R&Q Insurance Holdings Ltd

Strong operational progress to give perspective

18 August 2022

Only two months ago shareholders saw sufficient potential upside to reject a bid at c. 128p equivalent (i.e., 175p offer, adjusted for a subsequent share issue which added 37.1% to the equity base). They then fully supported an equity issue, which added c. 28.5p cash per share, based on the enlarged capital base. If that back-of-the-envelope appraisal doesn't convince, operational updates since the bid have all been encouraging with both core businesses well on track (Program Management a year ahead of prior forecasts) to deliver transformational strategies over the next 12-24 months. So, what has changed to explain the shares decline?

The events which led to the recommended bid inevitably affected credibility. A material non-cash impairment to an historic (acquired 15-years ago) legacy portfolio was a source of concern and addressed promptly, as it potentially affected debt covenants and external ratings. Ultimately, it was fixed by a dilutive equity issue, but as both events were unexpected, they undermined confidence. The group, not unreasonably, also took the decision to pass the final dividend.

Surprises are inherently unnerving. If the rating looks defensive it may discount potential for further equity issues, or for an ongoing comprehensive rationalisation of management and systems to be disruptive (we have incorporated this into our projections). The intentions of large shareholders, some of which may not see their stakes as long-term strategic holdings, are not clear.

Equity discount relates to perceived sensitivities

Management's ultimate ambition and the motivation for its five-year strategic plan kicked-off in 2021, is explicitly **to create a business with two complementary sources of high-quality, growing revenues and cashflow.** All efforts now focus on helping both core businesses to achieve scale and generate reproducible and stable income. That will finance growth and progressive dividends.

The plan is ambitious and forecasts sensitive to the precise costs, timing, and delivery of each phase of the strategy. The logic seems hard to fault. In the last few years RQIH has progressively sought to simplify a complex business model to improve revenue quality and visibility. Recent operational performance is strong and the outlook positive, which justifies potential short-term disruption from a comprehensive rationalisation. The impairment was unexpected but identified as part of its own detailed of the entire legacy portfolio review. With c £107m in cash RQIH fixed immediate issues and sourced capital to build the scale to finance growth internally.

Valuation

We see RQIH progressively moving away from the sum-of-the-parts valuation relied on previously to an earnings multiple/dividend yield basis, backed by a stable revenue base more akin to a traditional insurer. The transformation of its legacy business from a capital intensive, upfront underwriting income model to a capital-lite, annual recurring fee income model is progressing to plan, but will depress earnings in the near term.

Our revised Fair Value / share is 170p.

For perspective, at 170p the shares would still only trade on a PER well below 10x our estimated adjusted underlying FY24 EPS of 18p, a figure based upon current RQIH guidance for achieving $90m of pre-tax operating profit in FY 2024. Similarly, our dividend forecasts indicate a potential 4% yield in FY 2024 at a 170p share price.

Company Data

EPIC	**RQIH**
Price	103p
52 weeks Hi/Lo	191p/78p
Market cap	£404m
ED Fair Value / share	170p

Share Price, p

Source: ADVFN

Description

Randall & Quilter Investment Holdings Ltd. Is a long-established UK and US insurance business, led by experienced management. It is focused on two core strategies:

Program Management is a fully regulated commission fee-based business, which acts as a conduit between reinsurers and MGAs (insurance distributors).

Legacy Insurance provides exit solutions for legacy/run-off insurance assets to vendors in the US, Europe, and Bermuda.

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FY21 results

FY21 reflected the ongoing strategic repositioning of Legacy Insurance and continued strong growth by Program Management.

Summary results		
Year ended Dec, $m	**2021**	**2020**
Underwriting income	57.4	100.5
Fee income	56.1	24.1
Investment income	24.8	20.8
Gross operating income	**138.3**	**145.4**
Program Management	20.6	3.3
Legacy insurance	(5.7)	49.0
Corporate/Other	(35.9)	(31.7)
Pre-tax operating profit	**(21.0)**	**20.6**
Diluted earnings per share, cents	(46.9)	14.2

Source: R&Q FY21 report

Legacy Insurance

Legacy insurance's lower up-front profits reflects the predicted impact, post creation of Gibson Re in September 2021, of its transition from direct portfolio purchases which generated a 'day-one' underwriting profit, **to annual asset management fees** levied on reserves managed. A more meaningful contribution from the latter will be reflected this financial year.

The timing of Gibson Re's September 2021 launch had another, also anticipated impact. Legacy typically closes a significant proportion of its acquisitions in Q4. In FY21 a material part of underwriting income, formerly booked by RQIH, was shared with Gibson Re. **That cut the group's retained portion of that income, effectively exchanging it for contracted future fees.**

Legacy Insurance result		
Year ended Dec, $m	**2021**	**2020**
Underwriting income	58.5	103.6
Investment income	19.3	16.8
Gross operating income	**77.8**	**120.4**

Source: R&Q FY21 report

Those are the main components of the group's reported USD21.0m pre-tax operating loss, plus a USD29m adverse development. FY21 does not yet reflect any of the contracted fee income receivable from managing legacy insurance reserves for Gibson Re for multiple years.

Other indirect benefits which flow from the creation of Gibson Re include the fact that the four deals it has completed would, under RQIH's previous funding model, have required c USD100m of additional capital and the group would have assumed 100% of the risk on these transactions.

Via Gibson Re RQIH can grow its Legacy Insurance business and transition into an asset manager with a smaller share of the inherent risk. At end FY21 reserves under management (RUM) was USD417m, post four Legacy Insurance transactions.

That is equivalent to USD$17.7m of annualised recurring fee income, none of which is included in FY21 PTOP.

Impairment related to legacy purchase completed over 15 years ago

In Q4 2021, R&Q drew material cash capacity to fund collateral requirements upon certain reserve strengthening in Lloyd's. That plus an extraordinary, c USD90m non-cash pre-tax charge detailed below, determined the need to raise new capital.

The charge is not related to either of the group's two core business or the Accredited companies. The source is a legacy acquisition completed over 15 years ago and an associated reinsurance policy in which claims have accelerated above expectations. That left this subsidiary with minimal liquid assets, but USD34m of future claim payments before it could access the reinsurance coverage.

The subsidiary is treated (under IFRS) as a group asset, its value based on the sum expected to be realised over the next 40-years. The impairment charge reflects the decision to commute the reinsurance contract so as to provide liquidity to meet anticipated claims. The alternative would have been to inject up to USD34m cash into this subsidiary over the next two to three years. The decision was taken post a detailed review to reduce the risk of future volatility and the resultant accounting adjustment would nonetheless have affected group debt covenants and external ratings.

Program Management

This operation's **inherent operational gearing** is reflected in 506% y-o-y growth in pre-tax operating profit to USD21m at a 36% PTOP Margin (FY20: 14%). It added 21 new programs in FY21 and grew fee income by 133% to USD56.1m.

Program Management result

Year ended Dec, $m	**2021**	**2020**
Underwriting income	(1.1)	(3.1)
Fee income	56.1	24.1
Investment income	2.7	2.6
Gross operating income	**57.7**	**23.6**

Source: R&Q FY21 report

Program Management added over USD1bn to GWP in 2021. That puts it on track to achieve its stated USD$1.75bn target this year, rather than in 2023. In FY21 PM fee income also benefited from strong growth of MGA Tradesman Program Managers, in which the group owns 40%. Tradesman added USD11.1m to FY21 divisional fee income.

The division's reported new business pipeline is supported by 'substantial' growth opportunities in the US, UK and Europe' and demand from both MGAs and reinsurance capital. It is recruiting to strengthen its management to create best-in-class operations able to capitalise on opportunities.

Cash and investments

The group held USD1.8bn of cash and investments at end FY21, excluding funds withheld. The book yield, excluding net realised and unrealised gains on fixed income assets was 1.4%, 20 bps below FY20 due to the higher non-US dollar asset weightings of Legacy acquisitions.

The investment portfolio is by nature conservative and liquid, as it needs to produce consistent cash flows to meet liability obligations and generate a satisfactory risk-adjusted return. Some 97% was invested in cash, money market funds and fixed income. Of the fixed income, 97% was investment grade.

The portfolio comprised 14% cash, 43% corporate bonds, 24% government and municipal securities, 17% asset-backed securities 3% and equities. Durations were extended to better match expected liability cashflows and capture additional investment return as the yield curve steepened. The interest rate duration was 3.2 years at end FY21 (1.8 years at year-end 2020).

With interest rates increasing from year-end 2021 by approximately 200bps, we anticipate R&Q will recognise ~$100m of unrealised losses in its investment portfolio. However, R&Q views mark-to-market movements in the investment portfolio as non-operating given the high credit quality of the underlying securities and the unlikelihood of realising those market movements - given that the bonds are generally held to maturity and the liabilities are longer in duration at approximately six years.

Investment allocation

Year ended Dec, $m	2021	2020
Government & government agencies	330.9	311.8
Corporate bonds	1055.9	778.2
Equities	11.9	7.5
Cash-based investment funds	112.6	74.0
Cash and cash equivalents	266.3	363.5
	1,777.6	**1,535.0**

Source: R&Q FY21 report

Strategic plan: 12 months into a five-year transformation

RQIH's annual report reiterates its five-year strategic plan. Launched in 2021, this is designed to build a fee-based, capital lighter business which generates high-quality, reproducible revenues and growing profits from its two core operations.

It continues to report strong progress relative to two KPIs; growth in **Gross Written Premium (GWP) for Program Management** and **Reserves Under Management (RUM) for Legacy Insurance**. These are the underlying drivers of fee income and the sources of potential high-quality revenues.

Simplified and enhanced business model

Older, complicated framework	New simplified framework
Complex revenue model, driven by upfront Underwriting Income associated with Legacy Insurance	Simplified revenue model i.e., recurring annual Fee Income on Program Management GWP and management of Legacy Insurance reserves
Episodic earnings due to unknown timing of Legacy	Predictable, high quality annual recurring Fee Income
Balance sheet intensive due to required capital for Legacy Insurance transactions and need to raise equity to fund growth	Balance sheet lighter. Capital required to fund growth is provided by third parties

Source: R&Q Annual Report 2021

As revenues build an operationally geared business model will drive up profit margins. RQIH has identified ways that it believes will help it capitalise on its competitive positioning and market reach. These include a systematic rationalisation to reduce unnecessary complexity, streamline fundamental reporting systems (e.g., claims assessment and management), back office and IT processes. It is also recruiting additional expertise and secured appointments at all levels, including strategic planning and HR:

Recruitment

Recent hires	CEO of Global Legacy
	Chief Data & Technology Officer
	US Head of Compliance and Regulatory Affairs
Team enhancement	Data and Analytics team
	Additional underwriters in US Program Management business
	Boosted Claims and Operations capabilities and expertise in both

Source: RQIH annual report

Upfront costs will impact results short term

A range of initiatives are underway to extract efficiencies, automate and centralise business processes. Management expects this streamlining to enhance inherent operational gearing and push up profit margins as the business scales over the medium term.

The related cost of these initiatives is estimated at c USD20m over the next 12-18 months. That will impact results short term, but **it is projected to generate significant cost savings by FY24.**

We regard this as a major potential ‘win’ for the group and its investors. RQIH has identified multiple opportunities to significantly increase its scale across key markets globally.

The initiatives included in its strategic plan should help RQIH manage the risks associated with bringing new programs onboard and identify the manpower, regulatory and capital implications, management requirements as the business scales.

The group also sees opportunities to ratchet up returns and access underlying potential by leveraging its underwriting and origination capabilities. It has identified ‘exciting opportunities’ for both businesses and the group overall.

Delivering all these will be a significant undertaking and conceivably disrupt results over the next 12-18 months. It is however justified by the potential upside and exemplifies management’s commitment and conviction that, despite the proposed bid, the group has an attractive future as an independent public company.

AM Best rating reconfirmed

The group’s AM Best ratings were restored post successful completion of the fundraise. These ratings had been placed under review, citing the FY21 IFRS post tax loss and noted that this was driven primarily by a pre-tax, non-cash USD90m impairment of an asset relating to a structured reinsurance contract, which was commuted. It considered this a non-recurring, exceptional item.

RQIH’s consolidated risk-adjusted capitalisation measured by Best’s Capital Adequacy Ratio (BCAR), remained at the strongest level at year-end 2021.

It is expected to remain at least at the very strong level over the medium term.

AM Best’s update cited:

- A relatively conservative investment strategy and track record of largely favourable reserve development as positive factors in the balance sheet strength assessment.
- Offsetting factors such as high dependence on reinsurance and historical volatility in risk-adjusted capitalisation.
- A neutral business profile assessment which reflects a good competitive position as a specialist in the small to medium-sized run-off market and a growing presence in the programme management market.
- That the group’s business profile and earnings could be adversely impacted by a failure to secure further financing following Gibson Re’s three-year underwriting period and/or poor underwriting performance of the MGAs within the programme management business.

Outlook and valuation

The shares are currently below both the 175p/share price of the unsuccessful bid by RQIH's largest shareholder (Brickell Insurance) proposed in April, and marginally ahead of the 105p/share price at which it raised funds in July. They're also below our fair value calculation at 170p/share adjusted for new shares.

The fundraising closed in July. It secured **£107.3m (USD130.6m)** gross at 105p/share i.e., dilutive terms relative to both the proposed bid and share price prior to the announcement. Our revised forecasts reflect that cash, and an additional 74,758,355 new shares (from 12 July 2022), which increased the equity base to 377,395,235 shares.

The equity issue raised c USD130.6m gross as follows:

Specifics of issue

Effective date	**Shares in issue (pre-fundraising)**	**275,211,268**			
16 June 2022	Placing & Direct subscription shares	97,828,596	105p	£102.7m	USD 125.000m
11 July 2022	Open offer	4,355,371	105p	£4.6m	USD 5.565m
	Enlarged shares in issue	**377,395,235**		**£107.3m**	**USD 130.565m**

We see RQIH as attractively valued at the current rating which, in our view, doesn't reflect reported operational data and a potentially transformational five-year growth strategy. Despite an ultimately unsuccessful bid, the fundamentals of both core business are intact. The equity issue was necessary to underpin the balance sheet, and the group is fully compliant with all debt covenants and recently confirmed its AM Best rating was unchanged**.**

Fair value estimate 170p/share

Our 170p/share Fair Value assessment is c. 9.4x adjusted FY 2024 earnings, based upon management guidance. Our conservative projections to arrive at that management guidance in FY 2024 are:

- **Program Management**
  - Achieves USD1.75bn GWP (current RQIH guidance) by the end of this financial year.
  - Flat expenses
  - Increasing PTOP margin with operational gearing.
  - Contribution from strategic program partner Tradesman Insurance in line with FY21
- **Legacy Insurance**
  - $625m of gross reserves acquired per year (last three-year average), 80% ceded to Gibson Re and 20% retained by R&Q
  - Reserves Under Management reflect assumption that 15% of reserves are paid out annually
  - Retained reserves earn a gross operating income margin of 15%
  - Modest (7.5%) expense savings associated with automation process
- **Investment income**
  - In line with FY21
  - Mark-to-market unrealised losses in the investment portfolio not reflected in operating earnings

We expect a proportion of the projected USD20m rationalisation costs will be expensed over the next 12-18 months. As these charges fall away, and both operations attain greater scale by end FY23, there is real potential for a material transformation from 2024, including cashflows to support progressive distributions.

We include the table below to illustrate the growth potential.

Indicative (annualised) projections

$m	FY21	FY22e	FY23e	FY24e
Program Management				
Gross Written Premium (GWP)	1,033	1,750	2,250	2,750
Income (5% pa) – annualised	45	88	113	138
Tradesman RQIH share	11	11	11	11
Gross Operating Income	56	99	124	149
Fixed Operating Expenses	(35)	(35)	(35)	(35)
Pre-Tax Operating Profit	**21**	**64**	**89**	**114**
Margin	36%	65%	70%	75%
Legacy Insurance				
Gross Reserves Acquired	735	625	625	625
Reserves Ceded to Gibson Re	417	500	500	500
Reserves Under Management (RUM)	417	850	1,200	1,500
Asset management fee (4.25% pa)	0	18	36	51
Underwriting Income	59	19	19	19
Investment Income	19	19	19	19
Gross Operating Income	78	56	74	89
Fixed Operating Expenses	(84)	(84)	(82)	(78)
Pre-Tax Operating Profit	**(6)**	**(28)**	**(8)**	**11**
Margin	NA	NA	NA	12%
Group				
Corporate / Other	(35)	(35)	(35)	(35)
Total Pre-Tax Operating Profit	**(20)**	**0**	**46**	**90**

Source: Equity Development projections

Dividends: policy to distribute 25-50% of PTOP

RQIH has previously set out a liquidity and capital framework which explains the business's capital intensity, particularly in respect of Legacy Insurance. It subsequently successfully launched Gibson Re.

It also detailed its dividend strategy **to distribute 25-50% of PTOP**. In H1 2021 it paid 2p/share but due to the extraordinary non-cash charge and required fundraise, will not pay a final dividend for the FY21.

Sensitivities remain to affect the rating

Although the shares have materially underperformed this year, the period has ironically been characterised by consistently positive performance updates from both core businesses. Key metrics suggest that they are capitalising upon their strong competitive positioning and specialist expertise and are on track to create complementary, high quality, visible revenue streams and cashflows.

Recent share price weakness reflects the uncertainty created by the abortive bid, concerns that the US$90m legacy portfolio impairment (equivalent to c 27p/share) may be repeated, and the recent equity issue which added 37.1% to the equity base at 105p/share.

It's worth considering that:

- The impairment was a non-cash accounting adjustment related to legacy assets purchased over a decade before current management's arrival. Although this provided a reminder of the challenges inherent in valuing long tail legacy insurance portfolios **it was identified as a result of detail review of the entire long-term legacy insurance portfolio initiated by management. This exercise also confirmed that the remaining portfolio is performing as anticipated and is suitably reserved.**
- Via the formation of Gibson Re, RQIH's new team had already taken steps to limit future exposure to this kind of one-off, non-cash event. Moving legacy off the group balance sheet will limit potential for future impairment of RQIH's balance sheet.
- RQIH should progressively be less vulnerable to this kind of surprise as (a) its core operations are building scale and (b) is completes a comprehensive and detailed review which includes an upgrade of its management, IT and support systems. **Our forecasts assume that the expenses and disruption associated with the next phase of its five-year review will impact short term performance, but potentially to transform returns from 2024.**

Program Management (PM), which we regard as the real growth engine in the short to medium term, is running a year ahead of our earlier forecasts, supporting the above arguments regarding financing projected growth internally.

Other issues may include:

Uncertainty regarding major shareholders' plans post the bid. These might include the unsuccessful bidder (Brickell) and its loan provider Vida which now holds a 9% stake in RQIH that Brickell had pledged as security on their loan. If these holders don't regard RQIH as a suitable strategic or long-term investment, they may look to sell at an early opportunity. Recent newsflow adds some perspective.

- The group confirmed on 12 August that Phoenix, which holds 12.2% RQIH's issued share capital, had requisitioned a special general meeting to table resolutions to remove Executive Chairman, William Spiegel, and appoint Ken Randall as a Director, effectively as a potential replacement. The group board has expressed unanimous support for William Spiegel and the strategy set out. In its view this position was endorsed at the AGM on 14 July 2022, at which 84.5% of shareholders (excluding Phoenix and Ken Randall) voted in favour of William Spiegel's reappointment as Executive Chairman.
- It thus considers that Phoenix's proposals are not in line with wishes of shareholders as a whole, the independent governance procedures for appointment of directors, broader board independence and enhanced reporting, transparency, governance, finance, capital, operations and risk management undertaken since Mr Spiegel was appointed EC in April 2021. The Board has recommended that shareholders vote against these proposals, if put to them at an SGM.

In line with corporate governance best practice, RQIH plans other actions which have been delayed by the Brickell offer and its recent discussions with Phoenix. These include the appointment of a new independent Non-Executive Chairman and another Independent Non-Executive Director. It will now proceed with these arrangements as soon as possible.

The perception that, post the recent, dilutive equity issue, RQIH may require further external capital to finance growth at some stage. **We give this a lower probability as:**

- Program Management is firmly on track to generate significant cash during the next 18 months.
- The new equity was not prompted by any requirement for additional working capital for the group's two core businesses but could certainly now be used to accelerate their build. The issue fixed a non-cash impairment with a c US$130m cash injection. On our projections it will be sufficient to stabilise operations and build necessary scale until it can finance growth from internally generated cashflow. It provides additional working and regulatory capital at a near ideal stage, as it supports growth in both businesses and will absorb expenses as RQIH expedites its strategic growth plan.
- RQIH has confirmed that for Legacy Insurance to achieve the target scale over the next three years its sidecar, Gibson Re, will need to raise additional investment for a second fund when initial third-party capital is fully invested. The group would not provide any of that new capital but would participate in legacy portfolio acquisitions.

Divisional Focus

Legacy Insurance

This division provides solutions to owners of expired insurance and reinsurance risks. These entities may, for example, seek ways to exit non-core activities in wind-down and to relinquish both their remaining long-term liabilities and requirement to maintain substantial reserves to cover them.

RQIH has provided this kind of creative capital management solution for nearly three decades and has the expertise to assess the scale and timing of future capital requirements. Complexity makes this a highly specialised component of the global insurance market. RQIH is amongst the longest established and most reputable providers of legacy insurance, historically a highly profitable undertaking for the group.

The pre-tax operating loss in FY21 reflected the cost of reinsuring upfront Underwriting Income to Gibson Re and adverse reserve development.

Legacy Insurance results

($m)	**FY 2021**	**FY 2020**
Number of transactions	15	19
Gross reserves acquired	735	640
Reserves under management	417	0
Pre-Tax Operating Profit	**(5.7)**	**49.0**

Source:

The determination to shift to more transparent, higher quality revenue streams were reflected in the launch of Gibson Re in September 2021. **The importance for investors and the equity valuation is that this transforms the way in which revenues are generated.** Legacy Insurance exchanges a complex, opaque, more balance sheet intensive business model with a simplified, more predictable fee-based one.

Structure

Business model	The September 2021 creation of Gibson Re addressed the business model's lack of transparency and predictability. Historically, returns pivoted on episodic access to transactions. This activity was capital intensive, as providers such as RQIH acquired assets and related long-term liabilities and assumed this onto its own balance sheet. Gibson Re will take this and the associated risks onto its own balance sheet. It will also be able to access broader deal diversification as a result of greater scale. RQIH has a strong Legacy Insurance track record and generated substantial returns. Projected future returns were however opaque, very unhelpful from an equity valuation perspective. **Gibson Re's formation creates a predictable revenue stream.** Although the timing and scale of new business will by definition remain unpredictable, it generates fees as an external manager of acquired legacy insurance portfolios on behalf of 3rd parties, RQIH will receive annual recurring fees equivalent to 4.25% of ceded reserves for at least six years, plus potential performance fees. When the first fund (USD300m) is fully utilised, R&Q plans to launch additional vehicles
Competitive positioning	The group's established, fully licensed and highly rated platform gives it material competitive advantages in a market with considerable barriers to entry. It also represents a highly scalable business with significant operational gearing. RQIH's US and European entities are both rated A- (Excellent) by A.M. Best for financial strength. It is the only dedicated program partner able to provide A- rated insurance capacity on both sides of the Atlantic.

Source: RQIH

All RQIH's new legacy business is now being conducted through Gibson Re, the group's Bermuda-domiciled collateralised reinsurer. It has raised an initial USD300m of 3rd-party capital, sufficient to access c USD2bn of gross acquired reserves. It will reinsure 80% of qualifying RQIH Legacy transactions for up to three years. The group will inject the other 20% from internal resources to align its interests with the 3rd party providers. **RQIH will receive recurring fees of 4.25% pa of RUM for at least six years, plus potential performance fees.**

The group's ability to raise funds for Gibson Re reflects its Legacy Insurance operation's track-record and reputation. Over the last decade it has completed over 130 transactions in 38 regulatory jurisdictions. The additional scale provided will enable it to create an equally diverse portfolio.

Gibson Re will capitalise upon that ability to originate and underwrite. In 2021 the group completed 15 deals, USD735m of Gross Reserves Acquired, 15% ahead of 2020. Under its previous model RQIH would have required USD100m of additional capital. Of those 15 deals, four (USD417m RUM) were 80% reinsured by Gibson Re in its first four months. **It reports a strong pipeline, derived from its prominence as a provider of in small to middle market legacy insurance solutions.**

Program Management

Since its formation four years ago the group's Program Management business has progressively accumulated a substantial, growing base of stable and recurring fees and reported its first profit in FY21.

RQIH receives c 5% of annual gross written premium (GWP) assumed by reinsurers and its projections are that it will achieve GWP of USD1.75bn in FY22, sufficient scale to generate significant free cash flow, running approximately a year ahead of our previous expectations.

Program Management results

($m)	**FY 2021**	**FY 2020**
Number of Programs	69	48
Gross Written Premium	1,032.8	538.9
Underwriting Income	(1.1)	(3.0)
Fee Income	56.1	24.1
Investment Income	2.7	2.5
Gross Operating Income	**57.7**	**23.7**
Fixed Operating Expenses	(37.1)	(20.3)
Pre-Tax Operating Profit	**20.6**	**3.4**
Program Fee	4.7%	4.5%
Pre-Tax Operating Profit Margin	35.7%	14.3%

Source: RQIH

This strong performance was maintained in the first six months to 30 June 2022, details of which included·

- An 82% increase in Gross Written Premium (GWP) to USD807m (H1 2021: USD445m)
- A 105% increase in Program Fee Income to USD39m (H1 2021: USD19m)
- 75 programs at the period end (YE 2021: 69 programs)
- Continued expansion of the MGA network and partnerships. Two new programs have been approved in H2 and it has agreed to add USD100m to its existing partnership with Corvus Insurance

All three group PM platforms (US Admitted, US Non-Admitted, and Europe) reported GWP and Fee Income ahead of their FY21 comparable for and a robust pipeline of additional MGA partnerships and growth opportunities. The inaugural MGA forums held in the US and Europe this year are part of a strategy to differentiate the group's proposition relative to peers.

Structure	
Business model	An ideal fit with the preferred business model, PM is a capital light/recurring fees business. It trades under the Accredited brand and uses its licensed and rated insurance companies to act as a conduit between capital providers (reinsurers) and independent insurance distributors or MGAs. Use of reinsurance protection means that it assumes minimal principal insurance risk. At end FY21, before reinsurance, it retained c 6% of the insurance risk related to its programs. It also plans to acquire further minority investments in strategic program partners. Its investment in Tradesman contributes fee-related profits.
Competitive positioning	Its established, fully licensed and highly rated platform gives it material competitive advantages in a market with considerable barriers to entry. It also represents a highly scalable business with significant operational gearing. RQIH's US and European entities are both rated A- (Excellent) by A.M. Best for financial strength. It is the only dedicated program partner able to provide A- rated insurance capacity on both sides of the Atlantic.

Source: RQIH

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