S&P Global Market Intelligence

Kinsale Capital Group, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

Brian Donald Haney
President & COO

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Michael Patrick Kehoe
Chairman of the Board & CEO

ANALYSTS

Andrew E. Andersen
Jefferies LLC, Research Division

Bill Carcache
Wolfe Research, LLC

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Rowland Mayor

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Unknown Analyst

Presentation

Operator

Thank you for standing by. My name is Briana, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Kinsale Capital Group, Inc. Third Quarter 2024 Earnings Conference Call.

Please note that this call is being recorded. [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 2023 annual report on Form 10-K, which should be reviewed carefully. The company has furnished a Form 8-K with the Securities and Exchange Commission that contains a press release announcing its third quarter results.

Kinsale's management may also reference non-GAAP financial measures in the call today. A reconciliation of GAAP to these measures can be found in the press release, which is available at the company's website at www.kinsalecapitalgroup.com.

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

Michael Patrick Kehoe
Chairman of the Board & CEO

Thank you, operator, and good morning, everyone. As usual, Bryan Petrucelli, our CFO; and Brian Haney, our President and COO, are joining me on the call this morning. In the third quarter 2024, Kinsale's operating earnings per share increased 27%, and gross written premium grew by 19% over the third quarter of 2023. For the quarter, the company posted a combined ratio of 75.7% and a 9-month annualized operating return on equity of 28.2%.

Kinsale's business strategy is the principal driver of these results, and we believe this strategy materially differentiates us from our competitors. We control over our underwriting absolutely, driving a more accurate process. We provide the best customer service and the broadest risk appetite in the E&S marketplace. We operate at an enormous expense advantage in a business where our customers care intensely about price. Our expertise in technology not only results in lower costs but it also allows Kinsale to drive a highly quantitative approach to managing the business. These advantages, we believe, have real durability to them, and they inspire confidence about our ability to generate strong returns and continue to grow the business in all market environments.

The overall E&S market in the third quarter was generally steady but with a continued increase in competition. As usual, there is not one overall E&S market but instead a series of smaller submarkets, each with its own unique level of competition. As a consequence, rate changes and growth rates and intensity of competition for Kinsale varies by quite a bit by underwriting division. Generally, we continue to see strong growth in new business submission activity, slightly positive overall rate changes across the book of business, and rational but increasing levels of competition. Brian Haney will have some additional commentary on this topic here in a moment.

Kinsale's natural catastrophe losses in the quarter were modest. Quarterly loss activity includes both Hurricanes Francine and Helene as well as a variety of smaller events. As a reminder, we target cat-exposed property because the margins on that business are generally attractive but we are also mindful of the potential volatility and use a cautious risk management strategy to keep that volatility under control. Hurricane Milton struck the West Coast of Florida early in the fourth quarter as a Category 3 storm. Although it is still early in the loss adjustment process, we estimate our total after-tax Milton losses to be under $10 million.

In our press release last night, we announced that our Board of Directors had approved a $100 million share buyback program. We are mindful that Kinsale's shares trade at a relatively high price to earnings multiple but we are also confident in our business strategy and our ability to drive best-in-class results and take market share in the years ahead.

Accordingly, we believe modest repurchases each quarter with the possibility of larger, more opportunistic purchases from time to time are in the best interest of our stockholders who like us, expect to hold the shares for the long term.

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

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Thanks, Mike. Another strong quarter from a profitability perspective with net income and net operating earnings increasing by 50.1% and 26.8%, respectively. The 75.7% combined ratio for the quarter included 2.8 points from net favorable prior year loss reserve development compared to 3.2 points last year with 3.8 points in cat losses this year compared to less than 0.5 point in Q3 last year. We've produced a 19.6% expense ratio in the third quarter compared to 20.9% last year. The expense ratio continues to benefit from ceding commissions generated on the company's casualty and commercial property quota share reinsurance agreements and from the company's intense focus on managing expenses on a daily basis.

On the investment side, net investment income increased by 46.4% in the third quarter over last year as a result of continued growth in the investment portfolio generated from strong operating cash flows and higher interest rates. The annualized gross return was 4.3% for the year so far compared to 3.9% last year. New money yields are averaging in the mid- to high 4% range and average duration slightly over 3 years. Diluted operating earnings per share continues to improve and was $4.20 per share for the quarter compared to $3.31 per share for the third quarter of 2023.

A couple of comments regarding the share buyback program that Mike just touched on. We view the repurchase program as an addition to our capital allocation strategy, along with our quarterly dividends. As a reminder, we really have no interest in M&A and no plans for extraordinary dividends in the near term. Additionally, the plan will have no expiration, and we would expect routine modest buybacks each quarter, in part to minimize the dilutive effect of share-based awards and larger purchases to be made opportunistically from time to time.

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

Brian Donald Haney
President & COO

Thanks, Bryan. As mentioned earlier, premium grew 19% in the third quarter, down from 21% growth in this -- and 26% in the first. This modest slowdown in growth has occurred in part because we are seeing increased competition, particularly on some larger accounts in our Commercial Property division as well as certain professional liability and product liability lines.

That being said, a majority of our divisions, including commercial property are still growing. Growth in our Casualty business overall has been steady and is particularly strong in our General Casualty and Excess Casualty divisions. There's been some commentary among reinsurers and in the press that casualty reserves for the industry may be deficient. That's for the industry, not Kinsale. So this gives us some optimism about this space in the medium term as unfavorable development may cause some stress for our competitors and for some of them to enter book correction mode.

Overall, property growth in the quarter was favorable with our Commercial Property division, slowing somewhat while the small business property division continues to grow at a more rapid clip. It looks at this point like Hurricane Milton may be a top 10 historical loss, so that may arrest the downward trend in property for some time. That remains to be seen.

The specialty and professional lines areas are among the most competitive, particularly management liability but there are some pockets that are more favorable than others, and we have not yet seen, as an industry, the deterioration in reserves for those lines yet. We may, at some point, see the same reserving issues in those lines we are now seeing in casualty. Again, for the industry, I'm not speaking about Kinsale. We work really hard to maintain our track record of reserves that are more likely to develop favorably than adversely.

The transportation divisions are growing nicely, especially our Commercial Auto division, we are seeing growth in the personal line space, especially our high-value homeowners division as more homeowners business moves to the E&S space. There's a lot of room for us for future growth in those 2 areas. New business submission growth continues to be strong, around 23% for the quarter, a very slight acceleration from the second quarter.

This number is subject to some variability but in general, we have used submissions as a leading indicator of growth, and so we see the submission growth as a positive signal.

Turning to rates. We see rates up being around 3% on a nominal basis, down modestly from around 6% last quarter. It's important to keep in mind the market isn't a monolith. In some areas, our rates are going up higher and some they're going up lower. In some target areas, we may cut rates because the margins are so high that we feel the trade-off between rate and growth is worthwhile. But overall, we feel that the business we are putting on the books is very strongly priced and the margins are really good.

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

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

Michael Patrick Kehoe
Chairman of the Board & CEO
Thanks, Brian. Operator, we're now ready for any questions in the -- on the call.

Question and Answer

Operator

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

Bill Carcache
Wolfe Research, LLC

It was great to see the buyback announcement. So I maybe wanted to start off with a clarification on sort of how we should think about the share repurchase program. And it would be great if you can perhaps give a little bit more color on the magnitude that we should be thinking about. You had a little bit of modest upward drift in your share count over the years. So is this something that we should think as sort of just maintaining the share count where it is? Or does it actually come down? I'm just wondering, given your average daily volume in your shares, does that pose any sort of constraint on like anything kind of more sizable happening? Maybe if you could just give a little bit more context there on that would be great.

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes, Bill, this is Mike. The overall $100 million authorization is a -- it's a very modest buyback overall, and we would expect to use a very small percentage of that on a quarterly basis. So it won't offset the dilution from the restricted shares but it will minimize it. It's just a -- it's kind of a gradual start to this new capital allocation strategy. And it's essentially a function of our growth rate having slowed down a little bit, whereas the margins are quite strong. And we like the idea of maintaining a high level of capital efficiency. We want to have enough capital to operate the business and protect our financial rating but we don't want to have a lot of extra [indiscernible].

Bill Carcache
Wolfe Research, LLC

That makes a lot of sense. I wanted to also follow up on your comments. I was hoping that you could discuss the competitive landscape, the impact that you're expecting on the competitive landscape in the aftermath of the hurricanes.

Michael Patrick Kehoe
Chairman of the Board & CEO

I think the short answer is it's too soon to tell. The industry loss estimates, I think, vary from the high teens up to $50 billion. So it's a significant amount of insured loss. It wouldn't shock us that it arrested the -- some of the increased competition we've seen on some of the larger property schedules in the Southeast. I think we just have to wait to see.

Bill Carcache
Wolfe Research, LLC

That's helpful. If I could squeeze in one more here, and then I'll get back in the queue. It would be helpful if maybe you could characterize the flow of business that you see migrating between E&S and standard markets? It feels like it's a question every quarter. But any sort of perspective that you could provide? And I know it's also, again, probably still too early but to the extent there could be any changes there as a result of this quarter's cat events.

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. I would say that the -- I think the E&S market continues to grow at a healthy clip. If you look at some of the surplus lines tax data that's published in the big E&S states like California and whatnot, that seems to support the -- that idea. Our submission -- our flow of new business submissions continues to grow at a good clip. I would just note that is a little bit offset by just a general uptick in the level of competition. It's not uniform across the book, kind of consistent with Brian Haney's comments and mine earlier in the call, there's a lot of smaller submarkets. And so we have some areas where the competition is quite intense. Other areas where we're still seeing very strong double-digit growth. But if you had to kind of generalize across the whole E&S marketplace, I would just say there has been a relative uptick in the level of competition. And I think that's reflected in the -- in our growth rate dropped, I think, from 21% down to 19% from the second to the third quarter.

Operator

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

Unknown Analyst

This is Dan on for Mike. Just the first question, on pricing continues to take a downward trend for you all about 3 to 4 points quarter-over-quarter. Just wondering, is this still above loss trend for the quarter? Could you just unpack what lines areas maybe the biggest movers underlying that change?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. Dan, we've got some divisions where we're getting double-digit rate increases. We've got some divisions that are getting single digit, but well above loss cost trend, rate increases that's in particular on longer-tail casualty lines. So if you think for Kinsale, that would be excess casualty, excess professional liability, construction-related liability business. And then we have some divisions where we're cutting rates below trend. I would kind of just remind everybody, if you look at our operating return on equity for the quarter, I think it was 20 -- just over 28% it means half of our book of business is producing returns in excess of that.

And so we think it's prudent to trade away, if you will, some of that, call it, excess profitability in order to maintain better growth rates in certain segments of our book of business, okay? So the 3% nominal rate increase for the quarter is a -- that's across the whole book of business. We don't really manage the book monolithically. We manage it one product at a time. But that would be the average across the book.

Unknown Analyst

Great. Makes sense. And then just switching over to cat and specifically on Milton. Can you just take a step back and walk us through how your exposure to Milton winds up. Ian was about $20 million, and we think we've grown more to property, specifically in Florida since, and then just on that same year, would you expect the overall business mix of property to fall into 2025?

Michael Patrick Kehoe
Chairman of the Board & CEO

I'm going to answer those in reverse order. We're seeing a much more competitive market on the larger property schedules. So where the brokers have to layer the placement of the coverage, you're seeing some companies offer bigger primary lines, and there's some downward pressure on rates there. Now they're coming off a 20-year high. So they're, I think very -- still very attractive rates but pre-Milton, there was an uptick in competition there.

On the smaller property, we're still seeing very strong growth rates, and strong rate increases. So again, it depends where you are in the marketplace, the level of competition you might expect. And then given with the Milton loss and some of the other smaller hurricanes, we'll see where the market goes here in the near term. It's really, I think, a little bit too soon to tell.

In terms of comparing our Ian loss in the third quarter of 2022 with Milton, the big difference there is we had a much larger personal lines loss in Ian. And we took a lot of corrective action there to kind of reform that book of business. And I think that's part of reason why we saw a much more modest loss in Milton. And I'm not positive. But I think Milton actually hit as a category 3. Ian may have been a little bit more intensive storm but I'm not positive about that.

Operator

Our next question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Can you comment on the trajectory of the competition as you went through the quarter and maybe extending into October? Do you think that has stabilize? Or is it kind of a little more severe as the quarter progressed? How do you see that?

Michael Patrick Kehoe
Chairman of the Board & CEO

I don't really have anything to offer on the progression of competition across the quarter, Mark. But I would just remind you that Kinsale targets, for the most part, small commercial accounts. And so we see over the year, we're probably going to see 900,000 new business submissions, give or take. I don't know that works out too on a monthly basis but it's a very high volume of small transactions. As I said before, the level of competition varies quite a bit by line of business. We have some competitors that are disciplined, underwriting companies that have long histories of underwriting to a profit. obviously, that's what we aspire to do here at Kinsale. We have other competitors that are hyper aggressive. It's not unusual. We see somebody quoting a policy at 50% of our technical price. So it's a mixed bag. But I don't really have anything to offer on like an intra-quarter.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. In the Casualty, if we look at just kind of broad brush property versus casualty. Casualty decelerated a little bit. It was high teens that have been kind of running in the mid-20s. Is there any particular areas you would highlight? I think you've touched on a lot of this, so excuse me if this is redundant but just kind of approaching it from a different direction. The slowdown this quarter and is there potential for that to bounce back in subsequent quarters? Or is this kind of where the market is at this point?

Michael Patrick Kehoe
Chairman of the Board & CEO

Well, I mean, I think our Casualty business, just like all of our business, I mean it does ebb and flow a little bit month by month, week by week. I would say, in general, Casualty has been fairly steady over the last a year or so. In terms of where the market goes from here, I think the things that would give us a sense of optimism in the near term would be the volume of cat losses in the last couple of months that the industry has had to absorb.

Brian Haney made some comments around a lot of reinsurers are discussing kind of a perceived reserve weakness in casualty lines across the industry, not Kinsale but for the industry. To the extent that, that's accurate, that could cause the market to tighten a little bit on the casualty side. I mean, loss trends continue to be pernicious, litigation financing and nuclear verdicts. I mean there's all sorts of reasons why the market could be a little bit more favorable down the road than it is today. But it just gets -- we don't have any special insight into where the market will be. For now, I would say, very competitive but relatively steady.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. And then any way to characterize the competition, I assume this is a impacting your buying rate, submissions are up, new business presumably is being -- you're not giving as many binds on a percentage basis.

Michael Patrick Kehoe
Chairman of the Board & CEO

Mark, it can also be mix of business, right? So the commercial property is one of our [25] underwriting divisions that happens to target a little bit larger accounts than average. And so the uptick in competition there is probably shifting the mix of business in a way that makes it look like our growth rate -- or not makes it look, I mean it is impacting our growth rate more so than maybe hit ratios.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. And then any way to characterize who is acting? Who's being more competitive? Is it across the Board? Is that a handful of players, MGAs?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes, I would look at the -- some of the Schedule P exhibits in your big front-end companies. They're kind of interesting.

Operator

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

Andrew E. Andersen
Jefferies LLC, Research Division

The underlying loss ratio of 55% improved quite a bit year-over-year. But at the same time, you mentioned the 3% rate increase against what I think was a high 5% loss trend last quarter. So I'm just trying to think about how the improvement kind of materialized here against a challenging rate versus trend environment.

Michael Patrick Kehoe
Chairman of the Board & CEO

Andrew, this is Mike. Our financials at the end of a given quarter are a composite of actual claim activity versus actuarial assumptions and the like. And so I mean, the easiest explanation is we continue to overperform in terms of our loss activity against actuarial assumptions. We did highlight in the Q, maybe the one exception to that is we have seen for some of those older accident years, the construction-related liability business drift up to a little bit higher loss ratios.

And we've address that in all sorts of ways, higher prices, tighter coverage, different geographic mix of the business in our construction area. We've been booking those construction-related loss ratios at a much higher level. So it's a big mix of activity. But I would just say that this quarter, and this is consistent going back a number of years, our actual loss activity came in below our expectations.

Andrew E. Andersen
Jefferies LLC, Research Division

Okay. Could we maybe size within the 55%, how much of the improvement is coming from the Property book, which you've been growing quite a bit versus the Casualty book, which is maybe an area I would think you're still booking relatively conservatively?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. I think we book conservatively across the board, but obviously, Casualty is much longer tailed than property. But I don't -- I can't really kind of break that apart for you on a conference call. But I would say this, the Property business was written, even including the recent cat activity has been quite profitable for Kinsale.

Operator

Our next question comes from the line of Scott Heleniak with RBC.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Just the expense ratio was down quite a bit, below 20%, lower that's been running in the past few quarters? I know you get a benefit from ceding commissions. But any sense of what kind of run rate to use for the next few quarters? Is it going to be kind of in the 19% to around 20%? Or is it going to drift higher? Is this kind of a sustainable run rate, you think?

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

Yes, Scott, it does bounce around a little bit quarter-to-quarter. But I think looking at sort of our 9-month expense ratio is 20.5%, that's probably a good to gauge as any.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Okay. And I wanted to ask about the high-value homeowners. I know you mentioned that last quarter, you mentioned it again. Just -- just talk about how the opportunity is there and what kind of growth you might see over the next few years in that business. It does seem like a lot of it is migrating and will continue to and how you're going to mitigate the risk on that type of business?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. We -- high-value homeowners is -- it's a geographic mix, it's Western states where there's homes exposed to wildfire, it's coastal southeastern business, et cetera. And it's a cat exposed book in large part, and we manage cat risk, whether it's residential or commercial business the same way through very good underwriting. We have strict controls on concentration of business. We buy a lot of reinsurance. We model the portfolio every month, et cetera.

I would say high-value homeowners is growing rapidly from a small base. So I think personal lines business for Kinsale overall is maybe 2.5% of our book. But we are optimistic that, that will continue to grow nicely and be a nice profit center for the company in the years ahead. There is, of course, an interesting shift of some homeowners business into the E&S market. I think some of that's driven by cat exposures. I think some of its driven by regulatory issues for standard lines companies. So we'll see where that plays out but we're cautiously optimistic.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. Is that also going to be -- you mentioned Western California is also going to be in the Texas, Florida, New York and some of those other big markets as well? Or is it mostly focused in the West at this point?

Michael Patrick Kehoe
Chairman of the Board & CEO

I think it's kind of a split, and I can't remember the exact status as of today but Western states, plus Southeast, I think ultimately, we'll be writing personal lines business throughout the country.

Operator

Our next question comes from the line of Rowland Mayor with Oppenheimer.

Rowland Mayor

In the 10-Q, you called out some adverse development in the construction defect book. Any chance you could size that? And talk through sort of the lines of business where you're still seeing favorable prior year development?

Michael Patrick Kehoe
Chairman of the Board & CEO

I think we're seeing favorable development across almost the whole book. Construction, like I talked about a little while ago, we've done all sorts of things over the last 5 years to make sure that we're driving very strong returns there. I would say this, our Property business has been profitable, I think, throughout our company's history. It has just lagged a little bit. And I think in large part, that's due to the uptick in inflation. And given the long-tail nature of some of the property claims, particularly around construction defect, water intrusion type claims.

So again, we've pushed out pricing dramatically over the years. We've tightened coverage. We've changed the geographic mix of business. We're booking those losses at a much higher level. But you make a bunch of changes and because it's long tail-business, you don't know definitively how that's going to impact the margin. So we just have to see how that business develops in the years ahead. But in general, I think we're doing the right thing there.

Rowland Mayor

And then a number of your standard lines peers, as you've referenced, have taken some commercial casualty charges in the last 12 months. As you look at sort of your reserves today and loss development, are you layering in any extra caution or extending the timeline when you do your reserve reviews? And have you ever quantified sort of your loss trend assumption for the Casualty business?

Michael Patrick Kehoe
Chairman of the Board & CEO

I don't know that we have or have not. I think we have our -- I think it's around 6%, but it's going to vary quite a bit by line of business. What was the first question?

Rowland Mayor

Just as you're setting reserves today, given sort of the industry backdrop and sort of standard line peers taking charges, are you putting any extra conservatism in there or extending sort of the timeline of your reviews?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. We have addressed that a number of times over the last couple of years. Starting about, I think, 5 or 6 years ago, we started to get, of course, the acceleration in premium growth but at the same time, we're getting rate increases ahead of loss cost trend, not for 1 year but for year after year, after year, after year, et cetera. And so I think we've been fairly vocal about the fact that in addition to producing really compelling margins, we've also been adding to the level of conservatism in our reserves.

And that's why we've said a number of times over the years that we're confident that our reserves are in the most conservative position they've ever been in. And I think there's all sorts of reasons why that's warranted. Not so much our competitors but more just the uptick in inflation, a high loss cost trend, nuclear verdicts, litigation financing, social inflation. The tort system is very dynamic. And I think conservatism is warranted. But I do think our investors should have a lot of confidence in the integrity of our balance sheet.

Rowland Mayor

Great. And then just one more on the balance sheet. I know you haven't actually done any buybacks yet but should the announcement there be taken as a sign of future growth expectations? Or is it just the capital generation you've gotten so high that you have the opportunity to do an authorization now?

Michael Patrick Kehoe
Chairman of the Board & CEO

Well, I think we've been vocal about the fact that we think our long-term growth opportunity is best estimated in the 10% to 20% range. And we're producing at least through 9 months, just over 28% operating return on equity. So with that growth expectation against that level of profitability, we are sitting on some excess capital today, and that will continue to grow, I think, at a pretty healthy clip. So that's really the driver.

Operator

Our next question comes from the line of Casey Alexander with Compass Point.

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

For Brian Haney, you're -- as you said, the business is not a monolith. There's a lot of different slices to the business. And I'm just wondering, when you talk about your conversations with the reinsurers regarding some casualty reserve insufficiency across the industry, not at Kinsale, recognizing that. There's a lot of different slices to casualty. Are they giving you any indication as to where in some of those slices that maybe we ought to have a finger in the wind as we think about other companies in this space?

Brian Donald Haney
President & COO

Yes. The 2 biggest areas within casualty as a whole, where I think you would see the worst of that for the industry or excess casualty and commercial auto, that's the short answer.

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

Okay. Well, I really appreciate it. And Bryan Petrucelli, I just -- this is minor, but I'm just kind of wondering because fee income generally follows the cadence of the overall business and in this quarter, fee income was down quarter-over-quarter relative to a business in a book that grew quarter-over-quarter. I was just wondering, it's kind of curious to me.

Bryan Paul Petrucelli
Executive VP, CFO & Treasurer

I don't think there's anything significant there, Casey. I think if you look at fee income as a percentage of gross written premium over a period of time, that will give you a pretty good gauge as to where to look going forward.

Operator

Our next question comes from the line of Pablo Singzon with JPMorgan.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

So first of -- so with your recent premium growth in the high teens, low 20s, you're running closer to the long-term growth that you spoke about, right? I'll just talk mid-teens, you said 10% to 20%. So should we think about that growth as a through-the-cycle target that is -- could potentially fall below, I think, in 2015, 2016, for example, you grew high-single digits, low teens? Or is the business in a different position today? Like clearly, you're much bigger, right? But maybe at scale or a number of products you have where you can potentially be a bit more aggressive on the gross margin trade-off?

Michael Patrick Kehoe
Chairman of the Board & CEO

Pablo, you're breaking up a little bit there but I think you were asking like our growth expectations.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Yes. Yes. So it's more -- sorry, I will repeat myself. Mike, sorry about that. So your recent growth, high teens, low 20s, that's much closer to your long-term growth target, right? So your long-term growth target, should we think about that as a through-the-cycle target, right, meaning you could potentially fall below mid-teens. And I think in the past, you did grow high single digits or low teens in 2015 or 2016. Or is the business in a different position today where maybe it's size or scale or a number of products you have, where you can be a bit more aggressive in terms of the gross margin trade-off, right? So maybe you don't pull the low teens, right, because you can grow faster just given where you are today. Just wanted to get your thoughts on sort of how you're thinking about that.

Michael Patrick Kehoe
Chairman of the Board & CEO

Sure. Okay. I would start by saying this. We don't actually know what the growth rate is going to look like. It's a function of, again, the intensity of the competition, how aggressive the competition is in pricing risk, the mix of business, et cetera. But I would say the 10% to 20% is a good faith estimate as what we think we can grow over the long term in a very big mature industry like P&C. E&S tends to grow a little bit quicker than the overall P&C market. And we think because of the variety of competitive advantages we have; we can outgrow the E&S market.

And so I think that 10% to 20% is a good estimate. Is it possible we could go above that or below it on any given quarter? Yes. Sure it is. But I think given the size of the company, the diversity of our product line, the competitive advantages we have, the margins in our business that allow us to be a little bit more competitive if we want to be on certain lines. I think that's a good estimate.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Got you. And then second question, with the market getting more competitive as you referenced, I was curious, have you seen any change in retention in your book, right? I don't think that's a metric that has really been discussed on your calls. But I think E&S has naturally lower retention than admitted business. And I'm curious to hear sort of how that's trended for you over that past hard market and now where things are getting more competitive?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. My experience, going back 25 plus years at 3 different E&S companies is we tend to retain about 2/3 of our policies year-over-year. In a hard market where you're getting dramatic rate increases, sometimes the premium retention can go above that quite a bit. But in general, I think that 2/3 is a good benchmark for Kinsale and probably a lot of our competitors, both in terms of policy count and premium.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Okay. And then third question, I think if I remember correctly in the first quarter of this year, you bumped up your Casualty loss picks to reflect just the general environment, your views and loss trends, et cetera. Is that a formal process that takes place every quarter? Or is that something that could pop up in any given period depending on your views of the market at that time?

Michael Patrick Kehoe
Chairman of the Board & CEO

Yes. I mean every quarter, we look at actual claim activity, reported losses, settled claims, et cetera, change in case reserves and then we compare that actual activity against all of the actuarial assumptions we have in terms of reporting patterns, payout patterns, expected loss ratios, by accident year, by line of business. I mean it's -- obviously, it's a very extensive analysis. And then, of course, you're making adjustments to your assumptions to, of course, put forth your best estimate but tempered with a strong measure of conservatism.

So we do that every quarter. I think every insurance company does. I think maybe you're addressing a pattern in our reserving where the current exiting year tends to start out higher and over the course of the year depending on, again, actual loss activity, sometimes those loss ratios can come down across the calendar year. But we're constantly looking at and evaluating and adjusting our reserve assumptions to make sure we're on track.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Got you. That makes sense. I'll just squeeze in one more, if you will. So I just wanted to hear you talk about the thought process of choosing share buybacks over other forms of capital return, maybe like a special dividend. And you did mention that you recognize that your stock trades at an above average multiple and I'm sure share buybacks in your analysis provided some benefits. But if you start to walk through the thought process of how you landed on share buybacks versus other forms of capital return?

Michael Patrick Kehoe
Chairman of the Board & CEO

As Brian said, we're not interested in acquisitions. And we appreciate that the stock trades at a high-priced earnings. I think a lot of people look at price to book, that's not a metric that we tend to put much confidence in because every insurance company has different levels of redundant capital, and so you end up with an apples and orange comparison. If you look at our stock, we evaluate where we think our share price is going in the future against the S&P. We have -- since we've been public back in 2016, we beat the S&P 7 out of 8 years. And if you were to include 2024 in that, it would be 8 out of 9. We think we've got a very interesting business model with some competitive advantages that have real durability to them. And we're long-term holders, right?

So I think it's a little bit easier for us to be comfortable with buying back our own stock than maybe other people that kind of are skeptical around the valuation, okay? Admittedly, it's a judgment call. But I would also say this, the buybacks we're talking about are very modest. So I'm not sure they're going to move the needle one way or the other here in the near term. But for people like us that expect to hold these shares, well into the future, I think over time, it will be material. And I think long term, it's going to be quite positive for the stockholders of Kinsale.

Operator

Seeing no further questions at this time. I will now turn the call back to Mike for any closing remarks.

Michael Patrick Kehoe
Chairman of the Board & CEO

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

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