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Skyward Specialty Insurance Group, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

Andrew Scott Robinson
CEO & Director

Mark William Haushill
Executive VP & CFO

Natalie Schoolcraft
Head of Investor Relations

ANALYSTS

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Jon Paul Newsome
Piper Sandler & Co., Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Unknown Analyst

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Skyward Specialty Insurance Group conference call. [Operator Instructions] Please be advised that today's conference is being recorded.

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

Natalie Schoolcraft
Head of Investor Relations

Thank you, Amanda. Good morning, everyone, and welcome to our first 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. Q1 was another solid performance, and we're pleased with our continuing strong financial and strategic momentum. Specifically, gross written premiums grew approximately 28% in the quarter. Mark will talk more about premiums, but at a high level, we continue to benefit from broadly favorable market conditions and strong execution across our underwriting divisions. Our adjusted combined ratio was 90.3%, inclusive of cats and adjusted operating income of $15.5 million or $0.42 per diluted share. We're minimally impacted by first quarter convective storms with cat losses of only 1.8 points on the combined ratio and well within our retention. We continue to realize pure rate in the high single digits and that is above our loss cost inflation estimates. We also continue to generate very strong cash flow from our operations.

In this last quarter, we invested our new money at 5.3%, all into our core fixed income portfolio. We achieved an adjusted return on equity and tangible equity of 13.3% and 16.5%, respectively, for the quarter. We believe that this result, together with our strong growth, further reinforces the financial momentum we expect will continue in 2023. Strategic investment in our business portfolio continues as evidenced by our recent inland marine and global agriculture launches, and we continue to add A+ talent and invest in technology to amplify the capabilities of our underwriters and claims professionals. I'll talk more about this later.

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 $15.6 million compared to $16.3 million for the first quarter of 2022. As Andrew noted, on an adjusted operating basis, we reported income of

$15.5 million or $0.42 per diluted share compared to $19.8 million, or $0.61 per diluted share for the same period a year ago. In the quarter, gross written premiums grew by 28%.

Every underwriting division grew in Q1, with notable performance in our transactional E&S, global property and agriculture, Professional Lines, surety and captives divisions, each up over 20%. Net written premiums grew approximately 49% to $202 million in the quarter compared to $135 million in the first quarter of 2022. First quarter of '22 net written premium was impacted by the restructuring of a global property quota share reinsurance. Adjusting for this transaction in '22, the net written premium retention of 56.1% in the first quarter of '23 is consistent with the prior year quarter.

Moving on, the adjusted combined ratio of 90.3% includes an overall accident year non-cat loss ratio and an improved expense ratio compared to the first quarter of '22. The 2.4 point improvement in the current accident year non-cat loss ratio to 61.1% was driven by the runoff of higher loss ratio exited business and the changing mix of business. We had no prior accident year development in the quarter. During the quarter, catastrophe losses were $3.2 million and accounted for 1.8 points on the combined ratio.

The catastrophe losses were primarily from wind, hail and tornadoes in the South and Midwest compared to the first quarter of '22, which was not impacted by cat losses. The expense ratio improved 1 point compared to the first quarter of 2022 driven by higher earned premium base and an increased commission and fee income. Investments in the business were lower than planned, and we expect a higher run rate for the remainder of the year. Partially offsetting the expense ratio improvement were slightly higher acquisition costs driven by the change in our business mix I just highlighted.

Now turning to our investment results. Net investment income decreased $10.5 million to $4.6 million in the quarter compared to the same period of 2022. The net investment income from our core fixed income portfolio more than doubled just to $6.3 million from $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 is now $673 million, up from $607 million at December 31, 2022.

As Andrew noted, we continue to deploy cash flow to this portfolio given the attractive yield environment. During the quarter, we invested about $38 million in the portfolio at 5.3% without increasing duration. For the quarter, the average book yield on our core fixed income portfolio was 3.7% compared to 2.7% this time last year. The decrease in our net investment income in the quarter was generated by our opportunistic fixed income portfolio.

Both first quarter of '23 and the first quarter of '22 were significantly impacted by equity mark-to-market adjustments. During this past quarter, the marks were negative compared to the positive marks in the first quarter of 2022. Despite the volatility we've experienced over the last 2 quarters, the inception-to-date return for this portfolio is approximately 8%. This portion of our investment portfolio has decreased as we continue to deploy cash to our core fixed income portfolio.

I want to touch briefly on commercial real estate market and the regional banking as it relates to our investment portfolio. Exposure to the economically sensitive parts of commercial real estate, including office and retail is less than 3% of our total investments, and we do not have any concerns about this portion of our portfolio. With respect to regional banking, during the quarter, we recognized realized losses of $1.5 million net of tax related to SVB and Signature Bank. At March 31, 2023, we had minimal direct exposure. At March 31, we had over $285 million in short-term and money market investments resulting from strong operating cash flow of over $100 million as well as the IPO proceeds. During the quarter, our yield on short-term investments was slightly north of 4.5%. As we've discussed, we will be deploying this liquidity into our core fixed income portfolio.

During the quarter, we closed a new credit facility that provides us with capacity of up to $150 million, of which we drew $50 million to pay off our term loan. The new facility gives us plenty of financial flexibility. Our leverage ratio is currently 20% and provides us with significant debt capacity.

Lastly, regarding our May 1 property catastrophe renewal. The renewal was orderly and consistent with our plan for 2023, and we're pleased with the price and the terms. The new treaty provides $28 million of cover in excess of a $12 million retention. Previously, we had a $10 million retention. The $12 million attachment point is actually lower on a model return period than our expiring cover and the current cover is well in excess of a 1 in 250-year event.

With that, I'll turn it over to Andrew for concluding remarks.

Andrew Scott Robinson
CEO & Director

Thank you, Mark. From an underwriting profitability perspective, we had a very strong quarter. And growing at 28% is no small feat, particularly given our expressed focus on executing our Rule Our Niche strategy. We are meticulously building our business with a view towards long-term durable positions and top quartile underwriting performance.

Let me highlight 2 areas with very strong growth in Q1. In transactional E&S, we grew over 100% this quarter. This division has been built around a core team I've personally known for over 15 years, whose long-term underwriting performance has been outstanding. This division writes a true surplus lines general liability and property book of business that is reasonably short tail, low frequency and moderate-to-high severity with typical policy size of $30,000 to $40,000. This is a part of the market where real understanding of exposure is required. It's too large and complex for binding authority, yet below the level that is subject to large price swings that the larger account part of the market can have.

Our property focus in this division is non-cat coverage for which fire is the principal peril. We write primary-only with 60% of the policies limit entirely contained within our cover. The submission flow has been incredibly robust and the terms and conditions are extremely attractive. Now more than ever, when our distribution partners are stressed with cat-exposed account placements, they need real technical expertise and problem-solving on the non-cat technical E&S risks. Our strong growth and substantial underwriting contribution this division generates comes without additional volatility to our business.

Turning to surety. Our growth this past quarter was over 50%. The backbone of our growth is the outstanding talent we have brought on, all of whom bring a very strong market following, which in turn, has allowed us to add seasoned and well-understood books of business. The talent has come to us because of our unique culture and desire to invest in this division. Our growth is born out of this team's creativity and solutioning that the principles that we bond, and the distributors that we support, view as distinctive and hugely valuable. We invested in and implemented an entirely new surety platform in record time, enabling efficient growth and providing us with analytics we believe are amongst the very best in the industry. Today, this is a hugely valuable division generating excellent results.

While I highlight these 2 divisions, I view our efforts in every division and every unit and the quality and distinctiveness of our underwriting and claims teams in the same way. We continue to build a highly valuable specialty carrier for the long term. And while time will tell, I and our leadership team believe we are doing this the right way.

To amplify the points above as it relates to the current quarter, we again achieved a total average rate increase in the high single digits, higher than our estimated loss cost inflation. We are not overweight in the lines that received huge rate increases over the last 2 to 3 years, such as public D&O, excess, habitational cyber and others, many of which needed those huge rate increases due to years of underpricing relative to loss cost inflation. And we similarly should not see the big downdraft as prices moderate. Our discipline regarding pricing is evident in our new business as we now close in on nearly 3 years of driving new business pricing at/or above the pricing of our in-force book. We believe that our new business contribution to our underwriting margins is at a level consistent with our renewal book.

Retention, too, remains steady in the high 70s, again, an indication that we're striking the right balance on rate and retention. Submission flow remains robust and was over -- was up over 25% as compared to the prior year. Market conditions, by and large, remain orderly with pricing still attractive across most of the parts of the E&S and specialty markets where we compete. That said, there is no question that social inflation is real and measurable particularly as it relates to personal injury. We are watching the loss costs very closely and managing our excess exposure across our book. We believe that in a rational market, this should be a continued impetus for pricing increases.

To wrap up, Skyward's position is strong and improving, and we'll continue to invest in our business to further our trajectory towards top quartile performance. We have a strong first quarter and is a great start to the year.
I'd now like to turn the call back over to the operator to open up for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Tracy from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Andrew, you mentioned that you're seeing pure rate in the high single digits. If you included part of exposure that acts like rate, what would pricing look like?

Andrew Scott Robinson
CEO & Director

Tracy, thanks for the question. So first thing, I would tell you that exposure for us in the first quarter picked up a couple of points, which we were quite pleased to see. A lot of folks talk about the portion of exposure that acts like rate, and we certainly have that in our business. I would say that we try not to take credit for it. It's hard to isolate. In general, for us, it looks like it's probably about one additional point in the quarter. But again, that's -- it's really hard to isolate on that specific feature. I think the higher -- the more important point about this quarter, Tracy, for us, is that we saw a thick back up in exposure in the quarter, which of course, is a really positive sign in general for our book of business. It seems like we had a little bit of economic recovery running through our book in the first quarter. And as you rightly note, there's probably some rate that runs through as a byproduct of that.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Great. And also Andrew per prior conversations, I think you guys took a more cautious view that if property pricing increased meaningfully, the insurers would just retain more. Can I just assume that did not happen? Any kind of preview you have on property for second quarter would be helpful.

Andrew Scott Robinson
CEO & Director

Also a good question. So -- no, it did happen. I think that -- I did say earlier on that we -- I think, in general, we've been leading and certainly on the global property side. I think we've been very strong in our pricing on our transactional E&S. And we definitely saw on the global property side, instances where we really thought that our clients were maxed out in terms of where they were willing to retain risk. We saw some pick up. Interestingly, if you look at global property, we didn't add a huge amount of exposure into our book in Q1. Much of the growth came through underlying values, so effectively exposure there. But a lot of it was just through price and we moved our attachment points up, and so the net exposure to us was not that great.

I think we're seeing some of that running through in Transactional ES, but we're definitely growing units in transactional E&S. And we are seeing the higher retention points in a larger portion, whether it be sublimits or co-participations by our clients just simply because I think pricing is at a point where they're having to make those trade-offs.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

And second quarter, are you -- Yes, go ahead.

Andrew Scott Robinson
CEO & Director

Right. You did ask that. I missed that part. I would say for us, we feel good about the growth in the second quarter, consistent with the first quarter. The units dropped down for us in terms of like the available market in the second half of the year. So even if the growth did continue in the second half of the year, the sort of the contribution to our overall growth as a company would be lower in the second half of the year.

I also just generally think that we're -- as we've talked about, we're not a cat writer, but certainly in our global property book, we pick up cat exposure. You have more of that in the first half of the year. The second half of the year tends to be more technical risk, which is, I think, a slightly different part of the market in terms of the competitiveness and so forth.

So I would summarize your question -- the answer to your questions, we feel probably a bit more confident in the growth profile in the first half of the year. The second quarter continued what we saw in the first and probably down a little bit in the second half of the year, but that's not to say that we won't still see strong growth in the second half of the year.

Operator

Our next question comes from Matthew from JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Maybe I'll just follow on to Tracy's question there and kind of zoom out from global property to looking at kind of all of the underwriting divisions. And 28% growth is fantastic and I think better than we expected to start the year. How should we think about kind of thinking forward throughout the year where you really see some opportunities and where you might -- I don't want to use the word caution, but maybe there were things in the first quarter that just kind of -- you took a swing out because they were there and maybe we can't plan on them being there going forward.

Andrew Scott Robinson
CEO & Director

Yes, Matt, thanks for the question. Look, I'd start off by answering your question is we're pretty focused on the quality of our growth. And I will say that as it relates to us, the way that we grow, the way we think about our business is pretty darn disciplined. We're not necessarily an opportunistic writer. It's not to say that there is not some opportunistic rights in our first quarter; there were. But I would not sort of tilt what happened in the first quarter as it being driven by a bunch of opportunistic rights. I think we made a number of great investments in our business. You've heard from us in terms of the talent that we brought in areas like professional liability or transactional E&S or surety. And you can see the growth in those areas coming through. So our efforts are being rewarded. We're doing things the right way.

That said, look, if you're trying to build a durable, high-quality book of business, and you hit a 28% growth in the first quarter, that's pretty darn outstanding. I think that it's hard to keep that up over the course of full year. It's not to say that we couldn't. I think we feel that the second quarter will be a strong second quarter.

We can see that already. I do think that the second half of the year, we're going to have strong growth, whether it's something that is north of 20 like it was in the first half of the year. That's not necessarily what we're planning for.

And quite honestly, if we achieve it, that would be fantastic. But we won't put a lot of opportunistic business into our book. We're trying to build this for the long term. I think the quality of our growth is something that I would just highlight to you that is a key focus for us.

And hopefully, as we look out 2 or 3 years from now, much of the business that we put on to the books sticks to our ribs because it was put onto our books the right way under the right terms and conditions, where they were looking to a company like us to give them a good solution. And I'm hopeful that time will bear out that what I'm describing to you is actually the sort of the characteristic of the growth that we're putting on here in 2023.

Matthew John Carletti

JMP Securities LLC, Research Division

That's really helpful. And then just one other, I guess, just back to the -- just hoping we could dig a little deeper on kind of the pricing commentary being ahead of loss cost broadly. As you think through the various different underwriting division, are there certain areas that you really like how it's looking. Maybe you see inflation moderating or loss cost behaving better and pricing still there? Are there other areas that you might feel maybe a little more cautious that -- maybe you're cautious on the loss cost front or pricing needs to accelerate. Just trying to get a feel for kind of what are more green lights for you guys and other areas where you might be exercising a little more caution or discipline?

Andrew Scott Robinson
CEO & Director

Yes. Well, look, I think that I am concerned about, as we all are with social inflation around personal injury, right? I mean it's just a topic that we think is -- it's a watch-out topic. I think we messaged to you and others in the first quarter that we did a whole account quota share on auto, not because we don't like what we're doing in auto, but because we are exposed to a macro trend that we are watching that we think that the right thing to do is keep doing what we're doing but protect ourselves. So I would just say personal injury, particularly excess exposure, we might not have that excess exposure. The excess exposure might be written over us, but then exposes our primary $1 million a limit.

I will give you just as one example. Well, first of all, I'd say I feel really good about most areas right now. But if you look at our first quarter writings, for example, we wrote as a percentage of our gross written premiums, auto was at about 18%. You know that last year, as a percentage of our portfolio, it was 22% or 23%. So that just shows you that we're being a bit more cautious on the growth. We're certainly being more cautious on the net by having that protection. But we still feel like there are great opportunities out there. They're just macro concerns that we see and then you combine that with instances of, what I'd particularly describe as, a select number of you see MGAs out there, a lot of fronted solutions that are just -- they just don't operate as if they're recognizing the same things that we're recognizing. And so those are the instances where we'll be a little bit more cautious.

When I look across what we have in our medical stop loss, A&H business, what's happening in our professional liability lines, which are broad across Allied Healthcare, professional, even what we see on the private company management liability, certainly what we see in property, all those are areas where we feel very good about our confidence in the loss cost environment and where we are with our technical pricing and where we are with additional rate that we're adding quarter-on-quarter.

Operator

[Operator Instructions] Our next question comes from Meyer Shields from KBW.

Unknown Analyst

This is actually [Derek] on for Meyer. So my first question is on the operating expense ratio, which came in a lot lower than we had expected. And I know you had called out premium leverage and lower investments kind of impacting that. Is there anything else unusual in there that lowered the expense ratio? And as your investments kind of accelerate throughout the year, how should we think about that expense ratio throughout the year?

Andrew Scott Robinson
CEO & Director

Yes. So great question, by the way. There were 3 principal components that drove a lower expense ratio in this quarter. One, as you readily mentioned, was just simply we had more in premium running through giving us a bit more leverage. The second, real notable thing is that, we have -- in our expense ratio, as you know, we run some fees into -- effectively as a contra expense in our expense ratio, and that was up a little bit in the first quarter. There was some seasonality and some benefits that probably will not repeat. And then the third was we had expectations for investments that have been delayed about a quarter. And so some of those investments that we had planned for running in just didn't run in, which is great on one hand, but we do see most of those investments as being directly related to the profitable growth in our business, right? So simultaneously, while it benefits one period, it also probably delays a tad bit of the growth that otherwise we'd expect at a later point. But those were the 3 principal contributors.

Unknown Analyst

Okay. That's really helpful. And then my second question is going about the global property Obviously, property pricing is probably well in excess of loss trends. And you said you didn't add much exposures in the first quarter. Can you just help us think about the maximum exposures you're willing to take on for global property maybe as a percentage of the business or premiums given your focus on kind of limiting underwriting volatility?

Andrew Scott Robinson
CEO & Director

Yes. I mean -- listen, I don't -- I think that we are not -- there's not a practical governor on what those guys -- what our team in global property writes, right? So they see a unfamiliarity with the bulk of the accounts that are sort of in the addressable market. As you may remember, we write circa 100 accounts, right? So that's practically what we're writing. And certainly, we're going to add some accounts. But there's no governor. It's really just whether we are satisfied with the quality of the right for us.

And look, I understand that there is a good deal of talk amongst our industry about how a lot of people are going heavy on writing property. And we certainly are seeing tremendous opportunity there, and we're taking advantage of it. But it doesn't necessarily mean that you're still going to write or as one of my colleagues says, if you did a cross-section of the profitability of the property industry in totality, not just maybe the cat reinsurers today, it's questionable where the profitability stands.

So we still are aiming to pick and choose our shots. We're not limiting that team. We have obviously a very conservative posture as it relates to cat. You can just see that by the size of our cat program and our attachment points. And so if the market continues, we'll continue to grow there. But I don't see us adding a monstrous amount of exposure and changing the profile of our business, but that's not because we're constraining them, that's just the way that we're operating.

Operator

Our next question comes from Gregory Peters from Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

So Andrew, I was listening to your comments and around the reinsurance, you said the new program renewed million ex $12 million.

Andrew Scott Robinson
CEO & Director

Correct.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

So let's sort of look at that 12. How are you thinking about -- given the growth that you're doing in transactionally in Asan global property, how do you think about -- and in the context of the fact that we're hitting summer weather in the third and fourth quarter hurricanes. How do you think about what type of things would have to happen for you actually to hit a retention -- a full retention in a given quarter just because of all the changing and moving pieces?

Andrew Scott Robinson
CEO & Director

Yes. So it's a great question. Without sort of unpacking our cat program too much that a $12 million retention for us is about a 1 in 10-year return period when you consider all perils, right? So it's a pretty conservative attachment point. That said, I'll just -- all I can reflect on is my experience and how the book of business has been shaped. And the thing I will remind you is that we didn't touch it last year, was a pretty big event. Certainly, for others, they had touched their cat programs. The only event that hit us, and I'm trying to remember into Louisiana, a couple of years back, where we touched the bottom of our program was very unique, right, in that it was an intense storm that came into one location, and we barely touched the bottom of our program and a program had a far lower attachment point.

So for me, what that tells me is that we've been tested with a lot of things here, winter freezes, a lot of convective storms, certainly hurricanes all throughout the Gulf on both sides. And yet, we've had very minimal impact and certainly wouldn't be something that would hit a $12 million attachment today. So it's really hard to identify. I will tell you that when we think about our exposure, we think about the frequency of severity or multiple cat events. And without unpacking it, we do have some cover that drops down on second to third event that is lower than that $12 million attachment point because we are trying to protect ourselves against that second and third event. And that's part of the construct that I think is unique to how we approach the cat cover. And I would more point you to that. If there's a series of events and maybe on the second or third where our cover drops down, that there may be an attachment.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

That makes sense, especially the drop down on the second and third events. Can I pivot -- Mark, you talked about the results on the opportunistic fixed income. You briefly addressed some of the exposures, whether it's the banks, et cetera. So I guess, 2 questions. Just as you think about the opportunistic fixed income for the balance of the year, it seems like considering where the market is, there's going to be some headwinds. Just wondering if you have a perspective on that?

And then if I look at your balance sheet, and there's -- in the asset section, you have mortgage loans listed. And at cost at the year-end '22 is just over $51 million. And then I look at the fair value at March 31, it dropped down to $42 million. I know you said you talked a little bit about your commercial exposure or real estate. But can you walk us through what's going on inside the mortgage loan bucket, too?

Mark William Haushill
Executive VP & CFO

Okay. Well, that was a lot, Greg. So the way I look at the opportunistic, I think it's worth framing first that the returns inception-to-date on the portfolio have been strong at right about 8%. I mean, we like the portfolio. The anomaly that we deal with is the volatility due to the accounting and the structure in which we invest.

Let me add 2 more points to your question. I think it's worth emphasizing that in light of the current yield environment where we are today and where we have been for the better part of the year. All of our new money is going to core fixed income, and that portion of the portfolio is now, meaning the opportunistic, is less than 15% of the total portfolio. When you talk about the different buckets, I think you're referring to other commercial mortgage loans. Frankly, the decrease there is we got paid on one of our loans. So that's the reason it's down. Does that help?

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

That does. I'm not sure I've got clarity on how to model this going forward. And not the mortgage loan piece, the opportunistic fixed income piece, but I guess, given the market cautious is probably the best course of action.

Mark William Haushill
Executive VP & CFO

Yes. And we'll take it offline, and I can get into the different components of the portfolio. And when we file the Q, you'll get some more clarity on the different pieces, if that helps.

Andrew Scott Robinson
CEO & Director

I would add, Greg, one important item. I think Mark mentioned this in his prepared remarks, which is -- for us, it's important as we have and important for us to convey to you that we don't just sort of look at superficially what are the allocations. We are understanding the underlying exposures. And there is very little exposure to office buildings and real estate, retail, and so if you want to just think about this in terms of sort of the economically sensitive, we really like what we have. We like the quality of what we have and also just the sort of the nature of our CMBS, which -- these are not long-dated loans. In most cases, they're very short loans. They tend to be bridge loans. And so you can sort of see them with, I think, probably with a little bit more confidence and clarity which we do.

Operator

Our next question comes from Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the quarter. Two reasons that the growth in the first quarter being kind of above plan, well above plan. Does that have any implications for as we think prospectively the combined ratio and maybe the allocation between loss and the expense ratio? I think of properties having generally a lower combined ratio, but surety tends to have a higher expense ratio. Is there enough of a change with the unexpected growth that we could see something materially change in the composition of the combined ratio?

Andrew Scott Robinson
CEO & Director

Yes. Great. By the way, it's a great question. I think that our general view is we have to wait a couple of quarters before we call that, right? Because written premium -- I mean there is a mechanical thing going on here, right? Written premium skewed, as you rightly noted -- So I was just saying that was somewhere in the background, that was not us. The written premium definitely skewed towards some of those divisions that you rightly note are more -- their contribution and loss ratio is better. That said, it's on a written basis. It's would take it a while to earn through. And we want to see the trend continue for a couple of quarters before we start to declare victory in terms of what this might mean on our loss ratio.

I think put differently, the inputs that we provided to you and to others pre-IPO around where we really thought our ex-cat accident year would be. It still stands. It's our working assumption. And if anything, changes as the earn-through of that comes through, it's a chance for us to be a little bit more conservative than the conservativeness that we already have around where it is that we're setting our accident years. But it will take some time, right? I think we'd like to see 2 or 3 quarters of continued kind of development of the portfolio towards those other parts of our business, those divisions to be able to start to see that and assume that we want to let that flow through on accident year.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. Maybe a shift to a longer-term question. I know you folks you're always looking to build new products and new divisions any update on that in -- as we go into 2023, which obviously wouldn't affect this year that much, but it really has the impact of the out years if you [indiscernible]

Andrew Scott Robinson
CEO & Director

Yes, it's a great question. I certainly wouldn't say that we're pausing because that's not the right way to describe it. What I will say is that we -- I say this and I kind of repeat it, which is that we've become a magnet for the best talent in our industry. There's no question about it. And when I'm done today, I'll be interviewing a fantastic candidate from one of our divisions. And we have lots of opportunities that are really about adding to what we already have in place. One area I'm hopeful that you'll see us make even a more concerted effort to grow and develop is in captives.

We have some perspective there about how we can take that to another level. And so with the addition of inland marine and Ag in the first quarter, we added some lines late last year, particularly in AAC. We think that we have a lot here that we can grow into and probably add talent around what's already in place. That said, ordinarily, I would give you sort of a heads up on 1 or 2 things that we're working on. I think they're probably earlier in development to sort of declare that here are a couple of things that you should be looking for from us.

Operator

And our final question comes from Mark Hughes from Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

On the commercial auto, have you started to see? Have you seen a deterioration or the -- maybe not in your performance, but in some of the claims, frequency, severity, I think you've described how you're taking steps to protect yourself from -- is that something that you're starting to see as visible in the book of business?

Andrew Scott Robinson
CEO & Director

Yes. So maybe just a macro step back, right? So as you know that we really have sort of 3 core components within our commercial auto portfolio. One is our specialty transportation, which is principally intermodal trucking. We often have talked to you and others about the unique things that we do, particularly using technology there that we believe allows us to do something vastly different than the industry on our underwriting and our claims. We have exposure through our captives, which, of course, is directly shared with the captive participants. And as you're also aware, we have one specific program where we are a material owner in the business. And those are 3 points of focus.

What I'd say to you is that, yes, frequency, obviously, unsurprisingly, we got a benefit during the COVID period. That's no surprise to not unique to our book with -- let's just say that it's kind of oriented back towards expected levels. On the severity side, going back to the comments earlier, severity is definitely up. We can measure it, we can see it. We can actually point to features and social inflation. The good news is that we have and continue to be pricing ahead of our loss cost inflation. By the way, our loss cost inflation on our auto book is right around 9% or 10%, right? So it's a pretty high number. I think just our general view in the macro sense is that, that kind of backdrop is not conducive to sort of long-term durability of a line of business, right? Something has to change.

Part of the issue here is that there are examples of MGAs, fronted solutions with MGAs that I just -- I view as it's just simply irresponsible, right? Don't seem to understand the features of exposure, loss cost inflation. And it's -- our sense is that's fine. It's a matter of time before those entities, their reinsurers will learn that doesn't work. And if we find that it's an opportunity for us to lean into that, we will.

Right now, we like our portfolio. We're sort of being very smart selectively offensive. But as I mentioned from my remarks earlier, in terms of the overall proportion, obviously, more defensive than we are relative to other parts of our business, and we think that that's appropriate. I would not throw up caution or anything around our book of business. We still feel very good about it. We're doing the right things. It's just some of the macro context that just simply can't be ignored.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Understood. Appreciate all that detail. And I think you've touched on this, but to surety, do you think surety grows faster, same pace, a little more slowly than the overall top line this year?

Andrew Scott Robinson
CEO & Director

Well, I'm probably going to watch our General Counsel, cringe with my response, right? But we, this year, will probably cross or will be circa if the market doesn't change a $100 million surety business. That is a material-sized surety business. It is a terrific business. We're very proud of it. But obviously, growing becomes more difficult as you're sort of lapping yourself on growth year-on-year-on-year. The thing that has been distinctive for us that I think gives us confidence is our ability to attract just amazing talent. And when that talent comes across to us, it has been the case to this point that the business that has been -- the business that they've served has followed them, right?

So we're sort of growing in ways that are -- that feels a bit almost like book rolls, if you will, without it being book roll. It's just the business follows those great underwriters. And we seem to be able to attract really outstanding underwriters that we know, the books of business that we know and we like. And if that continues, we can maintain the growth. But it gets further obviously, as you get larger, you get to the kind of size organization that we are today. And by the way, at that size, we're -- you're moving into one of the top sureties in the country and in our part of the market, one of a small handful of folks who really serve sort of our part of the market. So my answer to you is it can be both. It could be that by its very nature, it's going to be more difficult. If we continue to attract the great talent that we've been able to attract, we can continue with the kind of growth that we've seen to date.

Operator

I would now like to turn it over to Natalie for closing remarks.

Natalie Schoolcraft
Head of Investor Relations

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

Operator
Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.