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Market Intelligence

Kinsale Capital Group, Inc.

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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

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

Presentation

Operator

Ladies and gentlemen, good morning. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter 2023 Kinsale Capital Group Inc. Earnings Conference Call.

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 a Form 8-K with the Securities and Exchange Commission that contains the press release announcing its fourth 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 on 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 President and COO, and I, will each offer a few remarks, and then we'll move on to any questions you may have.

In the fourth quarter of 2023, Kinsale's operating earnings per share increased by 49% and gross written premium grew by 33.8% over the fourth quarter 2022. For the quarter, the company posted a combined ratio of 72.1% and posted an operating ROE of 31.8% for the full-year 2023. Company's strategy of disciplined E&S underwriting and technology-enabled low costs drive these results and allows us -- active returns and to take market share from competitors at the same time.

Specifically for those newer to the company, Kinsale focuses exclusively on the E&S market -- on writing smaller accounts. We provide our brokers with the broadest risk appetite and the best customer service in the business, and we use our low expense ratio to offer our customers competitively-priced insurance, while also delivering best-in-class margins to our stockholders.

Since much of this expense advantage is predicated on our advanced systems, and our team of world-class technology professionals, we believe the competitive advantage of our technology model not only has durability to it, but has the potential to become even more powerful in the years ahead.

As we have noted over the last several years, the E&S market continues to benefit from the inflow of business from standard companies and from rate increases driven by inflation and relatively tight underwriting conditions. Our growth in the fourth quarter was similar to the third and was largely consistent with the industry commentary about the property market becoming more orderly. We continue to be optimistic about growth in 2024.

Finally, a reminder about our reserving process and approach. We collect premiums upfront and pay claims out over the subsequent several years. Accordingly, we post reserves now for claims we will have to pay in the future. We deliberately set those reserves in a conservative fashion. We set aside more than what we think we will need to allow for some uncertainty in the process, the possibility of a changing towards system and the uptick of inflation we have experienced more recently in the last couple of years.

Our 2016 through '19 accident years have developed favorably on an inception-to-date basis. But the level of conservatism in those years has been partially eroded by inflation. Subsequent to 2019, we have benefited from very significant rate increases above loss cost trend, and we have used some of that additional rate to add to the level of conservatism in our reserves. Investors should have a high level of confidence in the Kinsale balance sheet as we expect overall reserves to continue to develop favorably in the years ahead.

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

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Thanks, Mike. Another solid quarter with 33.8% growth in written premium, very low cat activity and net income and net operating earnings increasing by 53.7% and 49.6%, respectively. The 72.1% combined ratio for the quarter included 2.3 points from net favorable prior year loss reserve development compared to 3.2 points last year and negligible cat losses in either period.

The expense ratio continues to benefit from higher ceding commissions from the company's casualty and commercial property proportional reinsurance agreements as a result of growth in both of those lines of business. The expense ratio can bounce around a bit from quarter-to-quarter. So we believe it's best to evaluate the components of the expense ratio over a 12-month period.

For the year, we noted that the expense ratio decreased by 1.4 points from 22.2% in 2022 to 20.8% this year. Breaking this decrease down a little further, 1.2 points came from net commissions with the remaining 0.2 point from other underwriting expenses. On the investment side, net investment income increased by 71.2% over the fourth quarter last year as a result of continued growth in the investment portfolio, generated from strong operating cash flows, and higher interest rates with a gross return of 4% for the year compared to 3% last year.

We're continuing to invest new money and shorter duration securities with new money yields averaging in the low to mid-5% range and duration decreased to 2.8 years, down from 3.5 years at the end of last year.

And lastly, diluted operating earnings per share continues to improve and was $3.87 per share for the quarter compared to $2.60 per share last year.

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

Brian Donald Haney
Executive VP & COO

Thanks, Bryan. As mentioned earlier, premium grew 34% in the fourth quarter and 42% for the year. We continue to see growth across our book of business with particularly strong growth in our property divisions along with Entertainment, General Casualty, Excess Casualty and Commercial Auto divisions.

Submission growth continues to be strong and actually experienced a bit of an acceleration to the mid-20s for the quarter. This number is subject to some variability, but in general, we view submissions as a leading indicator of growth. And so we see the submission growth rate as a positive signal. We sell a wide array of products and the rates on those products don't move up in lockstep, but if we boil it down to one number, we see real rates staying up around 5%. Please note, we have been increasing rates above loss cost trend for several years now. And it's also important to stress that our rate change and rate adequacy are 2 different things.

As our results demonstrate, our rates were more than adequate. We're 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. But in any event, we feel that business we're putting on the books today is the most adequately priced business we've seen in our history. Another thing I'd like to note, we've seen in industry commentary, a trend that some companies are seeing generally favorable development on workers' comp, that's offsetting to some extent, adverse development and general liability.

Just as a reminder, Kinsale doesn't write any workers' comp and general liability represents the largest share of our reserves. So when you see Kinsale having favorable development, you should know that this is a result of diligently staying ahead of the trends in the general liability market, and it does differentiate us somewhat in the industry. That being said, the notable industry trend of weakness in general liability reserves bodes well for us and they serve to prolong the favorable market conditions.

Finally, inflation has moderated somewhat from its ties, but getting the inflation rate to the Fed's target is proving to be a much longer effort of many prognosticators and forecast. The longer the elevated inflation persists, the more pressure the industry will see on reserves, particularly on longer tail lines. We are dedicated to staying vigilant about this, so that we may continue to have reserves that are more likely to develop favorably than adversely. Overall, once again, a good quarter, and we're really happy with the results.

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

Michael Patrick Kehoe
President, CEO & Director
Thanks, Brian. Operator, we're ready for any questions in the queue.

Question and Answer

Operator

[Operator Instructions]

And we will take our first question from Bill Carcache with Wolfe Research.

Bill Carcache
Wolfe Research, LLC

I wanted to follow up on your comments about the conservatism implicit in your reserving. I was hoping you could offer a little bit more color on the loss emergence trends that you're seeing from those that sort of 2019 and prior accident year period, particularly in this environment where as you described, some carriers are experiencing adverse development. And along those lines are latency effects associated with core closures during COVID, resulting in tail elongation. Just curious whether -- how much that remains in focus?

Michael Patrick Kehoe
President, CEO & Director

Bill, this is Mike. In general, I would say that there was some disruption with regard to the pandemic. It varies dramatically by accident year and by line of business. I mean there's a level of complexity there that I think would preclude us from getting into too much detail on our conference call. But in general, I would say that Kinsale has done a good job over our -- this is our 15th accident year in business. And I think we've done a really good job in setting aside conservative reserves, not every single year, but effectively, I think 13 of the 14 prior years have developed favorably on an inception-to-date basis. So hopefully, investors look at that track record of conservatism.

As we just talked about, we've been adding raising our rates ahead of loss cost trend for a number of years in a row now. And that's given us the opportunity to add even more conservatism. I think the conservatism is warranted with the uptick in inflation in general, but changes in Tort law and social inflation, et cetera. I mean there's all sorts of reasons for caution. And I just think it's important for our investors to understand that Kinsale is very proactive and very conservative in setting aside reserves today to pay claims in the future.

Bill Carcache
Wolfe Research, LLC

That's helpful, Mike. And I understand you're probably limited in what you can say about that court judgment described in the 8-K that you filed at the end of last year. But following the thought process that you just described at a high level, as we sort of think about social inflation pressures and the risk that those could prove more pervasive in coming years than might have been contemplated at the time that the business was written. You feel like the conservatism that you contemplated from the outset sort of protects you from that dynamic?

Michael Patrick Kehoe
President, CEO & Director

Yes. In a nutshell, yes. I would say we can't get into talking about that specific claim because it's active litigation. But we said in the 8-K, we didn't think it would have a material adverse effect. Adequate provision has been made in the consolidated financial statements and existing reserves to account for any liability of the company related to claims such as this legal proceeding. I would say, in general, there's been a lot of commentary over the last couple of years of that social inflation.

Some of that probably picks up this concept of nuclear verdicts and there has been a dramatic uptick. Can sales and E&S company -- and we make frequent use of coverage limitations to help us control our exposure to loss. We also tend to focus on smaller accounts, which probably insulates us a little bit. And

I think we run a very disciplined underwriting operation. We've got really good systems, which translates into robust data to manage profitability.

So it's something that creates, I think, a challenge for the industry. But I think in sales very good at staying ahead of changes in the Tort system. When you add to that the conservatism and how we approach reserving, again, I think investors should have a lot of confidence in the Kinsale balance sheet.

Bill Carcache
Wolfe Research, LLC

If I could squeeze in one last one. Are you considering, for Bryan, are you considering extending duration as the debate around the timing of Fed cuts continues? And maybe you could just frame how investors should be thinking about potential downside risk to earnings from a lower rate environment broadly.

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

We certainly are keep up with what's going on from an interest rate perspective and an inflation perspective. I think in the near term, we're probably going to continue to invest in that 3-year time frame. But hey, it's something we look at every month and every quarter and working with our investment teams to ensure that we're taking -- being opportunistic, but being aware of rollover risk and what have you.

Operator

We will take our next question from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Maybe we can just start on you mentioned the submissions increased a bit into the mid-20s. I know there's some variability you cited on that. But any color there? I feel like insurance investors have been grappling with a potential uptick in flow on the casualty side given social inflationary pressures impacting everyone kind of maybe more than offset or offset by less property flow to the extent property has gotten a lot of price and the wind doesn't blow too tough in '24, but any color would be helpful.

Brian Donald Haney
Executive VP & COO

Yes. I mean one thing to note is the growth rate actually has been relatively steady. So I think if you go back and read the commentary, it's been in that 20 -- low 20s range and slightly accelerated range. I think it just sort of happened, it was a little more acceleration this quarter. That could just be volatility. I would agree that we are seeing, I think, continued casualty submission in inflow, which is probably extending from some of the reserve issues that some of the other competitors are having.

So -- and you're right, Mike mentioned that the property market is more orderly, but we are still seeing a strong flow of submissions, it's just there's more capacity, and it's just -- it's a little less distressed than it was last year.

Michael David Zaremski
BMO Capital Markets Equity Research

On your comments about your technology and how your technology is evolving, it could become more powerful. How would that translate into KPIs we see as investors? Would you potentially get more submissions or just be able to act more quicker on the submissions? Or do you feel like it would just allow you to price risk better or all of the above or any color would be great.

Michael Patrick Kehoe
President, CEO & Director

Well, I think, one of the -- Mike, this is Mike. One of the interesting things about technology is it impacts multiple areas of the business in a material way. So can it speed up customer service? Absolutely. Can it allow us to incorporate more third-party data in how we evaluate an individual risk and segment and price risk and drive a more accurate underwriting model? Absolutely. Can it help us increase the productivity of our workers effectively lowering our expenses? Absolutely.

Yes. I mean it's -- for all these reasons and probably others, it's the reason we prioritized that the way we have over the years and continue to make an enormous commitment. I mean, I think about 20%, maybe slightly over 20% of our headcount is in our IT department. And I think that just anecdotally speaks to how important we think it is to our business model and having made technology a core competency of our business 15 years ago when we started the company alongside of underwriting and claim handling. I think it just puts us in a very interesting position today compared to a lot of companies in the industry that maybe aren't quite as far along.

Michael David Zaremski
BMO Capital Markets Equity Research

I feel like you've been talking about it a lot, but I guess you haven't been longing to say it could kind of decouple your long-term thoughts on growth because I know the company still expects growth over the long term to decline along with the marketplace.

And lastly, just quickly on your commentary. So I believe you made the comments in your prepared remarks, Mike, that you added some reserves, some conservatism, which seems prudent in light of higher inflation levels. I don't know if am I understanding that correctly, when we see the statutory data, are we going to see some topping off of certain accident years? Or anything you're trying to tell us there?

Michael Patrick Kehoe
President, CEO & Director

Well, I was really speaking more toward a general management approach to the business, which is recognizing that -- of course this is an uncertain business to some extent. There's all sorts of quantitative methods that we use to drive more certainty, but there is an element of uncertainty and we collect premiums upfront. We pay the claims over a number of years. And so I think it's just prudent to be as cautious as possible within reason in terms of setting aside dollars today to pay claims in the future.

When inflation picked up, that wasn't really anticipated. I don't know by anybody, but certainly not by us, and so I do think that had a negative impact in the level of conservatism from a couple of those years. But I wasn't really speaking to anything specifically, but we're going to file our case soon and our stat statement soon thereafter and there's a lot of very granular information that people can look at in terms of reserves by accident year and by statutory line of business.

Michael David Zaremski
BMO Capital Markets Equity Research

But just to be clear, I think in the past, you said that every year has developed favorably or most of your year. So are you saying we might see something a little bit different, like as many we'll see probably from many peers when you file the K?

Michael Patrick Kehoe
President, CEO & Director

Our 2011 year developed adversely, it was the first full year we were in business and the company was tiny. I think our ultimate -- I think our losses at the end of 2011 were $12.4 million and it's developed up to $15 million.

So it's -- yes, we had one bad year, but in general, it's immaterial. The last several years, I think it was Brian Haney made the comments about the fact that we've been getting rate increases ahead of loss cost trend. So again, these are the most conservatively reserved years in our company's history, and it coincides with the market becoming a little bit tighter, if you will, insurance companies having more pricing power.

So in that favorable pricing environment, yes, we leaned into it and grew our business in a pretty dramatic fashion, but the reserves reflect -- the net of all this is, I think our reserves are in a great spot.

Operator

We'll take our next question from Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

The expense ratio is quite good in the quarter below 20%. With the mix of business you have now, I know you mentioned, I guess, the ceding commission is 120 bps and better acquisition costs. I assume that's the ceding commissions. Is 20% a good bogey, given the current mix, et cetera, for 2024?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Mark, I think that's consistent with what I said, I think looking at the expense ratio over the 12-month period, probably gives you a very good indication of where we expect to be going forward.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Was there anything else -- anything in the fourth quarter that was unusual? I hear what you're saying, but I'm trying to recall whether the fourth quarter has some seasonality that makes it lower than the full year?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

No. I would say quarter-to-quarter, there's always going to be a little bit of variability, but there wasn't anything in particular to note in Q4.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Understood. And then the ceded premiums, 22.5% is -- I assume that goes along with your property exposure, if casualty maybe outgrows property a little bit in coming periods, should that come down? Or what's some rough thoughts there?

Michael Patrick Kehoe
President, CEO & Director

It's Mike. The mix of business is always going to impact that. We buy a little more reinsurance on the property side because of some of the volatility that goes with certain accounts that are exposed to natural catastrophe, and we buy more reinsurance when we put up larger limits. So our excess casualty book, the primary policies, we typically keep that.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then, Brian Haney talked about the accelerating submissions. Will that be accompanied by a little more pricing? Are you pushing a little bit more on the grade in this environment?

Brian Donald Haney
Executive VP & COO

It's not going to affect how we look at price. I mean, we are pushing pricing up, but that's less to do with the submission in flow and more to do with hitting kind of optimizing the wealth building. So we're taking into account all the market conditions and what the competitors are doing and coming up by line with where we're going to push rates. So now going from 20 to low 20s to 25 would not affect how we rate the business.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then just a final question. The property is more orderly. Is it as attractive now, pricing still seems like it's going up and if it was attractive last quarter, it still is attractive now. How are you looking at your appetite for property given your current mix and the price levels?

Brian Donald Haney
Executive VP & COO

Well, I guess, I would say -- this is Brian Haney. I would say that prices are still going up. So it's more attractive than it was last year when it was less orderly. So we still see a great opportunity in property.

Operator

[Operator Instructions]

We will take our next question from Andrew Andersen with Jefferies.

Andrew E. Andersen
Jefferies LLC, Research Division

Maybe going back to pricing and competitive positioning, trying to think about the underlying loss ratio into '24. And how I've been thinking about Kinsale over the past couple of years is you haven't had to compete much on pricing. And I suppose one way of looking at that is the bound policy to issue quote ratio, which hasn't moved much. So it sounds like if you're not competing more in a relative position with pricing versus peers, we could still see flat underlying loss ratios into next year. Is that a fair way to think about the competitive market and underlying margins?

Michael Patrick Kehoe
President, CEO & Director

Andrew, this is Mike. I would probably take issue with the idea that we don't compete on price. I mean we buy in 10%, 12%. I think it varies a little bit by line of business. But we buying 10% or 12% of our new business quotes. And I would say price is the biggest driver. It's a huge concern to our customers. Clearly, the last few years have been a little bit more of a seller's market. So that's given us the ability to raise rates and at the same time, grow the top line at a really good clip.

But you're not completely divorced from sensitivity around price. So it's still a competitive business in terms of where loss ratios can go from here. I mean, we don't really forecast that publicly. But if you take into account all the information we're providing, I think you can probably come up with a good guesstimate.

Andrew E. Andersen
Jefferies LLC, Research Division

And in the context of submission flows and maybe rate coming down a little bit in property from some industry data. Just trying to get an idea of the average premium in property versus casualty and if you were to lose some property business because of the pricing dynamic, does the casualty transaction flow overweight that because the average premium there would be higher.

Brian Donald Haney
Executive VP & COO

I would say the average premium for property depends on what sort of property we're talking about. Commercial property would have a relatively high average premium, but our small property team, our high-value homeowners team and our personal insurance book all has relatively low average premiums.

I don't -- I wouldn't anticipate a huge impact from -- the market is becoming more orderly, but I don't think it's not a dramatic effect. It just explains why that the property growth rate went from a very, very large number in the fourth quarter of 2022 to a still large, but less large number in the fourth quarter of 2023.

Andrew E. Andersen
Jefferies LLC, Research Division

And Mike, maybe just one clarification. You mentioned accident year '16 to '19 favorable inception to date. Just want to be clear, that is on both a consolidated basis, but also on general liability casualty basis as well and it's not...

Michael Patrick Kehoe
President, CEO & Director

It's on a consolidated basis. As you get down to -- I think we've got about a dozen statutory lines of business. You run into more variability because you got smaller numbers. But on a consolidated basis, we've got a really good track record of posting reserves in a conservative fashion that developed favorably over time.

Andrew E. Andersen
Jefferies LLC, Research Division

I guess I was trying to get at, it's not benefiting from property outweighing casualty because you weren't really writing much casualty back then to be -- or property back then to begin with.

Michael Patrick Kehoe
President, CEO & Director

Yes. It gets pretty complex though, Andrew, because property is a short-tail line that develops pretty quickly. Some of our Casualty business, I would -- I'm not an actuary, but I call it medium tail, right? It's kind of in the middle and then we write a lot of long-tail casualty. I think candidly, our book of business is a nice mix of short, medium and long.

But in general, I would say the Casualty business has performed well. We don't have one line of business for general liability. It's other liability occurrence, other liability claims made, products, liability occurrence, products liability claims made, we may even track the excess separately from the primary.

So again, I think that's a kind of complexity run-a-muck for a conference call. But in general, I think the takeaway for investors is they should have a lot of confidence in the Kinsale balance sheet. And the reason we're reiterating that is kind of to Brian's point earlier, there's a lot of companies coming out saying, hey, we need to take a big charge because we didn't put enough away in past years. And we're trying to give our investors confidence that, hey, that's not coming here.

Operator

We will take our next question from Pablo Singzon with JPMorgan.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

First question maybe for Brian Haney. I appreciate the disclosure and submission upon growth, but I was hoping to get some perspective on how policies were growing. Just given that your book is more related to new business than others, would it be reasonable to assume PIF growth is in the same neighborhood of submission count growth? And if not, how much lower?

Brian Donald Haney
Executive VP & COO

I don't have those numbers off the top of my head. I think the one other way to look at it is if you look at our average premium, it's probably going up a bit. And then if you look at our premium growth and back out our average premium growth, that's going to give you a pretty good estimate of PIF growth. So

I would probably say it's going up -- it might be close to submission growth. I don't be guessing if I said anything. It's probably going up somewhere between 20% and 30%.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

That makes sense. And then another one for you, Brian. If we assume Kinsale's loss cost increasing in the mid-single-digit neighborhood, right, and couple that with a 5% pricing metric you provided, would it be fair to assume that nominal premiums are growing maybe high single digits, assuming flat risk exposures?

Brian Donald Haney
Executive VP & COO

So -- yes, it's a short answer. You've got the competing effects of the real rate, the premium trends. So we get -- with inflation being elevated, we do get more premium just by virtue of prices of the underlying products going up and then the loss cost trend offsetting that. So yes, that's what you said as far.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

And then third question for Bryan Petrucelli. Those 1.2, 120 bps benefit from net commissions in '24. Was that the full run rate? Or will there be some more of that in '25?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Again, I think that depends on, as Mike mentioned earlier, mix of business, but as that property book grows and becomes a larger percentage of the overall premium base, and we are seeding off more of that business than we do on the casualty side.

Michael Patrick Kehoe
President, CEO & Director

It's probably important to remind people that even the business we cede away, we do get a ceding commission back, if you will, from the reinsurers that has some embedded profit in it for us.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

And then last for me, maybe for Mike or Brian Haney. I know this is something we'll see in the filings, but I was hoping you could provide a preview on the components of premium growth this quarter compared to the third quarter, right? And I'm thinking specifically of the breakdown between Property, which I think grew more than 80% in the third quarter and Casualty, which grew about 20%. Seems like the growth rates for those lines are fairly consistent in fourth quarter, would you agree or disagree with that?

Michael Patrick Kehoe
President, CEO & Director

Well, I mean, property grew at a robust clip in the fourth quarter. Casualty, as Brian said, pretty steady, but very strong double-digit growth.

Brian Donald Haney
Executive VP & COO

Transportation segment grew fairly well. Professional lines probably grew a little bit less than the rest of the book. So I think what you said was accurate.

Operator

We will take some follow-up questions from Mark Hughes with Truist.

Mark Douglas Hughes

Truist Securities, Inc., Research Division

The current accident year losses ex cat were flat for the full year compared to 2022, given what you see in terms of mix of business, loss cost trends, all of that. Is that a good starting point for 2024 understanding that you do have seasonality in that tend to be higher in the early part of the year and lower as the year progresses?

Michael Patrick Kehoe
President, CEO & Director

Well, we don't forecast that, but if you said that's what you're going to do, I wouldn't -- I don't think we'd take issue with that.

Operator

We will take follow-up questions from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Real quick. I know you gave us some nuggets on the expense ratio pushes and pulls in the prepared remarks. So I guess we can just use that to think through the forward '24 numbers, unless you wanted to kind of maybe hold our hands a little bit more and help us think through how much of is going to run rate into the coming quarters?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

I mean, I don't think we can say any more than we did.

Michael Patrick Kehoe
President, CEO & Director

Look at the annual.

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

If you take a look at the annual expense ratio, and that should be a pretty good guide for you.

Operator

We will take follow-up question from Pablo Singzon with JPMorgan.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

I thought I'd just throw in one more on reserves. So recognizing that the overall reserve position is good. Maybe this one is for Mike. I think in the past, you had called out pressure in specific lines, if I remember correctly, it was I think construction, right? I was wondering if you could provide a perspective on sort of where -- recognizing the overall book is in a good spot, but are there lines of business or classes where you're probably more crisp than others?

Michael Patrick Kehoe
President, CEO & Director

Well, what's unique to construction, Pablo, is the fact that it's one of our longer tail lines of business, specifically a component of the construction business, which we call construction defect. They're typically water intrusion claims, sometimes the water intrusion is so slow that the property owner isn't even aware of it for a number of years. And by the time it's discovered, it could be an extensive renovation, $1 million claim.

And these claims can come in late, 5, 7, 9 years later. Sometimes -- California, I think, has a 10-year statute of repose. I think Colorado, maybe like 7 years, other states like Virginia, I think it's 1 year. So it varies a little bit depending on where you are. But the long-tail nature of that business, combined with, I think we hit 9% inflation a couple of years ago. That inflation hit labor costs. It hit building supply costs. So there was definitely an impact on the construction book at Kinsale. Does that answer your question?

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Yes. And I was wondering, aside from construction, are there any other lines or class where you sort of see not major issues, but sort of these are like, I guess, latent issues emerging or construction sort of like top of mind for you and the rest of the lines are broadly okay?

Michael Patrick Kehoe
President, CEO & Director

I would say construction is probably the most material. It's a big part of our business. So that kind of stands out to me. I mean, in general, our book of business is performing at a really attractive level. That's why we're publishing these kind of results, not just in the fourth quarter, but for the last several years.

Those results are a reflection of a high-performing business even in the face of a lot of conservatism in the reserving. And so even the construction business is generating a healthy return for us. It's just that some of those claims have developed a little bit later than maybe we originally anticipated.

Operator

We have no further questions at this time. I will now turn the call back to Mr. Michael Kehoe for closing remarks.

Michael Patrick Kehoe
President, CEO & Director

Well, thank you, operator, and thanks, everybody, for joining us today, and we look forward to speaking with everybody again here very soon. Have a great day.

Operator
Ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.