



R&Q Insurance Holdings Ltd

Strategic Initiative to Separate Program Management and Legacy Insurance & Trading Update

4 April 2023

R&Q Insurance Holdings Ltd, (AIM-RQIH) (“R&Q” or the “Group”), the leading non-life global specialty insurance company focusing on Program Management and Legacy Insurance businesses, announces that the Board of R&Q is reviewing strategic options to separate its Program Management business, Accredited, and its Legacy Insurance business. In addition, R&Q also provides a trading update on the Group’s expected operating performance for the financial year ended 31 December 2022.

Strategic Initiative to Separate Accredited and Legacy Insurance

R&Q’s Program Management business, Accredited, has grown significantly over the past three years, achieving record Gross Written Premium and Fee Income (excluding minority stakes in MGAs) of \$1.8 billion and \$80 million, respectively, in 2022. It is now one of the largest program managers globally.

Accredited relies on an ‘A’ credit rating to conduct business and historically relied on the financial strength of the broader Group to obtain its credit rating. However, given Accredited’s current size and scale, R&Q believes it is in the best interests of R&Q’s shareholders for Accredited to stand on its own. Therefore, the Board of R&Q is reviewing strategic alternatives to separate Accredited and Legacy Insurance, which will include a legal reorganisation followed by strategic transactions with third parties to achieve this objective. R&Q expects the separation will set each of Accredited and Legacy Insurance on more favourable footing to deliver profitable growth, each with their own appropriate capital structures.

The legal reorganisation is subject to regulatory and lender consents, which R&Q expects to obtain in Q2 2023.

Preliminary FY 2022 Trading Update

Based on preliminary and unaudited information, R&Q anticipates that it will realise a Pre-Tax Operating Profit (Loss) for the financial year ended 31 December 2022 of \$(30)-(40) million, comprising \$55-60 million in Program Management, \$(55)-(60) million in Legacy Insurance and ~\$(35) million in Corporate and Other, which is primarily interest expense.¹

Program Management

Program Management is expected to realise a Pre-Tax Operating Profit of \$55-60 million, driven by Gross Written Premium of \$1.8 billion and Fee Income (excluding minority stakes in MGAs) of \$80 million, which increased 80% and 78%, respectively, over the prior year. Pre-Tax Operating Profit includes \$12 million of earnings from the Group’s minority stake in Tradesman Program Managers, which has subsequently been sold to its controlling shareholder in Q1 2023.

Legacy Insurance

Legacy Insurance is expected to realise a Pre-Tax Operating (Loss) of \$(55)-(60) million, driven by fewer transactions completed, with Gross Reserves Acquired of ~\$70 million and net adverse development of ~3-4% of the Group’s net reserves. We expect Reserves Under Management at year-end 2022 to be ~\$400 million (~\$1 billion as of January 2023). Prior to new accounting rules effective from 1 January 2023, the IFRS accounting regime allowed “Day-1 gains”, which meant that a majority of a transaction’s profits could be recorded upfront upon closing of the transaction. As a result, any net reserve development after a transaction had closed created heightened volatility in earnings but did not mean that the underlying returns

of the transaction would not meet expectations when taking into account the Day-1 gain and investment income.

Corporate and Other

Corporate and Other is expected to be ~\$(35) million. This comprises interest expense on debt, unallocated expenses and foreign exchange impact on reevaluation of net assets.

William Spiegel, Chief Executive Officer, commented:

“Our Program Management business, Accredited, has seen remarkable growth in Gross Written Premium, Fee Income and profitability over the past five years. Accredited currently partners with MGAs to offer over 80 different insurance programs and has over 200 reinsurance partnerships. Accredited has grown to become one of the largest program managers in the world and has the appropriate size and scale to stand on its own as an independent business. The Board has concluded that it is in shareholders’ best interests to evaluate strategic options that allow for a separation of Accredited and Legacy Insurance. This will ensure both Accredited and Legacy Insurance have the strongest foundations from which to grow.

“In Legacy Insurance, we continue to focus on transitioning to a fee-based and capital efficient model and remain confident that this will create a more profitable, sustainable and valuable business. While in 2022 we didn’t complete as many transactions as in prior years, we maintained prudence in only pursuing deals that are profitable for both R&Q and Gibson Re. As announced on 6 January 2023, we have grown Reserves Under Management to in excess of \$1 billion, starting from zero in the fourth quarter of 2021. While our Q4 2022 actuarial review process shows a need to strengthen reserves, it is important to note that the IFRS accounting regime recognised a large portion of total lifetime earnings at transaction close, which is a significant part of how we assess the overall profitability of historical legacy transactions.

Due to the planned separation, we expect to announce our final audited results in June 2023.”

¹ Financial figures are estimates and therefore dependent on finalising full year 2022 results. Any reserve strengthening is a significant accounting estimate that involves management making assumptions and considering future events that are inherently uncertain. There is a risk that such judgements are not made in accordance with IFRS and thus there may be material differences once the auditors/actuaries have undertaken their review as part of the year end audit process which is yet to be completed.

Ends

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Notes to Editors:

About R&Q

R&Q is a global non-life specialty insurance company. We operate two core businesses: Program Management and Legacy Insurance. Both these businesses are leaders in their respective markets.

Our approach is to deploy our origination and underwriting capabilities, alongside our licensed and rated carriers in the US, EU, and the UK, to generate attractive fee returns in Program Management and Legacy Insurance.

Legal Entity Identifier (LEI): 2138006K1U38QCGLFC94

Website: www.rqih.com

This announcement contains inside information as stipulated under the UK market abuse regulation no 596/2014, which is part of English law by virtue of the European (withdrawal) act 2018, as amended. On publication of this announcement via a regulatory information service, this information is considered to be in the public domain.