S&P Global
Market Intelligence

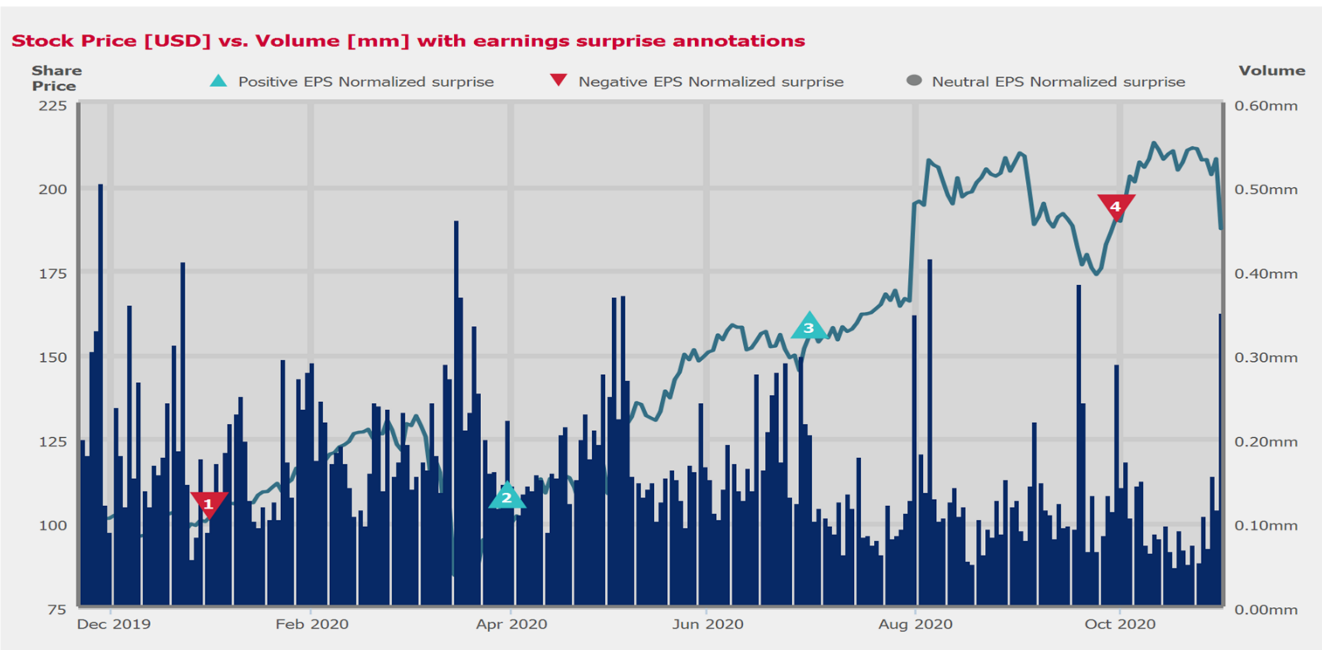
Kinsale Capital Group, Inc. NasdaqGS:KNSL
FQ3 2020 Earnings Call Transcripts

Friday, October 30, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.74	0.42	(43.24 %)	0.75	2.76	NA
Revenue (mm)	114.12	122.50	7.34	123.05	434.84	NA

Currency: USD
Consensus as of Oct-30-2020 5:37 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	0.64	0.63	1 (1.56 %)
FQ1 2020	0.64	0.76	2 18.75 %
FQ2 2020	0.69	0.84	3 21.74 %
FQ3 2020	0.74	0.42	4 (43.24 %)

Table of Contents

Call Participants

EXECUTIVES

Brian Donald Haney
Executive VP & COO

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Michael Patrick Kehoe
President, CEO & Director

ANALYSTS

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Colin R. Ducharme
Sterling Capital Management LLC

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Unknown Analyst

Presentation

Operator

Before we get started, let me remind everyone that through the course of the teleconference, Kinsale's management may make comments that reflect their intentions, beliefs and expectations for the future. As always, these forward-looking statements are subject to certain risk factors, which could cause actual results to differ materially. These risk factors are listed in the company's various SEC filings, including the third quarter 2020 quarterly report on Form 10-Q and the 2019 annual report on Form 10-K, which should be reviewed carefully. The company has furnished a Form 8-K with the Securities and Exchange Commission that contains the press release announcing its third quarter results. Kinsale's management may also reference certain non-GAAP financial measures in the call today. A reconciliation of GAAP to these measures can be found in the press release, which is available at the company's website at www.kinsalecapitalgroup.com.

I would now like to turn the conference over to Kinsale's President and CEO, Mr. Michael Kehoe. Please go ahead, sir.

Michael Patrick Kehoe
President, CEO & Director

Thank you, operator, and good morning, everyone. Thank you for joining us on the call today. As usual, Bryan Petrucelli, Kinsale's Chief Financial Officer is here as is Brian Haney, Chief Operating Officer. I'm going to begin our presentation. And then Bryan Petrucelli will step in to cover the financial performance for the quarter. And following that, Brian Haney will provide some color on the market and our underwriting operation.

Last night, Kinsale reported operating earnings of $0.42 per diluted share for the third quarter of 2020, down 26.3% compared to the third quarter 2019. Gross written premium was up 48% for the quarter. The company posted a 97.3% combined ratio and a 13% annualized operating return on equity for the 9 months ending on September 30, 2020. The quarterly profitability was negatively impacted by multiple catastrophes, principally hurricanes, Laura and Sally on the Gulf Coast, the Glass Wildfire in Napa Valley, California and even one loss from the Derecho Windstorm in Iowa.

As a reminder, we do write catastrophe exposed property through both our commercial property and personal insurance divisions. Although the margins on property cat can be compelling, we are also mindful of the volatility associated with that business, and we limit that volatility in a conservative fashion, but obviously can't eliminate it completely. Each of these events individually resulted in a manageable loss well within expectations; the combination of multiple events in the same quarter is what drove the outsized cat loss. Beyond the cat activity, Kinsale's business continues to perform at a high level. The combination of disciplined and highly controlled underwriting, combined with technology-driven low costs and a focus on the E&S market is propelling our profitability and growth, and we believe will continue to do so over the long term.

Kinsale's growth rate at the moment is being enhanced by continued dislocation within the P&C market. Some competitors are reacting to substandard results by restructuring books of business, canceling programs and withdrawing capacity. This behavior is causing Kinsale's new business submissions and premium to grow at strong double-digit rates, and we continue to expect this extraordinary growth to continue through 2021. At some point thereafter, we expect a level of dislocation in the broader market to abate and our growth rate to normalize, perhaps in the low double-digit range. Beyond the accelerated growth, industry dislocation is also allowing Kinsale to raise rates, and in some cases, restrict coverage to further expand our profit margins.

Brian Haney will provide some additional commentary on this topic here in a moment.

Our position on the COVID-19 virus hasn't changed from earlier in the year because of the mix of business and the coverage limitations in our book, we don't expect the virus to materially impact Kinsale's profitability or growth. And now I'll turn the call over to Bryan Petrucelli.

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Thanks, Mike. As Mike just noted, the Q3 cat activity had a significant impact on our results for the quarter. Net income and net operating income included $13.2 million in after-tax cat losses. Keeping in mind, these losses were offset somewhat by lower variable compensation, increases in investment income and by the continued growth in the business. We reported net income of $14.9 million for the third quarter of 2020, representing an increase of almost 15% when compared to $13 million last year. Resulting from approximately an $8 million increase in investment returns, offset by the cat losses during the quarter.

Net operating earnings, which excludes the volatility from equity investment gains and losses, were $9.6 million, down from $12.6 million in the third quarter of last year and lower primarily due to the cat losses. The company generated underwriting income of $2.9 million and a combined ratio of 97.3% compared to $9.5 million and 87% last year. The combined ratio for the third quarter of 2020 included 2.8 points from net favorable prior year loss reserve development compared to less than a point last year. Our effective income tax for the first 9 months of 2020 was 12.8% compared to 16.6% last year and lower primarily to larger discrete tax benefits related to stock options exercised during the period.

Annualized operating return on equity was 7.8% for the quarter and 13% for the year so far; both impacted by the cat losses, combined with a higher average equity balance resulting from the $57 million in net proceeds we received from our August equity offering. Gross written premiums were $145 million, representing a 48% increase over last year for all the reasons Mike previously mentioned. On the investment side, net investment income increased by 33% over the third quarter last year, up to $7 million from $5 million last year as a result of continued growth in the investment portfolio. Annualized gross investment returns, excluding cash and cash equivalents, was 3% for both the first 9 months of this year and last.

Diluted operating earnings per share was $0.42 per share for the quarter compared to $0.57 per share last year. Important to note and to give some perspective on the performance of the company's underlying business and adjusting for the impact of the cat activity, including the losses themselves, reinstatement premiums paid to reinsurers and adjustments related to variable compensation, the company's quarterly combined ratio would have been approximately 84%. Quarterly net operating earnings would have been approximately $21.3 million and annualized operating return on equity would have been approximately 17%, and diluted earnings per share would have been approximately $0.93 per share for the quarter.

And with that, I'll pass it over to Brian Haney.

Brian Donald Haney
Executive VP & COO

Thanks, Brian. As mentioned earlier, premium grew 48% in the quarter. We are seeing growth across the board. Our life sciences and environmental businesses, in particular, are up significantly in part because of the pandemic. The overall economy, however, is still being affected by COVID-related restrictions, I expect in the fullness of time, those restrictions will be loosened, and we should see the release of some pent-up additional economic activity, which should have a positive impact on our business opportunity.

The market continues to harden, and as Mike mentioned, we expect that to continue through 2021. One recent example to illustrate what we see going on, an admitted insurer recently canceled a lawyer's E&O program, which caused a number of accounts to be shopped. Some of those accounts will go to other admitted carriers, but many will end up in the [circles-lines] market, which creates more opportunity for us.

Two things really help us when the market turns, as it is now doing. First, our rates, which would tend to be higher than our competitors, are tougher to sell in a soft market. But when competitors adjust their rates to correct problems in their books of business, our rates become easier to sell. Similarly, we focus on a narrow tailored coverage grant, which doesn't sell as well in a soft market. In this hardening market, we are seeing competitors become more restrictive with coverage. So we are finding our forms and coverage a bit easier to sell. In effect, the market is coming to us. One example of this would be our use of pathogen or virus-related exclusions. Many property insurers have long had virus exclusions, but not many of our competitors have put such exclusions on casualty business; we did. We implemented those well prior to COVID when it was a tougher sell. Now that competitors have started adopting our approach, we find there's a lot more interest in our products.

We do have a few new products we either recently launched or are about to launch. Among these are a new aviation segment, a product recall segment and a commercial auto segment. These are incremental expansions to our product line. But keep in mind, we are still following the Essential Kinsale business model of hard to place surplus lines of business. Submission growth was 25% in the quarter, basically unchanged from last quarter. As for rates, we are still pushing them up in response to market conditions. As a reminder, we have a very heterogeneous book of business, which complicates reducing all the rate movement to one single number. But that all being said, we see rates being up 10% to 12% in the aggregate during the quarter. Even beyond getting pure rate, we are further tightening terms and conditions, which should contribute even more to the bottom line.

And with that, I'll turn it back over to Mike.

Michael Patrick Kehoe
President, CEO & Director
Thanks, Brian. Operator, we're now ready for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

A couple of questions. I wanted to start with just the pricing environment. And specifically, kind of if you can comment a little bit how you're seeing rate versus trend? The accident year loss ratio has been quite stable. You're getting a lot of pricing. How should we think about that going forward? Are you seeing indications that there might be kind of building margin and you're just kind of waiting to see how it plays out? Or are there other mix changes and things like that taking place that maybe cloud the picture a little.

Brian Donald Haney
Executive VP & COO

Yes. So I would say rates, like I said, are up 10%, 12%. We see trends [probably being] in the 3% to 4% range. Obviously, that would imply a higher margin. Our reserving process is very conservative, though. So that implied increase in margin doesn't immediately show up. But at some point.

Michael Patrick Kehoe
President, CEO & Director

Just as a reminder, Matt -- I was just going to say, just as a reminder, this is Mike. Our goal is always to build reserves that are much more likely to develop favorably than unfavorably. And so I think the dynamic that Brian just spoke to, that's what's driving that conservatism.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And then I wanted to touch on the cats real quick. I mean I think with the understanding that broadly across the sector, it was a pretty historic frequency of activity during the quarter. I think we have to go back a long ways before we find such frequency. Does kind of the loss in the quarter cause you to think about the aggregations there in any way different than you did before? Or is it something where you very well understood that, that was a potential? And given how infrequently that sort of thing happens that you're fine with the result and willing to take that volatility of that risk?

Michael Patrick Kehoe
President, CEO & Director

Yes. I would say, we do like the cat business even more today than in the past several years, the margins are pretty compelling. We're also mindful of the volatility. And I think we really actually have a very conservative approach in terms of not just a quality underwriting approach, but fairly strict limits on the concentration of business in any one area. And then overlaying that is the fact that we actually buy a lot of reinsurance to protect against that volatility as well.

And I think if you kind of disaggregate the 15 percentage points on our combined and look at the individual events, they were all very manageable outcomes given the kind of the risk reward that we see in that business. So it's unusual that you would have that amount of activity in the quarter, but it's certainly not unprecedented, and it's certainly a risk that we're comfortable with.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And one last numbers question, probably for Bryan. The expense ratio is quite good in the quarter. Can you unpack that a little bit? I mean I imagine there's -- obviously, you're growing quickly, you're getting some scale, maybe that's a big piece of it, but also with everything going on, pandemic and otherwise, I'd imagine there's some travel and those sorts of savings as well. So just trying to get a feel for how much of that is kind of a sustainable level and how much of that, if any, is somewhat more temporary?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes. Sure. Certainly, there's been reduction in travel, but it doesn't really have much of an impact. It's small dollars anyway. Really, what's driving it, it's 2 things. One, the variable comp accrual for the quarter was depressed because of the cat losses. And then beyond that, we're hiring, continuing to hire folks in our underwriting claims and IT areas primarily. But we're not -- those costs aren't increasing at the rate that our own premium is. So we are getting some economies of scale there. I would say it's about half and half between those 2 buckets.

Operator

Your next question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

You mentioned the reinstatement premiums. How much was that? And then what reinsurance agreement did that impact? Was there one of these events that was substantial enough to hit the reinsurers?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes. Mark, the reinstatement premium for the quarter is $1.9 million. And that really related to the wildfires that all fell under our per risk policy. The reinsurance itself on the personal insurance book is subject to our quota share reinsurance agreement that we entered into in June, whereby we're seeding 50% of that off. And so if you look at the hurricane losses, 50% of that was ceded off on the wildfires. We did have some that was seated off on the per risk policy.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

How much were the wildfire losses just out of curiosity, roughly?

Michael Patrick Kehoe
President, CEO & Director

All the individual cats were in that $4 million to $6 million range.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

You mentioned commercial auto, Mike, I've heard you talk about commercial auto pricing in the past, that it was quite volatile and not adequate. I think the last time I heard you comment on it. Could you give us an update on what is attractive at this point?

Michael Patrick Kehoe
President, CEO & Director

Yes. I mean we've been writing commercial auto ever since we went into business 11 years ago. It's just that we've done it very cautiously because of the challenges in that market. I think everybody understands that, that market's been in shambles for a number of years now, which obviously creates opportunities. And I think that's what Brian Haney was speaking to; just a little bit more focused underwriting approach, where we see some opportunity for incremental expansion.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Brian Haney, I think you had mentioned that the market continues to harden. When you look at your rates, I think the 10% to 12%, probably similar to last quarter. I think I've heard you maybe suggest that we were on our way to more of a traditional hard market. I'm just sort of curious to get your sense of the rate of hardening at this point, how you saw that progress through the quarter? That would be helpful.

Brian Donald Haney
Executive VP & COO

Yes. I mean I would say it's hardening at the same overall rate. I mean keep in mind, some of the hardening shows up in are just getting more business opportunity. So some of it is just accounts we wouldn't see accounts that used to be in the [admitted] space now are in our space. Or accounts that used to be with programs are now not with programs anymore. I do expect rates to -- in the industry to accelerate. And I would expect ours to go along with it. I don't think we're done, I don't think we've peaked.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Peaked in terms of the rate of increase, so it's still accelerating?

Brian Donald Haney
Executive VP & COO

I don't think either the industry or Kinsale has reached the hard market peak of rate increases yet. I think that's probably going to happen in 2021 or later.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then the ceded premium, if I'm looking at it properly, was just a little bit higher this quarter. Was that a little more mix of property or excess? What influenced that?

Brian Donald Haney
Executive VP & COO

Yes. I think it's a combination of, one, the reinstatement premium, Mark and then a mix of business, growth in the commercial property business and our excess casualty book.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

So does that reinstatement premium show up as ceded premium?

Brian Donald Haney
Executive VP & COO

Under earned, ceded earned, yes.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Okay. Very good. Anything about kind of loss development, social inflation, actually claim frequency in the quarter. Any thoughts on those topics?

Michael Patrick Kehoe
President, CEO & Director

We've talked about social inflation in the past. We don't really see that impacting our book. We're obviously mindful of loss cost trend, and we adjust our rates every year to stay ahead of that. In terms of frequency, there has been, I think this is noted across the industry, a drop-off in claim frequency associated with the COVID virus, the shutdown of parts of the economy. And that's clearly impacted Kinsale as well. I would say that slowdown in frequency has not shown up in our income statements or our balance sheet. We're reserving as there is no slowdown because I don't think it's -- it's too early to tell whether these claims that haven't come in are going to come -- there's going to be a quick catch up period in the future, or is this a permanent advantage for the company and that, hey, a certain number of accidents just didn't take place.

So we're reserving -- we're taking the more conservative path in terms of reserving and kind of wait and see what the future holds in terms of frequency.

Operator

Our next question comes from the line of Jeff Schmitt with William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Just a follow-up on that -- loss ratio ex-cats. Up a couple of hundred base points, but maybe more like 100 year-to-date. And just thinking about that, rates are obviously quite a bit above loss cost trends. Is the thought to -- and it seems like your position now maybe for a favorable development to move from this sort of new 3%, maybe go back to the historical 6%, 7%, 8%. Is that sort of the thought here on that?

Michael Patrick Kehoe
President, CEO & Director

Well, this is Mike. I would say, again, our goal is to post reserves that were -- you can never say 100% sure, but very confident that those reserves are going to develop favorably over time. And I think when you compare year-over-year or quarter-over-quarter, there's also going to be just some natural variability in the experience. I mean there is some volatility in our business beyond property cat. And so I think the -- where the accident year ratio is for the quarter, I think it was pretty spot on with the second quarter of 2020. And yes, we would expect that to develop downward over time. We just don't want to be too quick to recognize that kind of good news.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. But no specific plan to sort of -- I mean, it's sort of -- it is what it is, whatever shakes out?

Michael Patrick Kehoe
President, CEO & Director

Yes.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

And then just on the expense ratio, I think you said about half the decline was due to that lower variable comp. That kind of implies that the run rate is maybe more like 23% instead of 24% in the first half. Is that a safe assumption and sort of a better run rate going forward?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes. I would say, on an ongoing basis, I think we've commented on this in the past that somewhere in that 23.5%, 24% range is what we'd expect. We are continuing to invest in technology. But again, the growth in the business is certainly moving much more quicker than our spend.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And then just what type of growth and rate are you getting in the personal lines book?

Michael Patrick Kehoe
President, CEO & Director

10% to 12% overall, it's probably higher in anything that's cat exposed.

Brian Donald Haney
Executive VP & COO

Yes, I would have -- I don't have the exact figures ahead of me what I said something like 15 to 20 years something that, I don't know.

Operator

Your next question comes from the line of Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle

RBC Capital Markets, Research Division

I think Jeff snagged most of my questions, but I got a couple more left. One question, just has there been any notable shift in the overall mix of the business? I mean, obviously, it's still mostly casualty, but just within any of the classes, anything that would contribute to any different way of thinking about [accessing] your reserves? And likewise, how long that will take to -- the [tail] will develop like, etc.?

Michael Patrick Kehoe
President, CEO & Director

I mean the different divisions that we divide our underwriting team into, I mean, they're always going to have -- there's always going to be some variability in growth rates. The last year or two, I think our excess casualty unit has grown at a pretty brisk pace. The commercial property book. I think Brian touched on the fact that during the pandemic, the life science and the environmental divisions have experienced a little bit of outsized growth. I think that started to abate a little bit of late. But in general, we're seeing the strong double-digit growth rate across the portfolio. So I'd say this -- I can't think of anything other than what I just highlighted.

Mark Alan Dwelle
RBC Capital Markets, Research Division

And then similarly, any real change in the average premium size that's coming your way? I mean I know you've always opportunistically kind of taken whatever crossed the plate. But has there been any increase in relatively larger account business that lifts that average premium in any notable way?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

I would say, overall, no, there's probably some areas that are seeing some more larger accounts, but then there's also growth in sort of smaller account business like the small business or personal insurance divisions?

Michael Patrick Kehoe
President, CEO & Director

Yes. So it's one of the nice things about a tightening market is we do get some opportunities on some larger transactions. But our day-to-day strike zone is still that small to medium-sized policy. If you look at things by policy count, almost everything we write is $50,000 and under. But on a premium count, it's going to be a little bit more significant, $50 and up. But our bread and butter is still that smaller transaction, and we're kind of in the $10,000 to $11,000 range if you exclude the personal insurance. If you include the personal insurance in the mix, those are obviously smaller policies. I think that gets us under $10,000 per policy on average.

Mark Alan Dwelle
RBC Capital Markets, Research Division

All right. Only other question was just any further changes, anything you're thinking about from an investment standpoint, any changes in mix or anything you're doing differently there? Recently, the yield environment has remained dismal at best.

Brian Donald Haney
Executive VP & COO

Mark, this is Brian. I'd say nothing materially changing there.

Michael Patrick Kehoe
President, CEO & Director

Mark, we're quite conservative on the investment side. And as Brian said, yes, that will continue.

Operator

Your next question comes from the line of Colin Ducharme with Sterling Capital.

Colin R. Ducharme

Sterling Capital Management LLC

Quick one because most of my previous questions have been answered. Quick one for Bryan Petrucelli, if I may. The reserve release, can you give us any color by division where you're seeing strength with releases there? Not looking again for a roll call here, but just trying to get some additional color.

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Colin, thanks for the question. No, we don't disclose things down that the line of business level. But I would just say that, generally speaking, our reserves are developing favorably across most lines of our business.

Colin R. Ducharme
Sterling Capital Management LLC

Okay. So just a fair characterization, I guess, from our standpoint would be broad-based strength there from a reserve standpoint?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes.

Colin R. Ducharme
Sterling Capital Management LLC

Okay. And then maybe for Mike or Brian Haney. In terms of, again, just looking at the divisions, as we think about the portfolio, you talked about some of the rate acceleration. We're certainly hearing that from peers. Again, not looking for division-by-division disclosure here, but just for some color in terms of standouts or any callouts, which divisions are you seeing strength here going forward in the next few quarters? You called out life sciences and environment understandably during the pandemic, perhaps that's cooling off now, but just trying to kind of level set as we roll forward in the next half to 12 months.

Michael Patrick Kehoe
President, CEO & Director

I'll start, and then I'll hand it to Brian. I was going to say, if you look at where the growth is most pronounced. Now it's pronounced across the whole portfolio, which kind of speaks to the fact that, hey, this is a pretty favorable market. But hey, the fact that commercial property is growing even faster than the average indicates we're probably getting outsized rate there. I don't know, Brian?

Brian Donald Haney
Executive VP & COO

Yes. I would say, if you think about outliers, definitely, commercial property and personal insurance are going to be outliers. And certainly, given what has happened in the quarter, not just to us, but the industry, I would expect that to continue or accelerate. Some of the professional lines probably had been -- they had been so stable and profitable for most of our insurers for most of our competitors for a long time that they were lagging at a certain point, the rest of the industry in terms of rate increases, but I think they're starting to catch up, too. So we are -- I mean we're pretty much seeing across the board -- it's just a great increase. It's just a question of like how, how intense [we're seeing it].

Colin R. Ducharme
Sterling Capital Management LLC

Got it. Okay. That's helpful. And then final kind of thoughts here in terms of just strategy and attacking markets going forward. The largest E&S player has been through a multiyear restructuring process. As we all know, there's been some shared ownership there. Kinsale, among others, has benefited. We've now gotten a pretty significant announcement from the #2 player, also restructuring happening there. Perhaps for Mike, if you could just give us a history lesson in terms of anticipated opportunities with scenarios like that, it really seems like there's a large chunk of the pie, if you will, which is potentially creating conditions for some jump balls. And I'm just trying to compare notes to see if that's the way you're also viewing those opportunities?

Michael Patrick Kehoe
President, CEO & Director

Yes, Colin, I look at it 2 ways. One, I think Kinsale has a little bit of a unique business model. If you consider the fact that most companies that write small accounts do so by delegating underwriting authority to outside parties. Typically program managers or MGA's to quote bind issue, underwrite that business on behalf of the risk bearer. Our model is, hey, we think we can do a better job by managing that with our own underwriters, and we think we can drive a better result. We can also drive a much broader risk appetite. If you're going to delegate underwriting authority to your brokers, almost by definition, you have to introduce some rigidity to your underwriting guidelines. And so by controlling the underwriting, we can offer -- we think we can underwrite to a better loss ratio and offer more flexibility to our brokers.

And then we're combining that with, again, our kind of -- we call it this technology-driven cost advantage, right? We're able to do some things with technology that a lot of our competitors haven't or maybe at the moment, aren't able to do. And that allows us, yes, to drive down costs, but it also allows us to drive up service levels. And there's an absolute correlation between the quality of the service that you provide your brokers and your propensity to bind a given piece of business. So we think our model has got some real advantages, and we think they have some durability to them.

Separate and apart from that, you've got other competitors restructuring. And that's what's, I think, driven our growth rate from, I'll call it, low double digits, up into the 48% we experienced for the quarter. The extraordinary growth we expect to continue certainly through 2021. We don't really know definitively. But obviously, at some point, it will abate as new capital comes into the industry and the like. But even beyond this hard market that we're experiencing, we think we've got a business model that's a little bit differentiated from the competitors around cost and controlling the underwriting, etc., that makes us an interesting longer-term play.

Colin R. Ducharme
Sterling Capital Management LLC

Absolutely, definitely differentiated. And then final question. Drilling down on one of the previous questions from the other analysts. You called out new opportunities in commercial auto and aviation. Those have, delicately put, been potholes, quite frankly, for several peers who have attempted to grow share. You talked a little bit about the history Kinsale already has with commercial auto. But given the differentiation that you just highlighted, again, just trying to drill into how perhaps differently you're intending to attack those spaces as you preserve kind of the underwriting profitability and avoid some of those potholes we've seen from some other peers? Thanks.

Michael Patrick Kehoe
President, CEO & Director

All right. Colin, this is Mike. I'm going to start and I'm going to get it to Brian. But I would just say that, hey, we've been writing commercial auto for all the 11 years we've been in business. We've obviously done it very carefully. One example is when trucking rates got down to ridiculously low levels, we didn't write any trucking business, okay? So hey, all we're talking about here is a kind of an organization of our underwriting teams to have a little bit more focus on this area.

Brian Donald Haney
Executive VP & COO

Yes, I would just say, keep in mind our business model is we write generally smaller accounts. And so if you think aviation, you think commercial auto, your mind naturally gravitates towards things like ensuring Delta Airlines. That is the exact opposite of what we're doing. There's a lot of business in and around the aviation space that are smaller accounts. And it could be things like, hey, contractors working near airports or manufacturers related to the aviation space. We think there's a great opportunity there. I think our approach works really well, and it's probably less volatile. And again, just keep in mind, it's incremental expansion of what we're doing. So we're not coring to market. We're not trying to -- we're not focused on market share, [or] trying to grab market share. We're just trying to sort of fill in the gaps in our product offering. In general, if something is written on an E&S basis, and we think we can make money doing it, we'd like to do it.

Operator

Your next question comes from the line of Casey Alexander with Compass Point.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

The discussion that you gave about the admitted carrier that is shutting down a particular part of their business and creating opportunity. Could you broaden that discussion just a little bit so that I have a little better understanding of what you're talking about?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes. So you can think about it this way. The typical commercial insurance buyer goes to a retail agent, and they want to go to a preferred admitted company and the admitted company wants a preferred risk. And so a lot of times, these companies will give the pen out to brokers to find those preferred risks, but then things don't go well. So then they can't get those deals anymore. They can't get the preferred price, the preferred coverage, they can't go through an MGA contract. But they're still going to have to buy insurance next year. So when they cancel that program at renewal, their agent is going to be scrambling to find somewhere to place them.

They're, a lot of times, going to have to go to a wholesale broker, which is the majority of the brokers we do business with, and they're going to have to come to a company like us. So basically, if you think about it this way, business that is in the admitted market going through a program, we never see until that program is no longer available for them because they would much rather, the buyer would much rather get the cheap price and the broad coverage. So that's why you see our submissions shoot up in a hard market because all these submissions, which we had never seen, now we start to see. Now it's not -- we don't [bind] all of them, but it becomes more business for us to take a swing at.

Michael Patrick Kehoe
President, CEO & Director

And I think the -- thing you're seeing, Casey, going on across the industry, carriers are re-underwriting books of business. And in this case, it was a lawyers program that obviously wasn't working for somebody, and so that was discontinued. But it's happening all over the place. Sometimes carriers just cut capacity. There's a standard company that used to put up $10 million excess policies, and they've reduced that to $2 million. Well, for the buyer, they need to go out and find $8 million of additional limits from a new carrier, it's happening all over the industry. Standard companies are kind of triaging books of business, even nonstandard companies are doing it. And so the nice thing about Kinsale is we maintained a lot of underwriting discipline over the course of the soft cycle. And we're not discontinuing anything. Our business has thrown off very attractive margins. And as a consequence, we're focused on growing at this point as opposed to fixing underperforming lines.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Okay. Thank you for that. That was my [misunderstandment] because I thought you were talking about a specific carrier, and you're talking more about a broader industry trend. So I get that.

Secondly, the wildfires have continued, and there have been some more idiosyncratic storm activity in the fourth quarter. Have you guys seen any further continuing cat claims coming in? I know it's early in the quarter, but from the standpoint of expectations, it would probably be helpful for the market to understand what you're seeing.

Michael Patrick Kehoe
President, CEO & Director

In terms of the California wildfires, I would say, we don't write personal lines business out West. So we don't really have a considerable exposure out there. Now that being said, hey, we did have some commercial business that was impacted in Napa Valley. But in general, I would say, maybe that's the best way to characterize it. We just don't have really a pronounced wildfire exposure, not that we couldn't get hit, but we wouldn't expect that to happen frequently. And I don't think we're ready to announce anything, but I would say our expectations for the fourth quarter is to be quite a bit more favorable to Kinsale than the third quarter. How about that?

Operator

You have a follow-up question from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

That was actually my question, was anything in the fourth quarter that you would highlight, and you just answered that. So I'm good.

Operator

[Heather], your line is open.

Unknown Analyst

Do you have a view on what a more normalized cat ratio would have been for this quarter? I mean this quarter's frequency of severity was unusually high for cats. Do you have a view of what that ratio would have been in a more typical quarter?

Michael Patrick Kehoe
President, CEO & Director

Heather, this is Mike. I would say that if you -- the big challenge with the cat business is its volatility, right? It's not a consistent number. And as I said earlier, we do a lot of things to limit volatility, quality underwriting approach, charging adequate prices, buying a lot of reinsurance, limiting the concentration of business in any one area. All those things give us a lot more certainty. But that being said, most quarters, it's either zero or a de minimis amount. This was one of the higher quarters, I guess, in our company history in terms of impact on our combined ratio. I think Irma and Harvey, a couple of years ago in Florida and Texas, those storms hit in the same quarter. I think we had a slightly larger impact from those storms. So 15%, 17%, somewhere in that neighborhood would be really the high end, zero being below, and we've got a lot of quarters with really no cat activity. So we don't really have a target per se, but hopefully, that gives you a little bit of guidance.

Unknown Analyst

Another question. Could you talk about your business retention ratios? I'm not talking about retention versus reinsurers, but the year-over-year business retention. And what the trends have been?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes. I would say a handy to think of it as dollars. Generally speaking, it's going to be in the -- around 65% of the dollars renewed. So if we write $100 of new business, the next -- that business would have $65 renewal the next year, and that's pretty consistent from renewal to renewal.

Michael Patrick Kehoe
President, CEO & Director

And that's also consistent across the E&S industry broadly.

Unknown Analyst

Okay, so there haven't been any changes in that ratio, [isn't] going up?

Michael Patrick Kehoe
President, CEO & Director

Nothing material.

Unknown Analyst

Okay. Got it. And then last question, could you talk about what your bind to quote ratio is? And have there been any changes in that?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

The bind to a quote is somewhere between 10% and 15%, and it really hasn't changed much.

Operator

At this time, there are no further questions. I would like to turn the call back over to Mr. Kehoe.

Michael Patrick Kehoe
President, CEO & Director

Thank you, operator, and thanks, everybody, for joining us on the call today, and we look forward to speaking with you again here in a couple of months.

Operator
Ladies and gentlemen, that does conclude today's conference. We thank you for your participating, and we ask that you now disconnect.