $450mn for the year – together we would be at a $3bn run-rate.”

The executive went on to say that E&S was a “touch under $1bn” in 2021, and this year “we expect the two businesses together to be at a run-rate of about $1.2bn.”



Jeff Consolino Career timeline

1998–2006

Managing director at Merrill Lynch

March 2006–February 2013

Founding member of Bermuda-based (re)insurer Validus Holdings

2013–2020

Director, executive vice president and CFO at AFG

2020

Founder, president and CEO of Core Specialty

Source: Inside P&C

Deal mechanics

Core on Friday announced it had struck a deal to buy Hallmark’s E&S operation for $40mn in cash, plus a $19.9mn consideration for the acquisition costs related to some net unearned premium reserves. The news followed this publication’s recent report that the companies were in late-stage discussions for Hallmark’s ~$450mn specialty portfolio.

The transaction includes nine business units that operated within Hallmark's specialty segment and the transition of around 200 E&S employees, but it excludes any loss reserves associated with the acquired E&S businesses, which Hallmark will retain.

Through the transaction, Hallmark's subsidiaries will enter a quota share reinsurance agreement with a Core subsidiary to assume 100% of Hallmark's unearned premium reserves associated with the acquired E&S businesses, net of third-party reinsurance.

"We are buying an internal MGA that does business as Hallmark E&S. This internal MGA has binding authority for the Hallmark insurance companies. When we bring that MGA over, all the employees come with it.

In line with that, Consolino added that "we are not buying any insurance companies; we are not taking any reserve risk – and having made a conscious decision when recapitalizing StarStone with Enstar taking all the old reserves, it fits perfectly with that structural aspect of our company – that we are a clean company with no reserve development".

Hallmark has faced a spate of challenges in recent years, largely driven by the performance of its standard commercial and personal lines books, which have run with combined ratios in excess of 100% since 2019.

Consolino noted that Hallmark's specialty segment historically has posted combined ratios in the mid-80s to low-90s, and between $20mn-$25mn of pre-tax profit. "So, effectively, we are buying it at 2x earnings," he said.

"We credit Hallmark for nurturing and building a business within the balance sheet that it had," he continued. "We think this is a very talented group that we are bringing across – and it is very reminiscent of StarStone."

Consolino noted that the StarStone's US business was underappreciated and buried within StarStone's international business. But excluding Covid, it was about a 96% combined ratio business in 2020, he added, and with substantial rate increases, it has gotten better.

"We believe that the businesses will combine well, and I will be very disappointed if we don't grow it," he added.

IPO timeline

In earlier interviews with this publication, the executive duo said that while Core Specialty has a future in the public markets, and they meet quarterly with institutional investors, the firm had no need to expedite an IPO.

"We are not capital constrained, we do not need to be public now. At the appropriate time, when the stars align, we will do that"

Consolino and Noonan doubled down on their intention to take Core public.

“We have designed the company so that we are prepared to go public,” Consolino said.

“We feel no need to enter any market if market conditions are not favorable, but we believe that being a public company has significant benefits in terms of access to capital and ability to manage capital, both equity and debt – and the quarterly interplay with owners and analysts.”

Noonan added that not being a public company “really inhibits” the ability to generate the best possible results to shareholders – and you need to have all the levers of capital benefits available to you to “successfully manage an insurance enterprise”.

“We are not capital constrained, we do not need to be public now,” he said. “At the appropriate time, when the stars align, we will do that.”