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Core Specialty puts up 95% CoR in 2022 and expects ~20%growth in 2023

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After booking a 95% combined ratio in 2022 and increasing run-rate premium to $3bn from $2.1bn in 2021, Core Specialty expects to grow by 18%-22% in 2023 as the company continues to capitalize on the current E&S boom and M&A opportunities, CEO Jeff Consolino and Executive Chairman Ed Noonan told Inside P&C.

The executives spoke with Inside P&C as speculation built around the firm going public on the back of Skyward Specialty's success earlier this year, but they struck a measured tone noting that while they are "public company" people, such a move would come when they had a clear corporate finance or shareholder management reason to make it.

Overall, in 2022 Core Specialty booked written premium of $2.7bn last year, up from $1.8bn in 2021. It took 4 points of cat losses from Hurricane Ian and Winter Storm Elliot.

In addition, the specialty insurer anticipates rate rises this year in the 8% - 10% range across its portfolio and 13% - 15% increases excluding workers' compensation, outpacing loss-cost inflation.

Commenting on the firm's results and targets, Consolino said, "Property, of course, is the biggest component of that [rate increase]."

The executive added that the firm is forecasting rate rises in excess of 30% across its property portfolio for 2023.

As well as flagging the rate rises being achieved and his growth expectations, Consolino also hailed the high-rate adequacy of the firm's book.

"We believe that the rate being achieved in the market compared to our technical rate need in most of our classes is between 150% and 200%, depending on the class [many of our specialty casualty classes]."

“We believe that the rate we’re achieving in most of our specialty casualty classes is between 150% and 200% of technical rate need.”

Questioned on running a 95% combined ratio with such a favorable view on technical rate, Consolino stressed the firm – which left the StarStone back years with Enstar – is young.

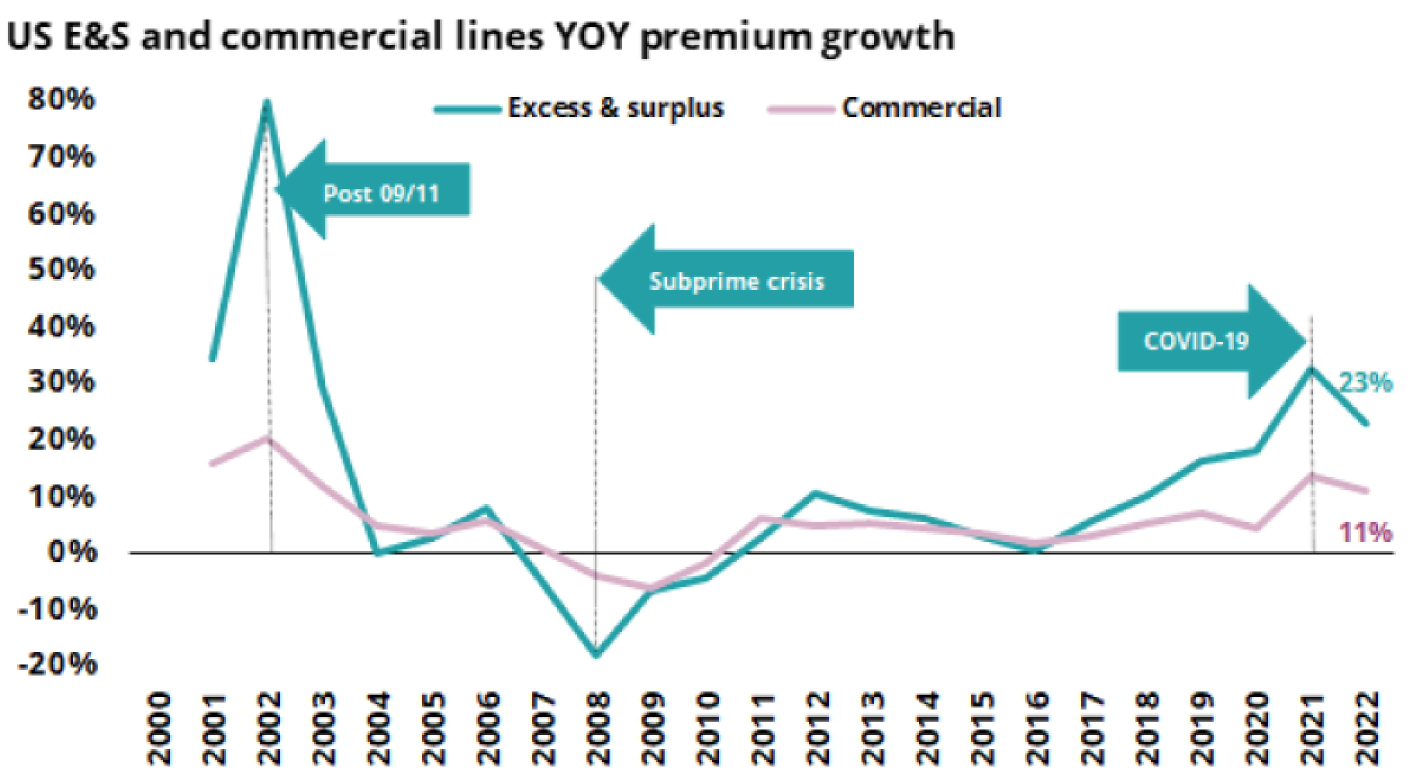
He continued, “What we're seeing is very favorable loss experience as well, both frequency and severity, but it would be imprudent for any company – including a new company – to respond immediately to either favorable loss trends or expectations of rate adequacy.”

Core Specialty launched in 2020 following the completion of the entity’s $900mm deal to recapitalize StarStone’s U.S. operations.

Since then, the carrier has grown and diversified its portfolio with new divisions including property, equine and fronting units.

In 2021, the firm quadrupled its top line and hired new leadership for markets such as D&O.

The company’s growth has come along a favorable market cycle in the excess and surplus segment and the broader U.S. specialty lines sector in recent years.



Note: 2022 YOY change represents the first nine months comparison with the same period in 2021.

Source: S&P Capital IQ, Inside P&C

Last month, the Wholesale & Specialty Insurance Association (WSIA) reported that surplus lines premiums shot up 24.1% in 2022 to a record $63.3bn as standard lines business continues to flow into non-admitted channels.

Yet, Core Specialty's growth has also been driven by its M&A strategy, which began with the deal to add Lancer Financial Group in April 2021. The transaction brought the company's equity capital to more than $1bn back then and increased its workforce to over 550 staff.

M&A: Looking for $50mm-$500mm specialty businesses

Consolino and Noonan have been amongst the most prolific – and successful – exponents of M&A on the carrier side throughout their careers and Core has not been the exception.

In October, the specialty insurer sealed a $40mm takeover agreement to buy the E&S book of Hallmark Financial, in a deal that included nine specialty business units and the transition of 200 employees.

Major Validus acquisitions under Consolino and Noonan

Announcement date	Target	Consideration
14 May 2007	Talbot Underwriting	$382mn
9 July 2009	IPC	$1,785mn
30 August 2012	Flagstone Reinsurance	$896mn
1 February 2013	Longhorn Re	-
23 June 2014	Western World Insurance	$690mn
30 January 2017	ADM Crop Risk Services	$186mn

Source: S&P Global Market Intelligence

The executives plan to continue growing inorganically in niche markets to expand the firm's specialty portfolio.

"We still are seeing a reasonably good flow of the opportunities that we like, which is smaller M&A that would be consistent with adding business units, rather than something transformative," Consolino said.

"We're still seeing a good flow of [M&A] opportunities to add business units or niches under expert leadership."

"What we're typically looking for is specialty insurance businesses – anywhere from $50mm to $500mm – with strong leadership that has the ability to underwrite to appropriate accident year profitability and wants to operate in a model where they've got autonomy to run their business and accountability for their results," he added.

Yet, Core Specialty has clearly shown it is willing to go for larger transactions in the specialty segment.

In addition to the deal with Hallmark, last year the company was a participant in Argo's sale process, which included Arch Capital, Enstar and Brookfield Re.

The embattled specialty insurer was ultimately sold to Brookfield Re for $1.1bn in a cash deal that saw the alternative asset manager take the back book.

However, Core Specialty remains open to larger transactions if the appropriate deal emerges.

"Nothing has changed. If we see a circumstance that allows us to responsibly expand our footprint and specialty insurance in what is still a very constructive environment, we are likely to be interested," Noonan said.

"We're not particularly concerned about, nor do we feel any constraint, around a size. If there's an elephant out there, we'll absolutely suit up," he added.

IPO outlook

In the interview, the executives reiterated Core Specialty's ultimate IPO aspirations, noting that there are benefits of being a public company in terms of capital flexibility.

"When we recapitalize the company, we did have a clear eye on taking the company public," Noonan said.

"We believe that being a public company imposes a discipline on management that is extraordinarily healthy."

However, Consolino noted that taking a firm public is either a corporate finance decision or a shareholder management proposition.

"From the corporate finance perspective, we've got $1.3bn of capital. We've got access to capital because our balance sheet is underleveraged." he said.

"We're still not using all of our capital in our business, so we've got the capital flexibility to grow."

He continued, "From a shareholder management perspective, we've got a pretty concentrated shareholder base, and all of them are happy with what we're doing."

Core Specialty is owned by Dragoneer, SkyKnight, Enstar, Aquiline and management.

Consolino stressed that he and Noonan had conviction that public investors – with whom the firm meets quarterly – would find support when it made sense for the company to float, independent of equity or P&C market conditions.