Core Specialty quadruples top line as Consolino seeks to future-proof firm.

After Core Specialty quadrupled its top line in 2021, CEO Jeff Consolino and executive chairman Ed Noonan said they have built rapidly and diversified the book substantially to give them the ability to weather the soft cycle when it comes.

In an interview with *Inside P&C*, Consolino 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 will be almost five-fold to $2.1bn, the executive added.

“I think it is unarguable that we got into the market and grew our business in a significant way when rates are good,” Consolino said. “Our values are quick action with intent.”

“The hypothesis that brought Ed and I back together was that with the change in market conditions, with the change in rate, with the demand for capacity from customers and brokers — this was a great time to start leading a new company,” he said. “Great companies are created in this kind of situation.”
Pro forma for Lancer the business is larger than RSUI, which wrote $2.07bn last year, and substantially larger than RLI which wrote $1.35bn of business.

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

Consolino noted that the StarStone’s US business was underappreciated and buried within StarStone’s unsuccessful global 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.

To grow the business, Consolino said his company has hired new leadership for markets such as D&O, which “we believe to be a terrific, well priced market.”

The D&O market has experienced a hardening trend over the past three years, with higher premiums, tighter terms and selective deployment of capacity on both primary and excess layers.

“When the rates are right, and when the margins are good, you’ve got to build your presence there.”
The firm also added new business units including property and crop reinsurance, creating a fresh fronting practice earlier this week to bring together the $441mn of fronted business from its other divisions.

Flexibility is key

As business quadrupled, Noonan said that the key to success lies in giving yourself as much flexibility as possible by keeping your portfolio balanced across the cycle.

“The idea is to give yourself as many levers as you can to maximize your growth and book value across the cycle,” for when “times are tough, and rates are coming down,” Noonan said.

On that note, the executive emphasized the company’s known ambitions of eventually going public, saying that, “hopefully at that point in time, we’re also a public company and have even more levers to work with managing our capital.”

In an earlier interview with this publication, the executive duo said that while Core Specialty has a future in the public markets, the firm had no need to expedite an IPO, but that a public debut is very much on the management team’s mind, and that they are meeting quarterly with institutional investors to provide updates on the firm.

“The future of this company is a public company, for reasons beyond the idea of just raising capital for business”

Consolino said that they are “public company people” and added that the discipline of being a public company, which includes the practice of quarterly reporting results is something that the duo “relishes”.

He also said that being a public company gives you other advantages, such as the flexibility to manage your capital, efficient access to capital, and “acquisition currency” for M&A opportunities.

“The future of this company is a public company, for reasons beyond the idea of just raising capital for business,” Noonan added.

Pulling the levers

While the company remains private, the levers which give the executives flexibility include balancing their exposure across different lines of business, Noonan said.

“We haven’t bet the company on anything, and there is no class of business that we say, ‘well, we can’t afford to shrink that,’” he added. In fact, it is just the opposite, Noonan said.

“There is no class of business that we are in that we are not in a good position to say, ‘prices have gotten crappy, lets walk away and come back, and fight another day when rates look good again.’”

Further, the executive said there were specific areas where they chose not to push, citing cyber, E&O and transactional liability as examples.

Cyber has been particularly problematic for insurers, with capacity drawn back by carriers burnt by ransomware claims and concerned about the huge systemic exposures that were being run.

“We didn’t go and say, let’s hire a cyber underwriter or point to a cyber-MGA and say let’s go write millions of dollars of cyber,” Noonan said. “Right now, we don’t think we are smart enough to do that.”

When asked about his company’s underwriting performance, Consolino said that 2021 was another year of elevated catastrophes, revealing that his company’s combined ratio last year was 96%, which included four percentage points of cat losses.

“Unlike the industry, since we gave all of our loss reserves to Enstar as part of the transaction, we didn’t have any favorable, or for that matter unfavorable reserve development, in that 96% combined ratio, or that 92% underlying combined ratio”.

Consolino said, however, that his company maintained a conservative balance sheet, which he believes should always go together with growing a profitable business.

What is next in M&A?

Consolino and Noonan have been amongst the most prolific – and successful – exponents of M&A on the carrier side. This was most evident at Validus where the company made six meaningful acquisitions, as well as securing a skillful exit.

But Consolino was also involved in several deals at AFG including the acquisition of workers comp writer Summit and the purchase of the remainder of National Interstate. Prior to his time at Validus, he was a deal banker at Merrill Lynch.

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 Lancer deal marked Core’s first M&A transaction since the company’s launch. The new combined entity expanded its operations into the specialty commercial auto space and took its workforce to around 600 employees and its equity capital to over $1.1bn.

When asked what the next M&A move would be move for the acquisitive insurer, Consolino said: “I think we don’t know.”

“Unlike the industry, neither Ed nor I have the blemish of a bad M&A deal on our records, and part of that is we are not over eager,” he said, adding that “we are not interested in buying something just for the sake of buying.”

Rather, the executive said the duo is interested in finding opportunities that either add specialties to the business or that would buttress their market position.

“The only thing I can confidently say is that there will be more M&A and that we will be moving into a more target rich environment,” Consolino said.

Noonan added that M&A decisions are also contingent on favorable pricing and circumstance.

“We don’t root for anybody to stumble, but opportunity does get created that way,” he said.

“As the market softens, two or three years out, that will become a bigger issue. So, I think you need to be patient and must be absolutely prepared for the opportunity.”

“We are patient on the things we covet, and we are prepared for whatever comes our way.”