Kinsale Capital Group, Inc.

NYSE:KNSL

Earnings Call

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Call Participants

EXECUTIVES

Brian Donald Haney
Executive VP & COO

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Michael Patrick Kehoe
President, CEO & Director

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

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Third Quarter 2023 Kinsale Capital Group, Inc. Earnings Conference Call. [Operator Instructions]

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 2022 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 will now 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. Bryan Petrucelli, our CFO; and Brian Haney, our COO; and I will each make a few comments and then move on to any questions that you may have.

In the third quarter 2023, Kinsale's operating earnings per share increased by 103.6% and gross written premium grew by 33% over the third quarter 2022. For the quarter, the company posted a combined ratio of 74.8% and it posted an operating ROE of 32.1% for 9 months. The company's strategy of disciplined E&S underwriting and technology-enabled low costs drive these results and allows us to generate attractive returns and take market share from competitors at the same time. We believe these advantages have real durability to them, and consequently, we're optimistic about future prospects for both profitability and growth.

The E&S market continues to benefit from the inflow of business from standard companies and from rate increases driven by inflation and tighter underwriting conditions. Brian Haney will offer some commentary on underwriting conditions in a moment, but on the topic of top line premium growth, I'll note that the fluctuation in our growth rate from the second to the third quarter this year was due to normal quarterly variability and also due to a change in the flow of Southeastern wind-driven property accounts from the second to the third quarter. Our growth rate through 9 months of almost 46% this year is largely consistent with what we've experienced for the last 5 years, kind of plus or minus 40% growth year-over-year.

Our near-term view of the E&S market continues to be bullish. Of course, we also like to remind investors that extraordinary growth rates that we've experienced for the last 5 years are an anomaly in a mature industry like property casualty insurance. Although we are optimistic about E&S market conditions for the balance of 2023 and heading into 2024, we believe the longer-term growth rate for Kinsale will moderate to the 10% to 20% range as market competition returns to normal in the years ahead.

[indiscernible] should always be a concern for investors in a P&C insurance company. And as we have stated in the past, at Kinsale, we strive to set reserves for future claims in a conservative fashion so that we are more likely to have set aside more than enough and are likely to see a steady flow of reserve redundancy as claims are resolved over the years ahead. This focus on conservative reserving is especially important in a time of high inflation which can stress prior year reserve adequacy, as we've experienced a bit in our 2016 to 2018 accident years on some of our longer tail lines of business. We believe Kinsale's reserves are more conservatively positioned now than at any time in our company's history, and investors should have a high level of confidence in the Kinsale balance sheet.

Finally, a quick update on our real estate project. As you recall, we purchased 2 office buildings and vacant land adjacent to our existing headquarters building for $77.5 million in December of 2022. We closed on the sale of 1 of those 2 buildings in the third quarter for $62 million, realizing a small gain in the process. We will begin renovations on the other largely-vacant building soon and expect to occupy that within 2 years. Additionally, we expect to sell other development sites on the adjacent property over the next several years, generating additional return on our investment.

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

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Thanks, Mike.

Another solid quarter with 33% growth in written premiums, very low cat activity, and net income and net operating earnings increasing by 130.8% and 103.6%, respectively. Mike commented on the 32.1% operating return on equity for the 9 months. We do have around $155 million in unrealized losses net of taxes on a fixed income portfolio generated from the higher interest rate environment, and that temporarily reduces our cap equity. Operating return on equity is 27.4% for the 9 months when holding our fixed income investments at cost. Again, as we stated in the past, we intend to and have the ability to hold our fixed income investments to maturity.

The 74.8% combined ratio for the quarter included 3.2 points from net favorable prior year loss reserve development compared to 5.1 points last year, with less than 0.5 point coming from cat losses this quarter compared to 12.2 points in the third quarter of last year, primarily from Hurricane Ian. The 20.9% quarterly expense ratio continues to benefit from higher ceding commissions from the company's casualty and commercial property proportional reinsurance agreements as a result in growth in both of those areas. This benefit was offset slightly by higher variable compensation accruals during the quarter.

To support the continued strong top line growth, we secured an additional $50 million in fixed rate debt during the quarter. That will be used as capital at the insurance company level. This should put us in a good capital position for the remainder of 2023 and into 2024. Additionally, we used the proceeds from the real estate sale that Mike previously mentioned to pay down a good chunk of our revolving credit facility. As a result, our debt to total cap ratio decreased to approximately 17.8% from approximately 21% at the end of 2022.

On the investment side, net investment income increased by 95.5% over the third quarter last year as a result of continued growth in the investment portfolio and higher interest rates, with a gross return of 3.9% for the year to date so far compared to 2.7% last year. We're continuing to invest new money in shorter duration securities, with new money yields averaging between 5.5% and 6%, and duration decreasing slightly to 2.9 years, down from 3.5 years at the end of 2022. And lastly, diluted operating earnings per share continues to improve, and was $3.31 per share for the quarter compared to $1.64 per share last year.

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

Brian Donald Haney
Executive VP & COO

Thanks, Bryan.

As Mike mentioned earlier, premium grew 33% in the third quarter and 46% year-to-date. Also, the growth rate for the quarter was affected by seasonality in the market for hurricane-exposed property. Insurers tend to avoid effective dates during wind season if they're major exposures to hurricane.

That being said, the E&S market remains favorable with strong growth across much of our product line. In addition to our Commercial Property division, we are seeing strong growth in our Entertainment, General Casualty, Excess Casualty and Commercial Auto divisions. Products liability and management liability lagged somewhat partly due to more intense competition, particularly from MGAs and partly due to the effects of the economy and higher interest rates.

Submission growth continues to be strong, again, in the low 20% range, slightly higher than the first and second quarters. We've used submissions as a leading indicator of growth, so we see that submission growth rate as a positive signal. We sell a wide array of products and the rates on those products don't move in lockstep, but if we boil it down to 1 number, we see real rates being up around 6%. The property market is still boosting the overall number. The rate changes for property would be well higher than average. Rate changes for the casualty divisions vary, but overall, would be above flat.

It's important to stress the rate adequacy and rate change are 2 different things. As our results demonstrate, our rates are more than adequate. We are continually reviewing our rates and adjusting them based on a number of considerations such as our target return on equity, the market opportunity and shifts in the competition. In any event, we feel the business we're putting on the books today is the most accurately priced business we've seen in our history.

Inflation has moderated somewhat, which has good and bad side effects. Good in that lower inflation makes it easier to achieve a goal of conservative reserves that are more likely to develop favorably than adversely, the bad in that it reduces the tailwinds we get from higher underlying exposures and higher audit premiums. We feel good about the market conditions through the end of the year and into 2024. After that, we expect at some point, the market will revert more to normal. However, we believe our unique model will continue to drive superior returns in any market, hard, soft, or in between.

Overall, a good quarter, and we are happy with the results. And with that, I'll hand it back to Mike.

Michael Patrick Kehoe
President, CEO & Director

Thanks, Brian.
Operator, we're now ready for any questions in the queue.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Bill Carcache with Wolfe Research.

Bill Carcache
Wolfe Research, LLC

I wanted to follow up on the decline in your loss ratio. Do you see room for favorable development tailwinds relating to that 2021, '22 accident years to persist? Just wondering how much benefit is left if those lower loss emergence trends continue?

Michael Patrick Kehoe
President, CEO & Director

Yes. Bill, this is Mike.

I think the big shift in loss ratio from this quarter to the third quarter of last year was the absence of a major catastrophe. I think in general, we booked a slightly higher loss ratio if you look at it on an ex-cat basis, and I think that's just a little bit of perspective additional conservatism, especially thinking about inflation in the economy and its unpredictability.

But yes, we are very confident in terms of future redundancy that should come out over the years ahead as we incrementally adjust losses on these accident years.

Bill Carcache
Wolfe Research, LLC

Understood. That's helpful.

And separately, can you give us a little bit more color on your view of pricing adequacy in the industry versus the loss cost trends that we're seeing? I think you previously suggested that the combination of inflationary pressures and the historical underpricing in standard lines could potentially extend the hard market as some carriers seek to course correct their pricing. Just your updated thoughts around those dynamics would be helpful.

Michael Patrick Kehoe
President, CEO & Director

Yes. I think we've talked in the past about there's a lot of conversation, especially among reinsurers, that tend to see a broad array of ceding company business that there's a reserve adequacy issue for the industry on the casualty side, right? So we're just kind of repeating commentary we get from others. We're very confident in our own reserve position, and in terms of pricing adequacy across the industry, I would just note that it's a very large industry. There are a lot of players in it. We see some competitors that are very disciplined and smart about how they manage their businesses, and we see a lot that are quite reckless.

Brian Donald Haney
Executive VP & COO

I would echo those comments. I would say, I don't think we've seen all the pain there is for the industry, and it would shock me if there weren't a few more competitors that were going to run into some sort of difficulty with their reserves at some point. But like Mike said, we feel great about ours.

Bill Carcache
Wolfe Research, LLC

That's helpful.

If I could squeeze in 1 last one. There's been some chatter surrounding unfavorable experiences that some carriers have had recently with delegated underwriting authority. Without citing anything specific, can you speak to what you're seeing in the marketplace and whether you expect any kind of changes in the proliferation of MGAs based on some of what we're seeing?

Michael Patrick Kehoe
President, CEO & Director

Yes. I would just say, I think our investors understand that we're a bit contrarians on that topic. We think underwriting should be a core competency of an insurance company, and so we're not believers in outsourcing that to external parties. As we've said in the past, there are some delegated arrangements that have been around for decades that are well-managed and quite profitable. But there's been an unusual explosion, if you will, in the number of delegated authorities, the number of fronting companies that have been created in the last 5 or 7 years. And invariably, some of that new capacity is probably not well managed, and there could be issues with profitability on that.

I mean we see a lot of bad behavior in the marketplace, I would just say anecdotally, on a regular basis.

Operator

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Thank you very much.

Brian Haney, you had mentioned that 1 impact of lower inflation is the less exposure growth. Do you think that had any impact in the quarter? What's the magnitude of that effect?

Brian Donald Haney
Executive VP & COO

A little bit, but the reason we kind of focus on the property seasonality component was that was the big driver. But yes, it had a little effect.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then the ceded premium ratio, 22% this quarter. Is that a good number on a go-forward basis?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Mark, I say, I think it's as good as any. It is -- it varies a little bit depending on mix of business. We ceded off 50% of our commercial property business, so as that business grows, you'll see the ceding ratio go up. If that scales back relative to other lines, then it could go the other way. But I think what you're seeing right now is as good a guess as I can give you.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then the reserve development in the quarter, it's still healthy. Down a little bit from last year. And Mike, you mentioned reserve development in '16 through '18. I don't know whether that was a more timely comment or whether you're just referring generally to older accident years that have been more problematic, I think, across the whole space. Are those 2 connected, a little lower reserve development '16 through '18?

Michael Patrick Kehoe
President, CEO & Director

Well, our 2016 to '18 years have all developed favorably on an inception-to-date basis, but we've made the comment in the past that inflation has impacted the level of conservatism on the longer tail lines. I mean those years are getting to be a little bit older so a lot of the claims have already been closed out, but inflation does have an impact. And so I think it reinforces the wisdom of trying to take a cautious or conservative position upfront because it allows for things like inflation to happen. It was unanticipated, and yet, hey, those years have still developed favorably for Kinsale.

So the fact that there's a little bit less favorable development, that's the comment I made on an earlier question, is it was just a little bit of prospective additional conservatism that just offsets the environment we're in, right? There's a lot more uncertainty today around inflation and where it may be in the next year or 2. As Brian Haney mentioned, it's definitely come down considerably from a year ago, but there's all sorts of economic commentary out there that maybe it could either come down further or could tick back up. Nobody really knows definitively. So as we always do, we take a conservative position and then we're well prepared for whatever comes down the road.

I think the net takeaway for our investors should be, they should have a lot of confidence in the Kinsale balance sheet.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then finally, any way to characterize the trend in the casualty book? You said that property is certainly in some of the trajectory from 2Q growth, the 3Q growth. How would you say the casualty book progressed across Q2 to 3Q?

Michael Patrick Kehoe
President, CEO & Director

It's been up in the 20% range all year. It bounces around quarter-to-quarter, but it's as Brian Haney mentioned, we've got some divisions like products liability and management liability that are kind of flat. We've got other divisions that are growing at a really phenomenal rate. But overall, it's kind of in that 20% -- mid-20% range through 9 months.

Operator

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

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

My first question is, in your discussion of the reversion of the long-term growth rate to 10%, 20% range, how much do interest rates factor into that kind of general forecast? And by that, I mean that historically, in the insurance business, when rates sort of go to a higher for longer base, you find folks who are willing to underwrite at higher loss ratios in order to get premiums on the books that they can invest at higher interest rates. Does that have any impact on your forecast?

Michael Patrick Kehoe
President, CEO & Director

Yes, Casey, this is Mike Kehoe.

I would say it's not really a forecast. It's really more just a general observation that in a large mature industry like property casualty insurance, 40% growth is unusual, okay? So eventually, there will be a mean reversion where we grow at a more modest clip. We're big believers in our business model. We operate a very disciplined underwriting operation. We're targeting the smaller count E&S market, which historically has grown faster than the broader P&C industry. We provide the best customer service in the industry in terms of quote ratios and response times to our brokers. We've got the most efficient business model than anybody we compete with. Our expense ratio is quite a bit lower than the competition. So for all these reasons, we're very bullish on growth. It's just -- I think we're up 46% year-to-date. It's like that will give way to something more modest.

But I do think it's a good point. Interest rates are a big driver of our business in terms of investment returns, and eventually, that will have maybe more impact in the market. Keep in mind, though, it takes a while for those higher rates to kind of leg into portfolios. We've seen our interest rate go up from like 2.5% to -- what was the return?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

3.9%.

Michael Patrick Kehoe
President, CEO & Director

3.9% this quarter, but it does take a couple of years for that to have its full impact.

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

Okay. Great.

My second question is actually related to the portfolio because you've actually, during the course of this year, while rates have gone up, you've pulled the duration in. Is there a point in time where you extend that duration in order to capture the rise in interest rates for a longer period of time, considering the fact that it's usually likely at some point in time that the yield curve normalizes?

Michael Patrick Kehoe
President, CEO & Director

Yes. Right now, the yield curve is still inverted slightly, not as much as it was a couple of months ago. Where it goes from here, obviously, is uncertain with fiscal policy a little bit out of control at the government level, all sorts of geopolitical uncertainty? Where oil prices go? Is there a recession in the immediate future? So we're comfortable focusing on that 2-year duration with new money at the moment, but absolutely at some point, we'll probably extend that back. We were about 4.5-year duration prior to making the shift about 1.5 years or 2 years ago.

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

Okay.

And lastly, when you say it changes in flow in Southeast property accounts, can you give a little more granularity on what that actually means?

Brian Donald Haney
Executive VP & COO

Yes. So this is Brian Haney.

If your major exposure is to, let's say, Southeast hurricane, it's problematic for you to try to buy your cover with an effective date during wind season because if a storm forms and there's a risk that will hit you, the insurers won't -- either won't quote it or will quote it excluding that event, and so you would find yourself exposed to a possible uncovered loss. So what the big account or the accounts tend to do in those areas is buy in the second quarter, which is why we saw a lot of growth. Why that's a big property quarter for us and not in the third quarter.

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

Then you would then, therefore, expect that to pick up in the fourth quarter post the cat season?

Brian Donald Haney
Executive VP & COO

I would say that the third quarter is inarguably the lowest. I don't know off the top of my head which the other 3 quarters is the biggest. I get the sense that the first and second quarters are the biggest.

Operator

Your next question comes from the line of Andrew Andersen with Jefferies.

Andrew E. Andersen
Jefferies LLC, Research Division

Recognizing that industry stamping office data isn't perfect, but I was surprised to hear submission growth rate increase quarter-over-quarter. Has the company's product offering suite increased, and these are newer lines? Or is the appetite and willingness to compete on price changing in the same lines?

Brian Donald Haney
Executive VP & COO

We do expand our product line, but that's not what's driving it. The submission growth has just been pretty steady all year, and it's been very gradually accelerating. I'm not sure why we would be at variance with what the stamping offices are sitting, but that's pretty stable.

Andrew E. Andersen
Jefferies LLC, Research Division

Okay. And maybe if we could just get a bit more color on the type of property that has been being underwritten this year, just given industry cat losses year-to-date are pretty high but for Kinsale, it's been 0.5 percentage point? And maybe with that, is there a cat load target or AAL we should be thinking about?

Michael Patrick Kehoe
President, CEO & Director

Andrew, this is Mike Kehoe.

We don't have a cat load to offer. You could just look back over the years and come up with an average, I guess. But our property book is, I think, a nice mix of fire-driven business, tough E&S occupancies, manufacturers, recyclers, et cetera, where fire is the predominant apparel that you're underwriting for. And then Southeast wind, we write a fair amount of. A lot of our commercial properties are written on an excess basis, so we don't get a steady flow of attritional losses. It tends to require a large event in order to trigger coverage. And we had a handful of policies in Hawaii that were exposed to the wildfire there, but I don't think any of them got to our attachment point so we didn't have any claims come out of that. [Adalia], which hit kind of a rural section of Florida. Again, we had a handful of claims there, but nothing material.

So I think our strategy, if you look back over the years, like Hurricane Ian, that was a powerful storm in a very populated area where we run a lot of business. And yet, I think our loss net of reinsurance and tax was somewhere in the low to mid 20s, and we still had like a mid-80s combined ratio in the third quarter of 2022. And so we like our property strategy. We think it's -- we're definitely leaning into that area because the margins are phenomenal. That market is still in a bit of a crisis, but we underwrite it in a careful manner. We buy a lot of reinsurance to spread the risk, and we think that's giving us the right outcome.

Operator

Your next question is from the line of Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

The accident year loss ratio for the third quarter was lower than the first half, and that was true last year. And I'm just wondering if there's anything behind that? Anything seasonal or anything to kind of call out behind that?

Michael Patrick Kehoe
President, CEO & Director

In most years, it's developed down slightly as we go through the accident year. I think it's just starting a little bit more conservative, and then as the year unfolds, we have a little bit more visibility into the performance of the book.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. Nothing specific then. Okay.

And then the -- you mentioned the E&S market condition's favorable and you have a lot of quote activity, but I'm just wondering if you can touch a little bit on just any any update on competition? I know you mentioned a little bit about MGAs and you've mentioned that before, but are you seeing any newer players maybe you haven't seen a year ago? Or is it just kind of steady and not that much different this year than it had been a year ago?

Brian Donald Haney
Executive VP & COO

I'd say it's pretty steady. I mean, we do see people come and go, but it's fairly similar to how it's been all year. There's no major significant, either new competitors we're seeing making a huge grab for market share.

Michael Patrick Kehoe
President, CEO & Director

But it's good to keep in mind, too, there are hundreds and hundreds of MGAs with delegated underwriting, and they come and go on a regular basis in addition to all the risk-bearing entities we compete with. So I mean there are a lot of individual entities competing in the market.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Okay. Yes.

And then the -- just my final question, too, is I was just curious on Aspera and your personal lines business. I guess we haven't heard about it in a while. Just an update on what kind of growth that business is seeing and your appetite to expand that? And kind of where the profitability has been in the last few quarters?

Michael Patrick Kehoe
President, CEO & Director

In reverse order, I would say the profitability this year has been quite positive. As you recall, we had a loss that was larger than expected in Hurricane Ian last year, and so we've been repositioning and basically derisking certain areas to make sure that when the wind does blow, the size of our loss is consistent with our expectations. So we're kind of taking a step back. We're also working on some technological changes to that business to allow for direct bill payment plans for the customers. And probably in the next several quarters, we would expect to pivot from reducing the premium volume to increasing it, getting a better geographic spread, et cetera. We're committed to the personal line space, the homeowner space, we're just kind of revamping that strategy as we speak.

Operator

[Operator Instructions] Your next question comes from the line of Pablo Singzon with JPMorgan.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

First question is, I was wondering if you could talk through conditions in various segments of the E&S casualty market? So [indiscernible] has been singled out by many as a competitive product today, but I was wondering if you could talk through your own lines and maybe outside of Kinsale, like major pockets in E&S casualty where things are more or less competitive?

Michael Patrick Kehoe
President, CEO & Director

Well, [indiscernible] is more competitive in management liability, products liability. I think in construction tends to be fairly competitive. That's a long tail line where we've raised rates repeatedly in the last couple of years. So I think given our pricing strategy, we're probably less competitive maybe, and we're still growing that area. I think a nice clip, but it's not dramatic. And then you touched on a number of areas where there's very strong growth.

Brian Donald Haney
Executive VP & COO

Yes. Our Access Casualty is doing well. Our Entertainment, which is a relatively newer division, is doing well. Commercial Auto is a newer division, doing well, so.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Okay.

And then the second question was on the loss ratio, right? So [indiscernible] sales loss ratio, that's been running close to 60%. I think most of that reflects your fix on casualty lines, right, which [you] said has been conservative. But as you grew in property, I was hoping to get perspective on how that loss ratio might change, right? Just given that property coverage tends to have lower loss ratios, and I think you mentioned that you guys write access which implies even lower loss ratio. So just trying to understand how the mix might change, let's say, the run rate [60%] that you've always had?

Michael Patrick Kehoe
President, CEO & Director

Yes. It's hard -- Pablo, this is Mike. It's hard to give you a number. We reserve all of our lines of business conservatively at the start. Long-tail lines, that IBNR position drifts down slowly over the years ahead as the claims get reported and resolved and negotiated, et cetera. Properties are shorter tail line of business, so that -- the IBNR we put up there tends to come down fairly quickly, but I don't think we can give you a specific number. I mean, we're always adjusting IBNR numbers based on all sorts of things, including our experience inflation rate changes in the marketplace, et cetera.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

The next question I had was just on development, right? I think -- reserve development. I think it's pretty clear at this point that you guys have good underwriting margins embedded in accident years 2020 and forward, right? Pretty good margins. So if I look at the 2020 accident year for casualty occurrence, for example, I think from your '22 10-K, incurred losses are running at 15% below your initial fix. So I guess I'm trying to sort of size the benefit that's still embedded in your balance sheet, right?

Just a couple of questions. Like, one, how long would it take for your casualty books for the season, right? So like 2020 is like 3 years in. Not entirely there, but maybe getting closer to the end. And then would you say qualitatively that the pricing spread on business you put in '21 and '22 and maybe even this year is better than what you put in 2020?

Michael Patrick Kehoe
President, CEO & Director

Yes. I think the current year is probably the best ever, but the last several years have been really attractive levels of pricing for Kinsale as a risk-bearing entity, unequivocally. We're being well paid for the risk we take.

In terms of the when the -- I forget how you characterized it. The reserves are seasoned or whatever? [indiscernible] say that again, Pablo?

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

No, I was just confirming what you said, Mike. Yes, just when the book -- when these books will fully season, right? It's not 3 years, maybe closer to 5 or 6, but I just wanted to get an answer from you.

Michael Patrick Kehoe
President, CEO & Director

I would just remind you, we write a lot of different lines of business, short, medium and long tail. And so the property is where you know pretty definitively within a year or 2 or 3. The excess casualty, the -- some of the construction business related to construction defect claims can drag on for quite some time, which is great from an investment standpoint. We get to invest those reserves at higher interest rates. But you are more exposed to things like inflation.

Brian is a former actuary in his career, I assume. Brian?

Brian Donald Haney
Executive VP & COO

I guess I would say at the outside, probably by 3 or 4 years, I would say, for the average of the book, we have a pretty good idea. And then for even the longest tail, I think, by that -- by year 6 or 7, we have a very good idea. But --

Michael Patrick Kehoe
President, CEO & Director

When you get 4 or 5 years out, most of the claims have been closed, right? So you're with a dwindling number of claims, but they happen to be the more [indiscernible] so it's --

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Yes. That's helpful.

And this is my last question. It will be the simplest one. Just for the reinsurance, so with updated program, you were gaining less premiums, but I was wondering if there is a benefit on the ceding commissions that you earned from the higher quota shares?

Michael Patrick Kehoe
President, CEO & Director

Well, the benefit is we get a 27.5% ceding commission on our property quota share on the business we cede away. So if you look at that, it's like, hey, we don't really take much in the way of any underwriting risk on the premium we cede away, and there's a de minimis amount of capital required for that business, and yet we get a 27.5% ceding commission. We tend to pay direct commissions to our brokers on 14% or 15%. So the net, it's a nice addition to our bottom line without a lot of risk.

On the casualty, it's a little bit different. We cede away -- it's a variable quota share, so it depends on the limits. But I think in general, it's about 60% of the excess casualty. The higher limit casualty business, we cede away about 60% of that. We get a commission of 35%. We tend to pay 14% or 15% commissions to our brokers, so we net about 19% or 20% pretax on the business we cede away, again, with minimal underwriting risk and minimal capital being required. So it's just a nice complement to our business. From a profitability standpoint, it allows us to write higher limits than maybe we otherwise wouldn't want to retain net.

Those are some of the ways we think about it, but there's no profit contingency embedded in that business. It's just a straightforward split of the economics that's negotiated upfront.

Operator

Your next question comes from the line of Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess a follow-up on some of -- along the lines of Pablo's initial questions on reserving, and I apologize. I got into the queue late, so give me a short answer if you guys already walked through this.

But if we look at reserve release levels year-to-date, obviously extremely healthy, but down fairly materially year-over-year. Not just the Kinsale issue, it's an industry-wide phenomenon from what we can see. Curious if you have any just thoughts on whether it's due to kind of just changing business mix simply? Or you're seeing slight changes to kind of loss trend that are kind of just meaning that there's going to be a little bit less good guy, or there has been a little less reserve releases? Any color would be great.

Michael Patrick Kehoe
President, CEO & Director

Yes, Mike, this is Mike.

I would say, and this is what we said earlier in the call, was the drop in redundancy was -- I would look at it as a prospective additional amount of conservatism. We're reporting phenomenal results in terms of profitability, but we're also mindful that we're in an uncertain era in terms of inflation and where it might be going in the years ahead. And again, our book is a mix of short, medium and long tail business. The longer tail business can be more exposed to inflation, and so we're doing what we always do, which is we have a very quantitative process with how we set reserves.

But there's also some judgment that's brought to bear, and we're always looking to set aside more dollars today than we think we're going to need to resolve claims over the years ahead so that we're never going back to the well to take a big reserve charge. We want to continue to have that redundancy drift out year after year, and I think it's 1 of the things that makes this a phenomenal business and a great way to create wealth year after year, by having conservative reserves upfront that develop favorably over time.

So that's all it is. We're just setting aside a little bit more incrementally but still reporting good results in the process.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful.

And lastly, you just detailed kind of this arbitrage that you have on your ceding, especially some of your casualty book in terms of kind of what your expense ratio is versus the commissions you get. But just a couple of reinsurers have just very recently talked about the dynamics in the reinsurance space, allowing them to potentially continue to change the ceding commission ratio back more into their favor. Just curious, I was assuming your reinsurers are making good money, so -- but do -- is that a dynamic that we should be thinking about over the coming year that could just incrementally impact Kinsale if the reinsurers are able to kind of move in that direction?

Michael Patrick Kehoe
President, CEO & Director

I would say that would be highly unlikely for Kinsale mostly because of the reason you touched on, which is our book of business has been very profitable for us, certainly, but for our reinsurers as well. And so we think that Kinsale is a very attractive account for the reinsurance market. We're a ceding company that's always put a high value on continuity in that reinsurance program, so a lot of the carriers that share with us the risk, they've been on our accounts since we opened the business back in March of 2010. And so we've got, I think, very positive relationships with our reinsurers. I think in general, we've produced very attractive business for them over the years, and we think it will be a steady process going forward.

It's not to say that rates and prices can't fluctuate a little bit year by year, but in general, it should be relatively steady.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Michael Kehoe.

Michael Patrick Kehoe
President, CEO & Director
Okay. Well, I just want to thank everybody for participating this morning, and we look forward to [sharing] some more good news after the fourth quarter in a couple of months. Have a great day.