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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Q2 2023 Skyward Specialty Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Natalie Schoolcraft, Head of Investor Relations. Please go ahead.

Natalie Schoolcraft
Head of Investor Relations

Thank you, Gigi. Good morning, everyone, and welcome to our second quarter 2023 earnings conference call. Today, I am joined by our Chief Executive Officer, Andrew Robinson; and Chief Financial Officer, Mark Haushill. We will begin the call today with our prepared remarks and then we will open the lines for questions.

Our comments today may include forward-looking statements, which by their nature involve a number of risk factors and uncertainties, which may affect future financial performance. Such risk factors may cause actual results to differ materially from those contained in our projections or forward-looking statements. These types of factors are discussed in our press release as well as in our 10-K that was previously filed with the Securities and Exchange Commission.

Financial schedules containing reconciliations of certain non-GAAP measures, along with other supplemental financial information, are included as part of our press release and available on our website, skywardinsurance.com under the Investors section.

Now I will turn the call over to Skyward's CEO, Andrew Robinson. Andrew?

Andrew Scott Robinson
CEO & Director

Thank you, Natalie. Good morning, everyone, and thank you for joining us. 2Q was another excellent quarter. We continue to execute our ruler niche strategy and to deliver solid financial performance. We reported strong underwriting results in the face of a high level of industry-wide cat losses in the quarter.

Specifically, gross written premiums grew approximately 29% in the quarter. The quality and breadth of our growth is a testament to the high level of execution across our underwriting divisions. We continue to benefit from broadly favorable market conditions as 60% of our writings in the quarter were in excess and surplus and non-admitted lines and 58% were short-tail lines of business.

Our combined ratio of 92% for the quarter included only 3.5 points of cat losses, despite industry-incurred record convective storm losses. Our pure rate increased to double-digits this quarter and continues to be materially above our lost cost inflation estimates.

New business pricing remains in line with our in-force book. Our ongoing investments in talent acquisition and development has been instrumental in driving our success. We continue to add A-plus talent across the organization, including new teams and products in our surety, professional lines and captives divisions.

With that, I'll turn the call over to Mark to discuss our financial results in greater detail. Mark?

Mark William Haushill
Executive VP & CFO

Thank you, Andrew. For the quarter, we reported net income of $19.5 million, or $0.51 per diluted share compared to $5.1 million or $0.16 per diluted share for the same period a year ago. On an adjusted operating basis, we reported net income of $16 million or $0.42 per diluted share compared to $16.4 million or $0.50 per diluted share the same period a year ago.

In the quarter, gross written premiums grew by approximately 29%. Every underwriting division grew in the quarter and transactional E&S, global property and agriculture, professional lines, sureties and captives were each up over 20%. Net written premiums grew approximately 13% to approximately $214 million in the quarter, compared to $189 million in the second quarter of '22.

Second quarter of 2023, net retention was approximately 51% versus 58% second quarter of 2022. The decrease in the net retention was driven by our mix of business and considerable growth in global property and agriculture where we have a lower retention. As a reminder, we expect our net premium retention to be lower in the first half of the year and higher in the second half of the year. For the full year, we anticipate that our retention will be slightly higher compared to 2022.

The second quarter adjusted combined ratio of 92.2% includes an improved accident year non-cat loss ratio and an improved expense ratio compared to the second quarter of '22. The 2.1 point improvement in the current accident year non-cat loss ratio to 60.7% was driven by the changing mix of business and runoff of higher loss ratio exited business. We had no prior accident year loss development in the quarter.

During the quarter, catastrophe losses were $6.8 million and accounted for 3.5 points on the combined ratio resulting from 3 large convective storm losses in the south and our global property and transactional E&S divisions, compared to the second quarter of '22, which was not impacted by cat losses.

The expense ratio improved 1 point compared to the second quarter of '22, driven by a higher earned premium base. We continue to invest in the business and expect a higher run rate in the back half of the year. Partially offsetting the operating expense ratio improvement were slightly higher acquisition costs driven by our change in business mix.

Turning to our investment results, net investment income was $8.6 million in the quarter, down $1.9 million compared to the same period in '22. Our investment strategy initiated in 2022 to deploy all free cash flow to core fixed income is truly paying off. We continue to deploy cash to this portfolio given the attractive yield environment.

The net investment income from our core fixed income portfolio more than doubled to $7 million from $3.3 million in the prior year quarter, driven by an improving portfolio yield and a significant increase in the invested asset base. Our core fixed income portfolio now stands at $820 million, up from $673 million at March 31, '23.

During the quarter, we invested approximately $116 million in the portfolio at 5.2% without increasing duration and our embedded yield on the portfolio is now above 4%. The decrease in net investment income in the quarter was driven by our opportunistic fixed income portfolio. Both second quarter 2023 and 2022 were significantly impacted by the equity mark-to-market adjustments.

During this past quarter, the marks were negative compared to the positive marks in the second quarter of '22. Again, despite the volatility we have experienced over the last 3 quarters, the inception-to-date return for this portfolio is approximately 7.3%. This portion of our portfolio continues to decrease as we deploy cash flow to core fixed income.

At June 30, we had approximately $190 million in short-term and money market investments, resulting from strong operating cash flow of over $100 million. During the quarter, our yield on short-term investments was north of 5%. And we continue to deploy this liquidity into our core fixed income.

Lastly, during the quarter, we executed a successful secondary offering of approximately 4.4 million shares of common stock. The offering was primarily a sale of West Ames Holdings, which now stands at approximately 28%. We continue to see incredibly strong interest from our existing and new shareholders and we appreciate their support for our company and our strategy.

With that, I'll turn the call back over to Andrew for concluding remarks. Andrew?

Andrew Scott Robinson
CEO & Director

Thank you, Mark. Q2 is a truly terrific quarter and the metrics bear this out. The breadth of our 29% growth is notable, with 5 of 8 underwriting divisions growing at 20% or more and all 8 divisions growing over the prior year quarter. The quality of our growth is equally notable as our new business pricing continues to be in line with our in-force book.

Our underlying underwriting profitability was again strong with an 88.7% combined ratio, excluding the deferred benefit of loss portfolio transfer and the 3.5 points of cats referenced earlier. We continue to maintain our focus on being a consistent top quartile underwriter. Each division is delivering at or above our minimum target returns on capital and is visible in our results. Some of our divisions are seeing outstanding market opportunities to grow both top line and margins.

Our pricing is the strongest it has been since I joined over 3 years ago. In this quarter, we delivered double-digit pure rate with all divisions consistent or above the prior quarter, complemented by a significant increase in overall rate being driven by global property. Given the pricing along with the mix of business we are driving, we believe that the new business coming onto the books will further fuel margin expansion in line with the margin expansion we are observing on renewals.

Retention was similarly strong increasing from the high 70%s in the prior quarter to the low 80%s this quarter and exposure growth continues to be in the low to mid-single-digits. Operationally, all indicators are green as submission counts were up around 20% from the prior year and our in-force unit count is up 14% year-over-year and 3% from the prior quarter.

And while all the metrics I just referenced directly reflect the progress we're making in growing a highly profitable book of business, we have equally impressive progress in other critical areas. These include claims, where we're reserving potential losses earlier, closing claims faster and achieving more optimal outcomes.

In our technology, pricing and data science efforts, we continue to deliver predictive analytics capabilities that amplify the strong technical skills of our underwriters and our claims professionals.

Altogether, I could not be more pleased with the superb execution of our 470 colleagues. We believe we are very well-positioned to continue our strong execution and take advantage of the favorable market backdrop.
I'd now like to turn the call back over to the operator to open it up for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mark Hughes from Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

It sounds like the growth environment is pretty good. I'm not hearing you say anything that makes me think there's any sort of slowdown. Is the environment in Q3 as good as you saw in 2Q from a top line perspective?

Andrew Scott Robinson
CEO & Director

This is Andrew. Yes, look, I think that -- I would just go back to the fact that we have a well-diversified business that allows us to see opportunities in maybe different ways than some others. And so while it's not certainly equal across all 8 underwriting divisions, by and large, it is a -- I would describe a pretty darn favorable environment for the parts of the market that we're focused on. Obviously, we're sort of just a little way into the current quarter. July continued to be a positive market backdrop for us and so we're certainly hopeful that it'll continue to be.

One thing I can say is that our growth, our 29% growth, is driven by a combination of the market backdrop and our execution. Our execution is excellent. I think our execution will allow us to outgrow a cross-section of peer companies. And then the market backdrop makes the numbers like 29% that we delivered in this last quarter that makes that possible. But I think a big part of it is our execution as well, Mark.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Appreciate that. Mark, any early view on the opportunistic fixed income, how that'll shape up for the third quarter? What are your early thoughts on it?

Mark William Haushill
Executive VP & CFO

Mark, the short answer is no, not really any early indications on that. That can move day to day and month to month, so the short answer is no.

Andrew Scott Robinson
CEO & Director

Mark, I would just I would add to Mark's comment, the volatility that we experienced in this past quarter, same thing we've spoken to you about. It is a very small number of equity positions that we actively follow. And again, we think it certainly does not provide any indication as to the ultimate performance. It's really, from our vantage point, it's just a bit of a distraction here as the volatility occurs, but nothing that we're concerned about.

Operator

Our next question comes from the line of Matt Carletti from JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Andrew, you touched on it briefly in your opening comments and we've seen certainly press releases kind of since the last call around some of the advances or investments you're making in captives, in expanded surety capabilities, around cyber, tech, and partnership with Cowbell. Just talk a little bit about kind of what's happening there and your outlooks for those areas? And then maybe even next step, what are some other areas that we might see you investing in, in the business?

Andrew Scott Robinson
CEO & Director

Thanks, Matt. Great question. And appreciate sort of acknowledging the things that we've been doing there. Look, what I would just generally say is that we're strategically oriented. So we are actively pursuing talent and very selectively partnerships in places that include those that were already in. I'll note for you that in surety in this past quarter that included 2 focused expansions, right, so which we highlighted, we brought on 2 teams that really created an adjacency for what we do. I think that you're going to see that continue here in this quarter.

I don't want to speak explicitly to potential new divisions or new categories that we're entering into or could potentially enter into, but we're certainly focused on a couple of areas that have been squarely in our focus here for a number of quarters. And as you know, Matt, we start with targeting the people who we believe can lead those divisions. And when we ultimately get to them, we're patient, right? We will wait until we get to the right person or persons.

And so it's hard to sort of say timing. And not to be opaque, it's probably not helpful for us to sort of say, well, here are specific categories. I can say in this quarter, you will see some notable talent additions that sort of are of the same quality and help to sort of grow and develop our business consistent with the kind of things that you saw in the last quarter and the quarter before.

Matthew John Carletti
JMP Securities LLC, Research Division

That's perfect. And then one quick follow-up just on your commentary around kind of the pure pricing in the quarter, I think I caught you say kind of double-digits and if I recall Q1 was kind of high single-digits, so the question is, how should we think about that? Are there areas of the business that are seeing acceleration in pricing or is it more of just a mix of business different areas in different growth or different policies renewing in the quarter?

Andrew Scott Robinson
CEO & Director

No, great question. Yes, I did try to connect that in the prepared remarks, but maybe just for clarity, every underwriting division was at or above where it was last quarter. So first thing is we didn't see a backup. And I'll remind you that we've been consistent in kind of right around the high single-digits. There's been I think 1 or 2 quarters in the past where we were very low double-digits. I've been very consistent and the background of that is, as I've mentioned to you, we weren't really in the categories that saw the massive increases, right?

What happened in public D&O or in cyber or the period where excess was getting 30, 40, 50 points that skewed a lot of numbers. We've just been ticking along. And in this particular quarter, every single underwriting division was at or above its pricing for the last quarter and then we saw a very big step up in global property which when you sort of average that all out put us into sort of the highest pure rate that we've seen since I've joined the organization.

And importantly, we believe that our loss cost inflation average across our book is probably about between 5% and 6%, with some areas, particularly personal injury exposed classes being high single-digits. But what that would tell you is that we're not reflecting that in our picks. Time will tell whether that conservatism that we're assuming, the gap between our pure pricing and lost cost inflation. But this quarter, in theory, should produce some of the highest margin spread that we've seen since I joined the organization. It was a really positive quarter for us overall on pricing.

Operator

Our next question comes from the line of Meyer Shields from KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

We'll start with a question from Mark, if I can. When you were talking about the accident year ex-cat loss ratio improvements, you talked about business mix and the runoff of other lines and didn't talk about rate increase above -- earned rate increases above trend. And I think that's pretty consistent with conservative booking so far, but I was hopeful you could dig into it a little bit just because it sounds like the earned rate increases are accelerating and trend is holding steady.

Mark William Haushill
Executive VP & CFO

I mean, Meyer, I would echo exactly what Andrew really just said. The incremental earnings or the rate above loss cost, we're not reflecting that in our picks and have not for quite some time. Does that answer your question?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

It does, yes. I guess I was looking for a number, but I don't know how realistic that is.

Andrew Scott Robinson
CEO & Director

Yes, I think -- Meyer, this is Andrew. We like probably any other carrier have a point of view, right? And we say it all along, we are absolutely intentionally trying to be conservative and time will tell whether those views on conservatism crystallize. Certainly, our indications would suggest that is the case. But as Mark always says, we are fast to react to bad news and slow to react to good news. And that includes just how it is that we're allowing price in excess of our lost cost inflation to flow through to our picks and we just aren't reflecting that. And that's really the remixing and the runoff that Mark referenced is singularly the driver that you're seeing play through in our accident year results.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. I'm more than happy to wait. I know the weather across the industry was absolutely horrific in the second quarter. I'm wondering whether there's any change in your appetite for more explicitly capacity-exposed property risk?

Andrew Scott Robinson
CEO & Director

Yes. This is Andrew. And I'm assuming when you ask that question, or just -- and correct me if I'm wrong, you're probably talking about hurricane, North Atlantic hurricane specifically or quake, as opposed to what we're seeing is kind of a lot of kitty cats of convective storms all over that are a lot tougher to model and have a sort of a very different profile. I mean is that a fair assumption what you're asking about?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. That's exactly right just given the market dislocation there.

Andrew Scott Robinson
CEO & Director

Yes. Here's what I would say, again our notion about our strategy is about building really highly durable positions. And by the way, we have great respect for some of our peers and our competitors who look at the cat market and see it as a terrific opportunity, a good risk trade. I won't say that we don't have some coming into our books, but it is not our focus.

We believe that certainly it appears to be a very attractive time to write true North Atlantic hurricane cat, but there will be a point in our view where the tide goes out on that. And what we're trying to do in our business is not have that kind of revenue. And quite honestly, margin volatility is sort of a core part of what we do. So I guess probably that's a long-winded way, Meyer, to say that it's really not a principal focus for us as a company.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. No, that's tremendously helpful. Final question if I can, I know you addressed the second half expenses likely going up. Is 30% still the right bogey or given overall growth, should we start taking that down a little?

Andrew Scott Robinson
CEO & Director

Well, that's a great question. That's a great question because we've obviously -- we've been adding costs, right? If you just -- if you look at the number of high quality underwriters that we've been public about, clearly we're adding costs. We've had the benefit of the growth translating to net earned premium coming through, which has been helpful in keeping kind of the ratio-based view of things in check. I think Mark's guidance has always been that we are aiming to be sub-30%. And we still think that that's the right number.

But we are getting the benefit of earned premium running through our books. We're continuing in a very material way to invest in talent in advance of sort of the full production benefit of that coming through, which is good for future quarters, but it seems like our formula right now is working, right?

We invest in talent. We're seeing great growth. It allows us to invest more in talent and overall the financial results that we're producing are in line with the kind of expectations that we set with you and all that would say 30% and under is kind of the target that we really believe is appropriate for us as a company.

Operator

Our next question comes in the line of Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congrats on the quarter. A couple of especially follow-up questions. So I heard what you said to Mark, and -- but you are growing the property book in general, right, so I was wondering if that has any effect on the overall cat load as prospectively as we think about the company?

Andrew Scott Robinson
CEO & Director

Yes. I absolutely can understand the question. Well, let me just point to there's 2 principal places where we are materially growing our property exposure. One is in transactional E&S. I'll just remind you that we really steer clear of kind of Tier 1 cat or let's just call it North Atlantic hurricane, fire's the principal peril that we're targeting there. And so inevitably, you pick up some cat load, but cat really is not the principal exposure. We're not writing cat.

And then global property, just given the very nature of that, right, that is made up of risks and exposures that are highly diversified that include technical risks as well as cat risk. So we will grow our cat exposure as we grow global property and that has been the case, but I define that differently than targeting cat, right? So we'll pick up some cat exposure, but that's part of a larger risk that we're writing.

And again, we grew it not inconsiderably last year and you saw what happened in terms of our placement, right? We went from a placement that we modestly increased our attachment point very modestly, and we added a few million dollars of cover up top and still maintained a posture that was well in excess of 1 in 250 kind of loss event cover.

And so that should give you an indication that, yes, it's growing, but it's not -- again, it's not a principal focus for us. It's not a key area that we're targeting for the reasons I mentioned earlier.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Okay. That makes sense. And then maybe some general thoughts on cost of talent. I don't know if it's getting more or less expensive, given the craziness in the industry itself at the moment, but you're obviously out there looking for people and paying them. Is it getting more or less expensive to find the good talent?

Andrew Scott Robinson
CEO & Director

That's also a great question. I think that there was certainly a period where I personally viewed the cost of talent as being -- really there were points where it was irrational. What I'd say is we're not kind of in the spot market part of the talent where people are coming to us because of the full package of what we have to offer. Certainly, it's a cultural thing, an environmental thing. We certainly -- we provide people attractive compensations and to the extent that they participate in equity, that's an attractive feature for them. We also are believers that our underwriters need to be compensated for long-term consistent excellent underwriting performance they do. That's a chance to over-earn.

We've not found it to be a barrier is what I'd say. People are coming to us, are coming to us for the right reasons. They're world-class professional underwriters, want to be in an environment where underwriters can underwrite and they should be rewarded appropriately. And we've got that constructed in a way that seems to be working.

I just -- I would put the quality and the relative number of people given the size of our organization of talent acquisition that have come to our company over the course of the last couple of years, I'd put it up against any other organization. It's been probably the most compelling feature, our ability to attract what I would consider to be the A talent in our industry.

Jon Paul Newsome
Piper Sandler & Co., Research Division

That makes sense. My question a little bit stems from the fact that it seemed like a couple of years ago, there was a lot of private equity going after the formation of a lot of MGAs and pulling a lot of talent out with big numbers. And I don't know if that's really changed, given the change in the interest rate environment.

Andrew Scott Robinson
CEO & Director

Yes. No, I do think it's calmed down. But I would also say to you that it was -- it would be very unusual for us to be competing against private equity backed MGAs for talent. We have found in almost all cases that the people who want to come to our organization are interested in having be part of something that directly controls the balance sheet, be directly connected to the underwriting contribution. And that may or may not be a bright line for the industry. It's certainly a bright line for the people who come join our organization.

Operator

Our next question comes from the line of Michael Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess just back to the cat load discussion, it's cognizant that your cat levels weren't on an absolute level that high, but any context around how abnormal this cat load was versus kind of "normal expectations?"

Andrew Scott Robinson
CEO & Director

Well, I mean, sort of the texture and the color of it, Mike, is really simple. We had 3 large losses. One was a tornado that landed on the top of a very high-value building. A second was a location where it was a relatively large surface area roof, hail, with a lot of HVAC equipment. We constructed the cover in a way that was appropriate to the exposure and then the third was also hail loss and the 3 made up the lion's share of what came through.

I don't know how to characterize it other than there was just a lot of convective storm, tornado, straight line wind and hail in the second quarter and we have a good distribution of risk and it just so happened we picked up a bit more than otherwise we would have expected in the second quarter. I don't think it says anything about our risk management or aggregation management.

It is a number that is in our view, an entirely acceptable number in the context of the kind of industry losses we saw. And I don't read into it, nor does it change our thinking or our behavior in any way. I think it's just -- it's more byproduct of spread of risk and the kind of storms that happened in the second quarter.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess my follow-up is on the expense ratio. I know you've given some color already, but the expense ratio overall seems like it's been coming down a little bit more than expected. And is that mostly just due to kind of operating leverage? And so if growth continues, we should keep that in mind at a heightened pace? And also just curious if there are any higher reinsurance costs flowing through the expense ratio too?

Andrew Scott Robinson
CEO & Director

I will try to pick them off in order and Mark, maybe we'll have something to add, but on the first item, to be direct, we are now sort of spending on new resource, new talent, consistent with our plan. What's ahead of plan for us is the net earned premium that's running through, which is making the ratios look pretty good for us. And so I think that that might explain like if you were to look at absolute numbers versus a ratio basis there's 2 different things going on. The growth has certainly helped us.

And then on the second question, we did cover this on the March 1 call and then after the first quarter call, we've had very good placement on our reinsurance. Everything that was placed was consistent with expectations. Unsurprisingly, there was a little bit higher cost on our cat placement. And I do mean a little. Now remember us just -- you can sort of do the math, right, our cat tower is not that big, you can do an average rate it, just a little bit of change does not mean a lot for us. And otherwise, most of our placements have been very consistent orderly terms and conditions we're happy with. And that is not having an impact -- that's really not having an impact in any way in what you're seeing in our financial results.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And then and I guess lastly, that's helpful and I just see the commentary, sorry, from last quarter. But just on the overall marketplace pricing environment, maybe you can kind of give a little more context. I think you added some color on the property side, but are you seeing competitive -- the market become less competitive? You mentioned strongest pricing in 3 years. Are you surprised at all by kind of the competitive environment maybe easing a bit? I don't want to put words in your mouth. Any other context there on this the marketplace would be great.

Andrew Scott Robinson

CEO & Director

No. I wouldn't -- I don't know if I characterize it as easing. What I'd say is that some of this is just -- it's just math like in that -- if we're at or above on sort of every area except for global property and global property takes a big step up and you kind of -- you weight average that all together, it just happened to produce a number that on a pure rate basis was the best that we've achieved.

Look, I think the thing that we're constantly looking at is the combination of pure rate, we obviously pay attention to exposure, there may be a little bit of margin in exposure that is rate like. We look at our retention and we look at our new business pricing. It's kind of that trinity of things that we're constantly checking against to sort of gauge our own view about where the market is.

And what I would say is that the market is orderly in the parts of the market where we compete, it's very attractive on the property side and it's the kind of market where a well-executing organization like ours with really great underwriting chops, this is the place where we accelerate and win. And I would say that you can see that in what's happening in our results. So this is, I think orderly is generally good, right, for a company like ours.

It may very well be that with some of the disruption that's happening in other parts of the market that that is by and large helpful. Tightening of reinsurance in my view is by and large helpful. So in that sense, it's probably a positive, but I would characterize outside of property for the places we compete orderly and really supportive of our ability to more than win our fair share.

Operator

Our next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Some of my questions were already asked, so maybe I'll just ask for more specifics. So at your prop cat treaty renewal at 5.1, what were the specific changes? I think the prior was $25 million in excess of $10 million retention. And I think you also mentioned that the pricing increases were modest, but if you could add more context to that?

Andrew Scott Robinson
CEO & Director

Yes, for sure. Thanks, Tracy. So our attachment point is expiring, I'm doing this off the top of my head, so I hope I'll get this all right. Was $10 million in our prior treaty year, we moved it to $12 million. I think our exhaustion in the prior treaty year was $36 million, we moved it to $40 million. Our attachment point on a model basis went down a little bit. We were a little bit above a 1 in 10 return period and this is sort of an average across quake and hurricane. It's down below 1 in 10 so we slightly reduced the model detachment point even though it went up a couple of million dollars.

Our risk adjusted rate, it was in the order of between 15% to 20% increase. Again, if you're buying as we are, $28 million to cover, you can just put an average rate across the tower and know that that's in the grand scheme of an organization our size a de minimis amount. I will tell you as well on the second and third event the cover drops down. So we -- the way to think about that is that is that we have a bit more protection if there's a series or frequency of severity. And so I think by and large, we were really happy with our placement. We thought it was a great outcome, given the backdrop of what everybody was saying.

And I think lastly, one thing to highlight is we moved our -- we've been consistently trying to move our treaty forward a month over each of the last 2 years to get greater distance from the big Florida placement and so we're set up for next year to have the placement I believe now on 401 if I'm correct, which allows us to sort of have maybe more attention to the market without the sort of the all the stuff that goes on regarding the Florida placements.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

I think you said 15%, 20% risk-adjusted pricing. I mean how much of that are you able to pass down in your global property pricing?

Andrew Scott Robinson
CEO & Director

Yes. Oh my God. We are -- so first off remember that is a -- you think about it just sort of you -- if you talk about the cat price on any account. It's a small portion of the overall pricing between transactional E&S, global property and [our lines] and we are passing that plus some for the cat exposure alone and then obviously we're capturing a lot of pure rate on X cat, fire and other obviously as you see in the results I just spoke to you about. So yes, we're not -- it's not immuning -- if your question is, are cat margins kind of deemed immune, the answer is no, not at all.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Excellent. Hey, given the news on [indiscernible], have you used this opportunity to review the quality of your LOCs and collateral provided by your reinsurance partners?

Andrew Scott Robinson
CEO & Director

Yes, for sure. We're watching our collateral all the time to the extent we have them. To be practical, Tracy, without sort of overdoing it, there's really only 2 sort of core places we have it. One is on our loss portfolio transfer. We're fully collateralized. That's a long-standing relationship obviously was a principal area focus that we made sure that the investor community understood during our IPO process.

And the other is captives and we are constantly working with the same set of banks. And quite honestly, the principally the same set of captive managers, but we do have a process to make sure that not only are they high quality for sure that we can take full credit for them statutorily, but importantly in this particular case there's fraud and you always want to make sure that your controls protect against fraud. I think everybody's paying attention to that for sure and we are as well.

Operator

I would now like to turn the conference back over to Natalie for closing remarks.

Natalie Schoolcraft
Head of Investor Relations

Thanks, Gigi, and thank you everyone for your question, for participating in our conference call and for your continued interest in and support of Skyward Specialty. I am available after the call to answer any additional questions that you may have. We look forward to speaking with you again on our third quarter earnings call. Thank you, and have a wonderful day.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.