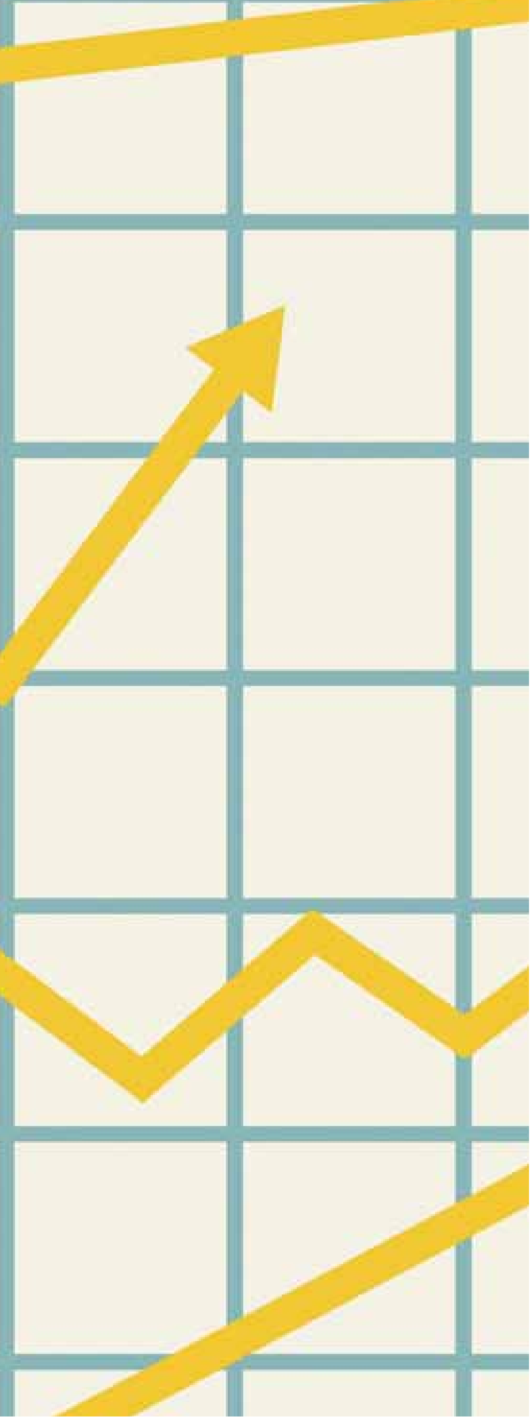
Legacy free

Spotting a gap in the market, industry veterans raised $1.1bn on the London Stock Exchange in December for an insurance start-up. Jason Sinclair reports

Storms. Wildfires. Floods. A pandemic. Things have become hard in the insurance industry. A 'hard market' is where there's a reduced supply of and higher demand for insurance, historic payouts are increasing and premiums are going up. At the lead-in to these natural disasters, big insurance companies had been consolidating, and institutional money was seeing less opportunity for varied investment strategies, with only four insurers remaining quoted on the London Stock Exchange (LSE).

With all this happening before the pandemic struck, industry veterans Neil Eckert and Trevor Carvey, who had known each other for more than 30 years, put their heads together. They could see the market was moving towards diversified insurers. The opportunity, they thought, was to aim for an IPO for a new 'pure play' reinsurer, coming to market without historic exposure and a clean balance sheet. In December 2020, just over a year after they first spoke, Conduit Re's offering was listed with a market value of $1.1bn.

"We thought insurance markets were hardening and rates were starting to rise," says Eckert. "With the losses that the market made over the previous few years, there were a lot of claims around and so the market was going to have to start putting rates up. By the time COVID-19 struck, that created a mini-crisis of its own for insurance markets. The other thing that happened was that there had been a tremendous amount



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of consolidation and, by the middle of 2020, there were only four insurance stocks left on the London stock market – Lancashire, Beazley, Hiscox and the Royal. So, there was a shortage of ways for public institutions to play the opportunities. We felt that there was a really good opportunity presenting itself to us to do an accelerated IPO."

While insurers and reinsurers have been shaken by the spread of the virus, Conduit Re does not have the burden of a legacy portfolio. Being legacy-free from past insured losses is an advantage in Conduit Re's day-to-day business. The fundraise was helped by one of those four listed companies, the Royal (or RSA), being the subject of a £7.2bn bid.

"That was extremely helpful," says Eckert. Commercial insurers Amlin, Catlin Group, Novae and Hastings have also been taken over in the past decade, leaving three big listed sector companies in London. In July 2020, insurtech company Lemonade listed on the New York Stock Exchange. Founded in 2016, it has a market cap of $5.5bn.

Experience counts

At the same time as conducting investor presentations, Conduit Re was recruiting underwriters and attempting to gain the necessary regulatory approval and credit ratings to do business. "There were multiple work streams," says Eckert, "and we probably did more than 100 institutional investor meetings."

Lockdown ways of working were "remarkably efficient". Eckert contrasts it to his experience launching the IPO for Brit Insurance in the mid-1990s: "You could start at eight in the morning in London and by early evening you had moved on to New York, and then later on to Los Angeles. It was very different to previous IPOs and fundraisers that I've done, where I'm catching planes and driving around cities. We just had meetings back to back to back. The machine was in operation 24/7. There was a lot of momentum; there were eight to 10 weeks of very intense activity and then suddenly we arrived at the finishing line."

With the prospectus noting "capacity reductions" in the reinsurance markets, Conduit Re expects to write $472m of premiums in its first year of operation, with growth forecast to increase to $626m in year two, $757m in year three, and rising to $966m by year five. "The market needs new entrants when markets are hard," says Eckert, "when some of the major incumbents are reducing their lines and exposures. There's opportunity for a new player."

A well-timed IPO

This pitch, along with Eckert and Carvey's history and contacts in the industry, meant that the IPO had strong support, becoming the second biggest (after The Hut Group) to hit the LSE in the second half of 2020. Eckert chose London, he says, because "it's where I've done a lot of IPOs before. We're familiar with the institutional investors and, with only four quoted stocks, there was demand for the opportunity.

"You have to get a lot of things all pointing in the right direction to IPO a company at the outset. But the opportunity presented itself and the further we looked into it, the more we realised that we had a good chance of raising the money."

The lead corporate finance adviser was Gavin Kelly at Kinmont, a former UBS banker who set up the specialist boutique adviser in 2003. Conduit Re engaged Jefferies and Panmure Gordon as joint bookrunners and global coordinators.

BDO were the reporting accountants and Travers Smith provided legal advice to the company.

"It was a complex, fast-paced transaction and remote-working arrangements do present further challenges," says Tom Coulter, a partner at Travers Smith. "We've worked on

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chairman,
Conduit Re

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partner,
Travers Smith

a number of IPOs in the past six months, entirely remotely, and I think communication and dialogue are key." Given the start-up nature of the business, Coulter says, "there wasn't the usual IPO readiness preparation from a legal and financial due diligence perspective. The key was having a solid business plan" – as well as the track records of Eckert and Carver.

Once investor appetite had been confirmed, steps towards regulatory approvals, ratings and licences had to be put in place "very early on, in order to hit the IPO window for the insurance market", Coulter continues. Conduit Re needed to be "sufficiently capitalised to be able to obtain the AM Best rating". That in itself was another complexity, as a start-up couldn't meet the conditions before it listed. There were a lot of discussions with AM Best and the FCA.

Other complexities included the management incentive plans, which were "more akin to a private equity fund model", explains Coulter. In addition, there were the timing of licences, coordinating tax requirements and local counsel in Bermuda – where the company has its headquarters – and FX arrangements around the capitalisation required to pass the AM Best ratings, which provide the standard for insurance companies.

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Conduit Re is looking for organic growth. "I find that most consolidation M&A activity takes place at the back end of an insurance cycle and I feel we're at the front end," says Eckert. He feels that M&A would be a distraction to the business plan, although fundraising is possible in the future.

Will the 'hard market' lead to more start-ups in the space, or has Conduit Re filled the gap? "There will be more capital in the market," says Eckert, "but that doesn't derail the thesis of a hardening market as the market leaders cut back. The limitation on that is the number of credible management teams who can go to market."

The deal

On 2 December 2020, global reinsurance start-up Conduit Re listed on the London Stock Exchange. It raised and had a starting market cap of $1.1bn – the largest UK listing in Q4 2020. Shares have remained pretty stable, suggesting that the pricing was about right.

Gavin Kelly at Kinmont led the corporate finance team advising on the IPO. The BDO reporting accounting team was led by Ian Cooper. Travers Smith provided legal advice and its team was led by Spencer Summerfield, Tom Coulter and Aaron Stocks. The global coordinators and joint bookrunners were Jefferies and Panmure Gordon.

"They all did a stunning job," says Eckert, "considering the number of meetings, the quality of the institutions and a book containing a very high-quality, long-only share register. It was a very enjoyable experience and all the advisers performed fantastically. Everything did have to work for us to get to an IPO from a standing start and that's why I can't speak highly enough of the people involved."

Tom Coulter, partner at Travers Smith, had worked with Eckert on the IPO of his previous company, Aggregated Micropower, in 2013. He was also familiar with the teams from Jefferies, Panmure and Kinmont. "Knowing each other pretty well was helpful on what was a tight timetable transaction," Coulter says. "We were all able to help each other and drive the deal forward collaboratively."

Environmental insurer

Neil Eckert embarked on a career in the insurance industry in the 1980s as a trainee broker. He joined Benfields in 1986 to work alongside future Chelsea Football Club vice-chairman Matthew Harding. Eckert looked after corporate capital coming in to Lloyds, culminating in the founding of Brit Insurance in 1995. After 10 years as chief executive and growing it to a £1.2bn market cap business, he passed it on to successor Dane Douetil.

He had become more interested in climate change and he helped to start Climate Exchange, which was sold for £400m five years later. Since then, he has founded and chaired IncubEx, developing new financial products in global environmental and reinsurance markets, and Aggregated Micropower, which invests in renewable energy projects.

Aggregated Micropower was sold in January 2020, freeing Eckert's time to focus on Conduit Re. It doesn't mean that he's lost his interest in the environment. "The 'E' in ESG [environmental, social and governance] is a passion of mine," he says.

"We want to put the principles of the environment right in the centre of our business, understand the impact of the weather on the business and introduce it into risk management practices. The insurance market does face some challenges, such as the coverage gap. As we've seen new types of losses occur in the past five to 10 years – with the unprecedented winter storms in Texas and other US states, and wildfires on the Pacific Coast and in Australia – it's a challenge. But it's also a business opportunity because the demand for coverage is there. We've just seen what has happened as a result of recent events and the insurance market basically needs to respond."

He says it's another advantage of Conduit Re being legacy-free: "We have the opportunity from day one to embed ESG-positive initiatives into areas such as supply chain, investment policy and community engagement."