inside P&C

StarStone US could be 'multiples' of its current size: Noonan

Adam McNestrie *June 12, 2022*

Current market conditions within the US E&S and specialty markets create scope for StarStone US to grow at an attractive rate over the next couple of years, according to incoming executive chairman Ed Noonan.

"This business could be multiples of the size it is now," Noonan told Insurance Insider, after he and CEO-in-waiting Jeff Consolino clinched a $610mn management buy-in backed by Aquiline, Sky Night and Dragoneer, first revealedhere.

Noonan also told Insurance Insider that a buy-in was a sounder strategy than a de novo start-up, which would be subject to greater uncertainty.

StarStone US currently writes around $450mn of business, with around half of the business in its core lines of workers' compensation and excess casualty.

Noonan said the product set of the business was likely to expand to bring StarStone more into line with peer companies, with a property offering and a broader range of solutions in professional liability likely.

The executive added that, with an existing business, he and Consolino would be able to "get started right out of the gate".

Asked about the advantages of a buy-in to an existing business versus a start-up, Noonan explained: "Speed to market matters a great deal at this moment in time. An existing platform really facilitated that."

He also pointed to a series of challenges faced by de novo start-ups. "You have got to get licensed, you have got to get infrastructure, you've got to hire teams – and all of that takes time.

"And in a start-up, you hire a lot of people, and maybe the top two to three people know each other, but everybody has got to get to know each other, not everyone pans out," with earlier critical decisions on systems and infrastructure also challenging.

"It really has so much more uncertainty to it."

Over the last few weeks, evidence has grown that the industry will face a significant amount of new capital formation due to the dislocation created by a combination of existing market conditions and Covid-19.

But Noonan said he expected this to be more geared to London and Bermuda.

"Over the last four months, both Jeff and I have received a tremendous number of calls from capital that wants to get into the US specialty market. But there's a couple of bottlenecks."

"The first bottleneck is that there aren't good platforms that you can acquire – there just aren't really many available for sale," he explained, also noting that the J-curve investors find with insurance start-ups can be an issue.

> *"We think that it is going to take time for capital to find places to enter in US specialty insurance"*

"And then finding the right management team to do it is also a bit of a challenge. So we think that it is going to take time for capital to find places to enter in US specialty insurance, and I am not as concerned about massive inflows of capital."

Noonan and Consolino founded Validus together after KRW – serving as CEO and CFO respectively – and built out the business in the succeeding years, until Consolino departed in 2013 to become CFO of AFG.

Validus, which was launched with around $1bn of capital, was sold to AIG for $5.6bn at a valuation of 1.6x book value in 2018.

Covid-19

Noonan said it was difficult to draw a single historical analogue for the current market, but "Covid-19 has changed the landscape".

> *"9/11 was a devastating event – but the losses even in inflation-adjusted dollars will be nothing compared to what we will see out of Covid"*

"9/11 was a devastating event – but the losses even in inflation-adjusted dollars will be nothing compared to what we will see out of Covid. And I am not screaming that the sky is falling here, but Covid will certainly dwarf 9/11 claims for the industry."

No company has yet been in a position to fully reserve for Covid-19, given the timing of the loss and the lack of available information, Noonan said.

"So unlike 9/11, which was a single event coming as the market was just starting to look at rate rises, Covid is a rolling event that will play out over a number of quarters – and maybe several years – at a point in time when the market was already pushing rate. So I think 9/11 is no longer a good analogue."

He concluded that this did not mean that rates would respond as they had after 9/11 – only that what happened in 2001/02 was not predictive of what would happen now.

"It's hard to know how this market will play out."

Long-term plans

At Validus, Noonan and Consolino built a multi-platform business that included reinsurance, a third-party capital platform, Lloyd's, US crop insurance and US E&S.

Asked about the possibility of adding reinsurance and London platforms, Noonan said: "The US E&S and specialty market is the opportunity for us right now. Jeff and I just want to stay focussed and execute on that."

The executive said he and Consolino like the reinsurance business but it is difficult to generate attractive rates in the long term, with the degree of rating lift beyond distressed markets like Florida still unclear at this stage.

"We think there are excellent opportunities in London, and if StarStone had not arisen we definitely could have envisaged that – but it is a huge commitment of management time and attention, and we don't want to get distracted. So there are no plans at this point for a broader footprint."

Responding to a question about ambitions to take the business public, Noonan noted: "That is a reasonable possibility. Any time you have PE investors, it is always an important possible exit for them."

He added: "Also from a capital management standpoint, being a public company just gives you a lot more levers to work with in managing capital. So I imagine anyone starting a business right now should be thinking at some point they should be a public company."

The incoming StarStone US chairman also said that a rebrand for the business was a "likelihood" following the completion of the buy-in.

Private equity activity

Firm	Amount ($mn)	Notes
Ed Noonan	500-750	Noonan with backing from Aquiline, Dragoneer and SkyKnight has bought into StarStone US; Enstar retains a minority stake
Fidelis	500	Fidelis has tapped investors including ADIA, Crestview and CVC to grow its equity base by 45%
Richard Watson	Up to 1,000	Working with Evercore on fundraise, working with ex-colleagues Stuart Bridges and Russell Merrett for Lloyd's-Bermuda venture
Ark	750-1,000	Evercore and TigerRisk advising on fundraise to target Lloyd's and Bermuda expansion as well as possible US onshore
Martin Reith	Unknown	Working with Macquarie to size up start-up or buy-in opportunities
Beat	No target yet	Evercore appointed for fundraise as firm looks to create own balance sheet to support growth

Source: Insurance Insider

StarStone US and Enstar

After working as chairman of StarStone for a period last year, Noonan said he judged that although the business had not performed to its potential, "it was not a bad business by any means".

He added that CEO John Hendrickson and president Dick Sanford had done "excellent work to bring modern insurance management much more to the fore".

Noonan continued: "StarStone US was a platform that was primed to move forward."

Enstar does not break out the results for StarStone's US platform in its financial statements – which are believed to be stronger than those for the whole business – but in 2019 the combined ratio across international and US was 127.6 percent, down from 135.1 percent in the prior year.

StarStone International is being placed into run-off, with renewal rights offered to Enstar's Lloyd's live arm Atrium and underwriters placed under consultation for redundancy, as reported yesterday.

Enstar will remain a minority investor in the business going forward, with StarStone's private equity backer Stone Point understood to be exiting.

"Enstar is a great company to be partnering with", Noonan said, citing the opportunities to pick up live books off the back of the firm's legacy transactions. He pointed to Seabright's workers' compensation business – now the core of StarStone US – as a prime example.

"Also, where there are opportunities in the future to grow through acquisition, having Enstar at the table as a potential run-off provider is a huge asset."

He added that Enstar is also a company with some deeply talented people who are really additive to the business opportunity.