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Kinsale Capital Group, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

Brian Donald Haney
President & COO

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Michael Patrick Kehoe
Chairman of the Board & CEO

ANALYSTS

Andrew E. Andersen
Jefferies LLC, Research Division

Bill Carcache
Wolfe Research, LLC

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Good morning, and welcome, everyone, to the Second Quarter 2024 Kinsale Capital Group Inc. Earnings Conference Call. Today's conference is being recorded.

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 2023 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 second 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 will now turn the conference over to Kinsale's Chairman and CEO, Mr. Michael Kehoe. Please go ahead, sir.

Michael Patrick Kehoe
Chairman of the Board & CEO

Thank you. Good morning, everyone. Bryan Petrucelli, our CFO; and Brian Haney, our President and COO, are both joining me on the call this morning. .

In the second quarter, Kinsale's operating earnings per share increased by 30.2% and gross written premium grew by 20.9% over the second quarter of 2023. The company posted a combined ratio of 77.7% and a 6-month operating return on equity of 28.8%.

Kinsale's strategy of focusing on smaller accounts within the E&S market, maintaining absolute control over our underwriting and using technology to manage costs to the lowest level in the industry, is driving these results and allows us to both generate best-in-class returns and take market share from competitors at the same time. It is this business strategy that gives us confidence in our prospects for both profitability and growth in years ahead in all types of market environments.

The overall E&S market in the second quarter was steady and consistent with conditions in the last few quarters. Generally, we continue to see strong growth in new business submission activity, positive overall rate changes across the book of business and a rational level of competition. Brian Haney will offer some more in-depth commentary on the market here in a moment.

The Kinsale investment strategy remains conservative with most of the portfolio allocated to fixed income with a AA minus average rating and a 3-year duration. Notwithstanding the conservative approach, we have been gradually increasing our allocation to common stocks over the last couple of quarters. At the end of the second quarter, that allocation was 8% of cash and invested assets. And over the next several quarters, that allocation should grow toward 10%.

We renewed our reinsurance program on June 1. Some of the modest changes to the program included a $2.5 million retention on our Excess Casualty treaty, up from a $2 million retention on the expiring treaty.

On our Commercial Property quota share contract, the ceding commission we received from reinsurers increased slightly, reflecting favorable historical results. And on the Casualty Excess of loss treaty, we increased our retention from $47.5 million to $60 million and purchased some additional limits at the top of the treaty.

As we have seen in recent financial reports, some competitors within the P&C industry continue to work through challenges around inadequate loss reserves, exaggerated loss cost trends due to the expanding Tort system and frequency and severity issues involving natural catastrophe losses. The Kinsale strategy of disciplined underwriting and technology-driven low cost continue to perform well in this environment and our purposeful conservatism in setting reserves for future losses gives us confidence in the strength of our balance sheet.

Our second quarter results were driven in part by another quarter of actual losses being below our expectations. Notwithstanding the favorable quarterly loss experience, we continue to take a cautious approach to reserving, to prospectively stay ahead of loss trend and an expanding and sometimes unpredictable Tort system. Favorable results and conservatism in reserving for future claims should give Kinsale investors confidence in our performance and balance sheet and optimism that our losses will continue to develop favorably over time.

And with that, I'll turn the call over to Bryan Petrucelli.

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Thanks, Mike. Another strong quarter with net income and net operating earnings increasing by 27.2% and 30.2%, respectively. The 77.7% combined ratio for the quarter included 2.8 points from net favorable prior year loss reserve development compared to 3.9 points last year with 1 point in cat losses this year compared to 0.5 point in Q2 last year. As Mike mentioned, we continue to take a more cautious approach to releasing reserves.

We produced a 21.1% expense ratio in the second quarter and right on top of the 21% last year. The expense ratio continues to benefit from ceding commissions generated from the company's Casualty and Commercial Property quota share reinsurance agreements and from the company's intense focus on managing expenses on a daily basis. On the investment side, net investment income increased by 48.3% in the second quarter over last year as a result of continued growth in the investment portfolio generated from strong operating cash flows and higher interest rates.

The annualized gross return was 4.3% for the first half of the year compared to 3.8% last year. Other than the modest increase in the allocation to common stocks that Mike touched on, we haven't made any significant changes to our investment strategy and continue to monitor inflation, interest rates and related Fed policy commentary and will adjust as circumstances change.

New money yields are averaging in the low to mid-5% range, and we have an average duration of 3 years. And lastly, diluted operating earnings per share continues to improve and was $3.75 per share for the quarter compared to $2.88 per share for the second quarter of 2023.

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

Brian Donald Haney
President & COO

Thanks, Bryan. As mentioned earlier, premium grew 21% in the second quarter. We continue to see growth in most of our divisions. We are seeing particularly strong growth in our small property, entertainment and general casualty divisions as well as in some of our newer divisions like high-value homeowners and commercial auto. Our Excess Casualty business is also growing nicely.

Our Professional lines segment is seeing the most competition, given that this is a highly profitable segment for us with plenty of margin, we are getting selectively more aggressive in this space. Submission growth continues to be strong in the low 20s for the quarter, basically unchanged from the first quarter. This number is subject to some variability, but in general, we used submissions as a leading indicator of growth. And so we see the submission growth rate as a positive signal.

Turning to rates. We see rates being up around 6% on a nominal basis, down modestly from around 7% last quarter. It is important to keep in mind the market isn't a monolith. In some areas, our rates are going up higher than 6%. In some areas, they are going up less. In some targeted areas, we make cut rates, areas like professional lines because the margins are so high that we feel the trade-off between rate and growth is worthwhile. But overall, that 6% still puts us ahead of trend, and we feel that the business we are putting on the books is the best priced business in our history.

It is worth reiterating that when considering our rates and our growth, what we are attempting to do is to achieve an optimal trade-off between premium growth and ROE with the ultimate aim of maximizing wealth building for investors, which we feel we do by growing earnings per share and book value. In some instances, we will accept a lower ROE for higher growth. And in other instances, we will trade lower growth for higher margin. This process is going on all the time at the division level with one caveat, there is a minimum ROE we'd be willing to accept. To be a compounder of wealth, we need to be well above the mid-teens ROE threshold we've discussed over the years.

Turning to inflation. We continue to be cautious around loss cost trends. Headline CPI is remaining stubbornly above the Fed's target. This affects our longer tail lines more, and so we tend to be cautious and conservative when it comes to setting prices and booking reserves. We've seen other companies experiencing adverse development, particularly in some of those longer tail lines, and we don't want to experience the same thing. We think it's important that our shareholders have confidence in our reserves and so we set our reserves such that we feel they are more likely to develop favorably than adversely over time.

Overall, we remain optimistic. Our results are good. Our prospects are good. And as the low-cost provider in our space, we have a durable competitive advantage that should allow us to continue to gradually take market share from our higher-expense competitors, while continuing to deliver strong returns and build wealth for our investors. And with that, I'll turn it back over to Mike.

Michael Patrick Kehoe
Chairman of the Board & CEO
Thanks, Brian. Operator, we're now ready for any calls in the queue.

Question and Answer

Operator

[Operator Instructions] We'll go first to Bill Carcache at Wolfe Research.

Bill Carcache
Wolfe Research, LLC

I wanted to start off on growth. So despite comping against over 60% revenue growth in the second quarter of last year, I think your top line growth this quarter was stronger than most expected. But the big question investors are asking is, what we should expect from here? Your prior year growth comparisons are going to get easier over the next several quarters. Maybe just if you could please frame for us how you're thinking about the steady-state growth rate that Kinsale can generate as you look ahead? And if you could put that growth outlook in the context of both premium and revenue growth, that would be helpful.

Michael Patrick Kehoe
Chairman of the Board & CEO

Bill, this is Mike. We don't forecast growth because we don't have perfect clarity on it. Obviously, we have enormous confidence in our business model. The segment we focus on, the expense advantage, the service advantage that we offer our brokers around the country. So we're confident we're going to continue to grow and take share.

The pace is a little bit ambiguous, but I think the best reference point would be our growth rate in Q1 and Q2. I would use those two as a starting point as to where we think we're going to grow. Gross written premium, obviously, that earns out over the life of the policy. So ultimately, that will be revenue -- GAAP revenue, but there is a little bit of a lag there.

Bill Carcache
Wolfe Research, LLC

Right. And sort of following up on that commentary, Brian Haney, you mentioned that growth is not a monolith. We have been getting some questions on the disclosures in the queue that highlight decelerating pricing growth year-over-year. Maybe can you discuss the extent to which you've been using pricing as a lever to manage growth?

And as we think about the interplay between that volume growth, like the strong submission growth that you're continuing to see in pricing, is that all in the context of your willingness to give up a bit on pricing as long as you're above that 15% ROE target is sort of a trade-off you're willing to make?

Brian Donald Haney
President & COO

Yes. So going back to my comments earlier. Each division is in its own position in the market -- or the market -- for each division is its own state. Some divisions were growing very fast and have a very high ROE. In a situation like that, we can push rate. Sometimes we're in a -- have a very high ROE and we might be shrinking or flat. In that case, there's no point if our overall ROE is around 30%, there some divisions that's significantly higher than that. So there's really no point holding the line on rate when you've got well over 30% ROE in a particular division and you're flat.

And so what we're trying to do is just getting back to my comment earlier, we're trying to maximize the growth in book value. And each division is making that decision with regard to the particular circumstances that they are dealing with in the market. So I guess I would just finish by saying this. There are a lot of different markets we're operating in.

And when I say it's not a monolith, I mean it's like there's a wide variety of growth rates we're experiencing, ROEs we're experiencing, conditions we're seeing. So it really is -- it's really tough to blow it down to one number, which I know is not exactly that you want to hear.

Bill Carcache
Wolfe Research, LLC

That is helpful. If I may squeeze in one last one, separately. Investors have expressed concern over your susceptibility to higher cat losses given the increase in your property exposure that we've seen but you continue to generate exceptionally strong underwriting performance even during periods of elevated cat losses. Are you doing anything differently to manage your catastrophe exposure, given sort of that increased mix of property business that you've written in recent years.

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes, Bill, it's Mike again. Our book is generally about 1/3 Property, 2/3 Casualty. That more or less mirrors the E&S market overall. A lot of our Property business has a significant cat exposure to it, but a lot does not. We write a lot of fire-driven business as well. But in general, I think our strategy has been consistent over the years where we have a combination of expert underwriting, strict limits on concentration of business. We modeled the portfolio monthly. We thought we have a very robust reinsurance program. And the net of that is we're trying to capture the significant margin that's there in the cat business, but not have too much volatility.

And I think if you look back to the last really significant catastrophe in the industry with Hurricane Ian in the third quarter of 2022, and I think that kind of captures what investors should generally expect from Kinsale. That was a big significant hurricane in a very populated area on the West Coast of Florida. And we, like many, people had significant losses, but instead of maybe a high 70s combined, I think we were in the mid-80s for that quarter and still produced a very attractive, I think it was north of 20% return on equity. So we felt the loss, but we still produced great results.

Operator

We'll move next to Michael Phillips at Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Well, I think it's pretty well appreciated your cautious conservative approach to pricing and reserving, but can you maybe just get a little more specific with what you are seeing in your casualty books for current loss trends and then maybe how that compares to prior quarters?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. I think loss trend is slightly below our nominal rate increase somewhere between like the high 5% range. Generally, what we're doing in the reserving is we've slowed down the last several years the release of casualty reserves, particularly in our longer-tail lines. But a lot of that is offset by the increase in our Property business. Property is a short-tail line. And that's allowed us to continue to produce pretty compelling returns, even with the increase in conservatism.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. And you mentioned in the opening comments, we're all seeing this issue in some of the admitted players with recent accident years on Casualty. Just talk about your book and how you think you're shielded from those issues?

Michael Patrick Kehoe
Chairman of the Board & CEO

Well, I guess it's a function of the quality of the underwriting combined with the accuracy or the conservatism in the loss reserving. And I think we are high performers on both sides. We are an E&S company. We focus on smaller -- small- to medium-sized E&S accounts, which, historically, have offered up a little bit better margins and writing larger accounts. I think we do write higher hazard business.

So that's typically involves some degree of coverage limitations or restrictions, which helps drive our underwriting success. But then on the reserving side, I think we've always strived to take a conservative approach in setting aside estimates today to pay future claims in a way that we think there's a good probability that our reserves develop favorably over time. So we're operating in the same legal system that everybody is.

We write similar coverage to a lot of different companies. But anyway, that's our model, and it's worked quite well over the last 15 years. We don't [bat] 1,000% on reserving. I don't know that that's possible. But in general, I think we've established a pretty good track record.

Operator

Our next question comes from Mark Hughes at Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

I wonder if you could talk about what's going on in the property market? When you look at your growth in Property versus Casualty, this was the first quarter since -- third quarter '21 where Casualty outgrew Property. Do you think Property continues to fade from here? Is there some potential that it could shift back or some exposures could go back into the admitted market? Or do you think we're on more kind of an even-keeled and you'll see more balanced growth?

Michael Patrick Kehoe
Chairman of the Board & CEO

I think we're on an even keel, Mark. Pricing is at probably 20-year high. We're still getting a high double-digit growth rate -- not high double-digit, double-digit growth rate in Property. I think the market has just normalized here in the last couple of quarters.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

I think you said overall pricing went from [7% to 6%.] How would you characterize the Property dynamic kind of last quarter or last few quarters to what you saw in 2Q?

Brian Donald Haney
President & COO

Property, it continues to grow. The rates continue to exceed the average. So I think they're probably low teens. I don't have a number in front of me. It's more than the average.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. You described, I think, excess auto was one of the areas you're growing a little faster. Could you talk about what the niches within excess auto are we talking about? Is this commercial auto excess? How you're approaching that market?

Brian Donald Haney
President & COO

The big ones would be garage liability and excess auto...

Michael Patrick Kehoe
Chairman of the Board & CEO

Commercial.

Brian Donald Haney
President & COO

Excess commercial auto. So we don't write primary auto partially because of the regulatory status you would need to do that and partially because it's a tough market. But it's the same general approach, small accounts, highly restrictive coverage, high rate. Experience has been good.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Very good. And then this question is about premium per policy. I think in the Q, it was down a little bit. Was that a mix issue, maybe the Property versus Casualty? Or is that something else?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. That's all mix of business, Mark. I wouldn't read too much into that. We sometimes talk about average premium just to give people a good understanding of our general focus on smaller accounts. But whether it bounces around quarter-by-quarter, that's purely a mix of business.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then a final question. Bryan Petrucelli, the ceded premium little lower this quarter. Was that a Property Casualty mix thing? And is this a good ratio to think on a go-forward basis?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes, Mark, it is mix of business, and it's probably good to gauge as any.

Operator

Next, we'll move to Andrew Andersen at Jefferies.

Andrew E. Andersen
Jefferies LLC, Research Division

Last quarter, I left with the impression of perhaps an additional point of conservatism on the underlying loss ratio for full year '24, but this quarter, it came in better than last year. Could you talk about some of the drivers of that improvement?

Michael Patrick Kehoe
Chairman of the Board & CEO

Well, Andrew, yes, we have been releasing casualty reserves really the last couple of years, more slowly. And I think some of that was probably reflected in the loss ratio that you're referencing. But keep in mind that the loss ratio published in our GAAP financials is a composite of 15 accident years, 10 or 12 statutory lines of business.

And within each of those, it's paid claims, it's case reserves and it's IBNR. So I wouldn't read too much into an incremental shift from one quarter to the next. Other than that, there is a purposeful conservatism, especially in the longer tail casualty lines of releasing IBNR more slowly. I think we are seeing a benefit with the high performance of our property book and that area of our business has grown nicely over the last several years.

So we're seeing the benefit of that, that short tail business. And then as I said in my comments earlier, our actual losses in the quarter came in below our expectations. So all those things combined with [Brian's] comments on our getting nominal rate increases across our book of business in the 6% range, slightly ahead of trend, it should be a positive story.

Andrew E. Andersen
Jefferies LLC, Research Division

Mike, I'm sorry, I was thinking about the underlying the 58.4 versus the 59.1 in the prior year. So would the improvement there just be attributable to Property perhaps if Casualty is kind of staying the same?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes, yes. I think Casualty is probably -- again, we're releasing IBNR a little bit more slowly than we have. But I think that's more than offset by the favorable experience in the short-tail business.

Andrew E. Andersen
Jefferies LLC, Research Division

Got it. And maybe just back on pricing, down about 1 point, and I thought I heard Property at mid-teens, but could you touch on the Casualty market? Are you seeing pricing improving there? And do you expect that to improve as the year progresses?

Brian Donald Haney
President & COO

There are some segments within casualty where the rates are going up. Some they're flat to down slightly. So the longer tail lines we are pushing rate and then something like the professional lines, the claims made business were flat to sometimes down in certain instances. I would expect the Casualty rate environment to either stay the same or improve just based on what we're seeing and hearing in the market.

Operator

We'll take our next question from Scott Heleniak at RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

First question I had was just on -- you mentioned in the first quarter, some potential benefit from companies, and you mentioned again, too, having reserving issues. Are you starting to see that benefit already? Is that something you expect to see later in the year? And if so, what -- any particular lines that you can point to where you're seeing that benefit?

Brian Donald Haney
President & COO

This is Brian Haney. We haven't seen like an immediate effect from the people that just announced, but I'm sure we will eventually. That's also focused on mostly like public companies. I would say that for private companies or particularly some MGAs, you're seeing that same dynamic play out worse. So we are seeing some change in behavior in certain lines of business. Generally speaking, there would be like lines of business that are commercial general liability, excess anything written on a current basis sort of a long tail -- is pretty rough. Yes.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful. And then just on the Property market, we've talked about -- you guys talked about a little more competition in the first quarter. We definitely heard that on second quarter call so far, and it sounds like it's maybe accelerated a little bit. You guys hadn't mentioned anything about that. Is that -- is there any change in what you're seeing in Q2 versus Q1? Or is it pretty similar?

Brian Donald Haney
President & COO

It's more of the same. I would say you're seeing competition on the larger placements, particularly ones that involve multiple carriers. But as I mentioned in the comments, our small property division is growing probably -- that's one of the fastest-growing divisions we have. So on the smaller stuff, we're not seeing it as much. On the larger it gets the more we're seeing it.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Okay. And then just one last question to you, on the cat losses. You're very low for the quarter. I know you guys don't have much Midwestern exposure. Surprised there wasn't a little more given everything that's happened in Texas. Anything you can comment on just that what we saw in Texas and with a hurricane Beryl, you'll have any particular losses expected from that? Just anything you can comment on some of the cat loss activity we see industry-wide versus your book?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. I mean I think we had like 8 or 10 cats in the quarter. So there was a lot of activity. All of our losses were de minimis. Beryl was probably the biggest, but that's I don't know what the number is going to be, but if I had to guess, it's $1 million or [indiscernible], it's going to be pretty de minimis.

Operator

We'll go next to Pablo Singzon at JPMorgan.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

So first question is just on the operating expense ratio. So if you look at G&A ex acquisition costs, they've been growing plus 30%, right, whether you look at '23 or first half of this year. And it seems like premiums earned should slow down from their historical pace. So how are you thinking about the expense ratio from here going forward? Would it be reasonable to assume that there might be some pressure there? Or are you making changes on the G&A side as well that will start to match the likely slowed on an earned? And I guess if you could sort of like include what's happening on the tech side here because I know you guys are in the midst of an investment program. So...

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes, Pablo. I think we've commented on in the past that, that expense ratio can sort of bounce around a little bit quarter-to-quarter. I think if you kind of look at it over a 12-month period, that's a pretty good gauge. So I would expect it to be flat going forward.

Michael Patrick Kehoe
Chairman of the Board & CEO

I would just add -- Pablo, this is Mike. Longer term, we think there's a good opportunity to drive that number downward as we're able to drive automation further into our business process. There are some modest economies of scale in the P&C business. So as the company grows, we'd probably get an incremental benefit there.

But the near term, there is -- we're making a very significant commitment in the technology area. We've got about 125 of our slightly over 600 employees now in the tech space. And partly, that's because we see such a tremendous return on the investments we're making there. So I agree with Brian, it should be steady for the near term. But longer term, we would hope to see continued progress there.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Okay. Next question I had, and I'm going to ask you guys [for your thoughts] a bit here. But just as we think about the casualty market, right? So it seems like everyone is expecting prices sort of stay where they are or even increase from here. Is your sense that this sort of next leg will be the same as we saw early in the cycle, right? Where is casualty a bunch of other things that really went up? Or does it feel to you that there might be some benefit, but maybe not as strong as we saw like 4 or 5 years ago at this point.

Brian Donald Haney
President & COO

It would be tough for us to know, like we can't really predict the future. I would say that we never really experienced as harder market as we probably might have expected so far. So I think my guess, if I was just guessing would be to say, it's probably going to go a lot longer than people think because it has not been -- the market hasn't reacted as quickly or as aggressively as it should to correct some of these underpricing and under reserving issues.

Michael Patrick Kehoe
Chairman of the Board & CEO

And I would just add to Brian's comment that the Tort system continues to evolve and expand in general. And so the industry is going to need to stay, stay up with those trends. Some companies do it better than others. So that would be a good argument for a continued favorable trading environment. And then the second point is just to reiterate the comment Brian made a minute ago which is, there is not a monolithic casualty market. There's a ton of small submarkets and they kind of ebb and flow independently all the time.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Okay. And then last for me, you spoke about sort of the trade-off at the margins and growth, right? And I think people are beginning to recognize that. But how are you thinking about the trade-off between capital and growth, right? So presumably in some environments where you might be growing slower, you might not need sort of the capital supporting the book now. Any thoughts on how you're thinking about that aspect of a transition to a more normal environment?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. And obviously, we're thinking about that, with our growth rate in the 20s now versus the last several years in the 40s. But I would say, in general, we strive to be capital efficient. We don't want to have a super abundance of capital beyond what we need to operate the business. And most likely, we would allocate that through dividends or share buybacks with a bias towards the buyback.

Operator

And our next question comes from Mike Zaremski at BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

First question, just maybe, just roughly, if you don't know the standard, willing to share it, of your Property business, like what percentages is syndicated versus non-syndicated, if that's a good way to kind of parse out large versus smaller?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes, we don't.

Brian Donald Haney
President & COO

Yes, we don't have the answer on the top of head. I would say a lot of it is syndicated.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. Okay. That makes sense. Given the opportunistic growth you guys have had in that.

I guess just moving back to loss trend. I think you said in the high 5s and if I am -- I don't know if it's all apples-to-apples, but I'm looking back at our -- what you said in the past, I think last quarter might have been to 4% to 5%. But also think a couple of years ago, you might have said 8%. And so just kind of curious maybe that's on apples-to-apples you can kind of reflect. I know you've been very clear that you're baking a higher loss trend now. But has your view of loss trends kind of ebbed and flowed in recent years downwards and now back upwards?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. Mike, I think the 4% to 5% may have been a miscommunication. I think it was clearly when we were in a higher inflation environment a year or 2 or 3 ago, it was quite a bit higher than where we are today. We're a little bit below 6%. That's a function of mix of business, right, because we set the loss trend by line of business. It's not one trend for the whole company. But in general, I would say, it's come down, as inflation has come down, but it's still quite high. And I think that's a function of concern around where inflation may be going, but also where the Tort system is trending.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. And when you say, I mean your view of loss trend, just to clarify, if everyone has slightly different definitions, but would you say it's just on kind of more recent business put on the books or the overall portfolio, what your reserves today are embedding overall? Or any nuances there that we should be thinking about?

Brian Donald Haney
President & COO

I would say when we talk about [loss trend], we're talking about the whole book of business. So basically, the weighted average across all of our lines of business...

Michael Patrick Kehoe
Chairman of the Board & CEO

[indiscernible]...

Brian Donald Haney
President & COO

[indiscernible]

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. And I think one last one in. So any -- in terms of the pulse of the property market, right, all the -- a lot of attention to what, I guess, for businesses, it's been nice to see a deceleration in property pricing increases given the, I guess, lack of extremely severe weather, you could say, in certain parts of the country. But is there any fragility to the marketplace to the extent there -- this was a year that had some major -- 1 or 2 major events? Or is the -- would it take something like a really large events to really turn the market? Any color there.

Brian Donald Haney
President & COO

I would say the market, especially the property insurance market, tends to have like short-term amnesia. So we had like a pretty innocuous 2023, and that's what's led to some of the deceleration. The rates are still going up. It's just not going up as much. We're still -- they're still predicting a very active hurricane season, and we haven't had a major earthquake in the United States for a long time. I think if you start to see some big cats happen, you might see some of the property market revert to higher rate changes. But like we're -- whatever like not out of the woods when it comes to exposure to large cats as an industry.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. I guess just one more since you all are going to talk about loss trend. When you say loss trend in the 5% or 6% range, I guess it feels a bit lower than what other companies would say, given you don't really write any comp and that's where comp is the one or loss terms been negative.

But I guess on the other hand, I do think that people have an increasing appreciation of just how much more profitable E&S marketplace is versus the traditional marketplace because most of the folks giving loss trends are big players in the traditional and have small or no E&S units. But anything that -- do you think -- what I'm saying is correct or anything you'd want to point out?

Michael Patrick Kehoe
Chairman of the Board & CEO

I would just say that there's -- we look at a lot of points of reference to set those loss trends by line of business. There are some commodities in the economy that are dropping in price. Lumber is a good example. It's probably 1/3 of the price it was 2 years ago. It's come way down. Used car prices are dropping. So look, inflation in general is a concern. And I think we have a lot of confidence in the numbers [we're] using. And I think we've got a good track record of reserving. But it does vary a bit by line of business, and we're looking at an average across our portfolio. And so maybe it makes sense that our number is different from other carriers. They probably have a very different mix of business.

Operator

We'll take a follow-up question from Bill Carcache at Wolfe Research.

Bill Carcache
Wolfe Research, LLC

I had one for Bryan Petrucelli on the investment portfolio. Do you expect any changes in positioning ahead of rate cuts? Are you at all concerned about pressure from lower rates? And are there any changes to the duration that you're considering?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Bill, I comment on that little bit in my notes, but I wouldn't expect any significant change in strategy going forward, but it is -- we do monitor interest rate changes. We're monitoring what's going on from a Fed policy perspective. So it's something that we actively manage on a day-to-day basis, but I would just say, I wouldn't have any expectations or major changes in the near term.

Bill Carcache
Wolfe Research, LLC

That's helpful. And then finally for Mike, following up on your opening comment about E&S growth remaining steady. You highlighted over a 30-year trend E&S taking share from the standard market. Can you speak to the persistence of those trends and whether you see any indication of a reversal amid the debate over, if and when E&S volumes will return to the admitted market?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. I mean, obviously, this is speculative, but I think it's going to continue on the commercial side. I think on the personal side, the last couple of years, it's accelerated. So we're bullish on the E&S market.

Operator

We'll move next to Casey Alexander at Compass Point.

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

And thanks for bringing up the earthquake issue. I hadn't thought of that since I woke up this morning. So feeling a little worse about my day. My question is a little simplistic. You talked about various areas of lines where you're increasing retention. I'd ask you to walk through those lines again. And maybe this is way too simplistic way of thinking about it, but should -- by increasing those retentions, isn't that -- should that be an accelerant to your earned premiums going forward, maybe resulting in a little bit higher loss ratio, but net-net, when you put it all together, it results in better underwriting income. Is that the right way to think about it?

Brian Donald Haney
President & COO

I would agree with that.

Michael Patrick Kehoe
Chairman of the Board & CEO

Casey -- our excess casualty treaty. It's an incremental increase from $2 million to $2.5 million retention. So it's not going to be significant across the whole book of business.

Operator

We'll move next to Michael Phillips at Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Just a quick follow-up. Sorry, I think I missed this. Just a clarification, I'll make sure I got it right. You gave the 6% rates and Property low teens. Was that 6% just Casualty?

Brian Donald Haney
President & COO

I'm sorry, I didn't catch that. What did you say?

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Yes. When you earlier talked about rates up 6%, was that just Casualty?

Brian Donald Haney
President & COO

No. That was the entire book.

Operator

And we'll take a follow-up from Mark Hughes at Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

On the fee income line before modeling that, is that tied more to written or to earned, which is to say, 2Q, you've got seasonally strong written premium should that fee income still be increasing sequentially as earned goes up? Or is it more tied to written?

Bryan Paul Petrucelli

Executive VP, CFO & Treasurer

It would be tied to written, Mark.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Tied to written, okay. And then the homeowners line, I think you said you were high-value homeowners you're seeing some movement there. Can you talk about whether that is material yet or whether you think it could be within the foreseeable future?

Brian Donald Haney
President & COO

I don't think -- I don't want to call it immaterial, but I mean, it's not one of our largest lines. It's a big opportunity because I think as Mike said, business is moving from -- on the personal side business is moving into the E&S space, and that's probably one of the best examples of that. So we think it's a big opportunity. I will just say this anecdotally of all the product launches we've ever had, I think this might be first or second fastest. It has gone fast, there's a lot of demand.

Operator

And that concludes our Q&A session. I will now turn the conference back over to Mike Kehoe for closing remarks.

Michael Patrick Kehoe
Chairman of the Board & CEO

Okay. Well, thank you, everybody, for joining us, and we look forward to speaking with you again here in a few months. Have a great day.

Operator
And this concludes today's conference call. Thank you for your participation. You may now disconnect.