Catlin and Everest team up with Westaim to buy $75mn HIIG stake

Westaim Corp has confirmed its deal to acquire a stake in Stephen Way's Houston International Insurance Group (HIIG), as revealed by *The Insurance Insider* yesterday (11 March).

And the Canadian investment company added that Catlin and Everest Re are each contributing $20mn as part of the consortium taking an initial 42.5 percent investment in the US specialty insurer for $75mn.

The transaction includes the injection of $60mn of funds to support growth at HIIG.

A second phase of the deal has been agreed that would take the investor group's ownership up to 67.1 percent for further consideration of $38.7mn.

The Insurance Insider revealed yesterday that Toronto-listed Westaim, management and two unnamed insurance companies had joined up to buy out Lightyear Capital's stake in HIIG.

Commenting on the deal, HIIG's chairman and CEO Way said: "With our new partners and access to capital we are well positioned to take our company to the next level."

Westaim's president and CEO Cameron MacDonald added: "The specialty insurance market offers compelling global opportunities.

"We believe that partnering with Stephen Way, who has delivered significant shareholder returns throughout several market cycles, provides Westaim with an excellent opportunity to deploy capital."

In a statement, Westaim said that the consortium has agreed to buy an initial 42.5 percent stake in HIIG for $75mn - and that it has the "exclusive right and obligation" to increase its ownership to around 67.1 percent, contingent on its ability to raise necessary funds to do so.

First phase

The first phase includes the acquisition of 14.1 percent of existing stock in HIIG for $15mn from shareholders including Lightyear Capital, and the purchase of $60mn of new shares in the insurer.

Financing for the initial deal includes $20mn from Westaim's current funds, $20mn each from Catlin and Everest, $10mn from Way and $7mn from other existing HIIG shareholders and other investors.

Lightyear sells HIIG to Westaim Corp

Canadian investment company Westaim Corp has acquired a majority stake in Stephen Way's Houston International Insurance Group (HIIG) and committed

HIIG is the A- rated holding company for four different US insurers and the MGA business HIIG Underwriters.

The insurers comprise two surplus lines

How *The Insurance Insider* revealed the sale on 11 March

The transaction values HIIG at 89 percent of its adjusted shareholders' equity as at 31 December 2013.

"We believe that partnering with Stephen Way, who has delivered significant shareholder returns throughout several market cycles, provides Westaim with an excellent opportunity to deploy capital"

The second phase gives the investor group the right to buy the remaining HIIG shares owned by the sellers for an aggregate purchase price of around $38.7mn, valued at 84 percent of shareholders' equity as at the end of 2013, Westaim explained.

Last year, this publication revealed that Lightyear had decided to sell its stake in the business as part of a broader strategy to exit underwriting businesses and linked Catlin to a consortium looking to buy the insurer.

HIIG is the A- rated holding company for four different US insurers - two surplus lines writers (Houston Specialty and Oklahoma Specialty) and two admitted carriers (Imperium Insurance and Great Midwest Insurance Company) - as well as the MGA business HIIG Underwriters.

Lightyear's stake in Houston International dates back to 2006, when it led a consortium that acquired programme insurer Delos from Sirius America.

In 2010, the private equity firm merged Delos with Way's SouthWest Partners to create HIIG.

Way, an Englishman who is entering his 50th year in the industry, emigrated to the US when he was 21-years-old and went on to establish and build the $4.5bn market cap insurer Houston Casualty Corp (HCC).

Following the creation of HIIG in 2010, Way initially focused on restructuring the newly combined group, cutting back on unprofitable lines and sub-scale classes of business.

Recently, however, Way has put greater emphasis on growth. HIIG wrote $242mn of gross premiums in 2012, up 11 percent on 2011's $218mn, according to AM Best, while net written business amounted to $137mn.

2014 target

Data for 2013 was not available at time of going to press, but a source close to the talks suggested a target of $400mn has been set for 2014.

Lightyear is a New York-headquartered private equity firm that was founded in 2002 by Donald Marron, the founder of PaineWebber and Data Resources Inc. It specialises in financial services and has raised more than $2.5bn from investors.

The firm has, however, sold down its underwriting businesses in recent years. In February 2014 it confirmed the sale of its Lloyd's insurer Antares to Q-Re following an Evercore-managed sale process.

Other disposals include its stake in Flagstone Re - the Bermudian reinsurer that was acquired by Validus in 2012 for $623mn - and US crop insurer NAU, which was sold to QBE for $565mn in 2010.

Lightyear does, however, retain a significant exposure to the global reinsurance and specialty industry through its substantial stake in London-headquartered broker Cooper Gay Swett & Crawford.

In May 2012, Westaim sold its only asset - the P&C insurer Jevco - to the Canadian insurance group Intact Financial Corp for $530mn.