



AM Best puts StarStone US ratings under review

The Insurer June 12, 2020

AM Best has put the A- financial strength ratings of the US platform of StarStone being relaunched with \$850mn of capital under review with negative implications.

The review applies to the ratings of the whole of the StarStone Insurance Bermuda Limited (SIBL) group, which includes US E&S platform StarStone Specialty Insurance Company (SSIC) and admitted carrier StarStone National Insurance Company (SNIC).

As previously reported, the StarStone US platform is being rebooted under the leadership of CEO Jeff Consolino and chairman Ed Noonan as an \$850mn capitalized carrier that will focus on specialty P&C business including E&S property.

Its capital comes from the rollover of previous majority owner Enstar's \$235mn of equity with the addition of \$610mn of funds from private equity trio Aquiline, Dragoner and SkyKnight along with another \$20mn investment from the management team.

Enstar's interests in StarStone US Holdings are being sold to Core Specialty Insurance Holdings, a newly formed entity backed by the PE firms. The Bermudian live-to-legacy carrier will have a 27.8 percent interest in the new platform.

In a statement, AM Best noted that the rating actions follow the announcement that Enstar's majority stake in SSIC and SNIC will be diluted to a minority interest following the transaction, while SIBL will be placed into run off along with Liechtenstein-based European subsidiary StarStone Insurance SE.

The ratings agency explained that the under review with negative implications status of the US operations reflects its expectation that the rating enhancement the platform gets from being majority owned by Enstar will be removed.

"While Enstar is maintaining a significant ownership in SSIC and SNIC, it is no longer sufficient to provide explicit rating enhancement, but will be contemplated in the companies' other building block assessments.

“This under review status will be resolved when AM Best has completed a ground-up analysis of SNIC and SSIC to evaluate the impact of the planned transaction and change in strategic direction on these companies’ building block assessments,” said AM Best.

The ratings agency added that if the deal does not go through, it will reevaluate the current level of rating enhancement provided to SNIC and SSIC and their strategic importance within the Enstar group.

AM Best added that, while it expects Enstar to support the run-off of the Bermuda and European operations, there is uncertainty over their risk-adjusted capitalization following the restructuring of the group.

“In addition, there may be negative pressure on the business profiles of these companies, given the runoff nature of the remaining business,” it continued.

As previously reported, StarStone’s international operations are being put into run-off with renewal rights to the book transferred to Enstar stablemate Atrium.

StarStone is evaluating additional “strategic opportunities” for the international business not assumed by Atrium.

The rebooted US platform will be the beneficiary of a loss portfolio transfer and an adverse development cover from Enstar providing a \$130mn buffer on any reserve deterioration on the pre-transaction book of business.