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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 & Chairperson of the Board

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

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

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

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Good day and thank you for standing by. Welcome to the Q3 2024 Skyward Specialty Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Natalie Schoolcraft, Head of Investor Relations. Please go ahead.

Natalie Schoolcraft
Head of Investor Relations

Thank you, Antoine. Good morning, everyone, and welcome to our third quarter 2024 earnings conference call. Today, I am joined by our Chairman and 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.

With that, I will turn the call over to Andrew. Andrew?

Andrew Scott Robinson
CEO & Chairperson of the Board

Thank you, Natalie. Good morning, everyone, and thank you for joining us. We had another solid quarter, reporting adjusted operating income of $0.71 per diluted share. Through 9 months, our adjusted operating income of $2.26 per diluted share is up over 50% compared to 2023. Despite an active catastrophe quarter for the industry and over 25% of our portfolio in property, we reported a 92.2% combined ratio, which includes less than 3 points of cat losses, a testament to our disciplined underwriting and risk management strategy.

Our fully diluted book value per share was up 19% from the beginning of the year to $18.99, and our annualized return on equity through 9 months was an outstanding 19.1%. While in pockets, the market is becoming more challenging, I'm pleased with our execution and remain bullish on our outlook. I'll talk more about this later in the call.

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 $36.7 million or $0.89 per diluted share compared to $21.7 million or $0.57 per diluted share for the same period a year ago. On an adjusted operating basis, we reported income of $29.4 million or $0.71 per diluted share compared to $25 million or $0.65 per diluted share for the same period a year ago. Gross written premiums grew by 12.4%, in line with our expectations for the third quarter with transactional E&S, surety, captives, programs and agriculture, each contributing meaningfully to growth.

Year-to-date, gross written premiums grew by 19%. Third quarter 2024 net written premiums were $268 million and excluding the impact of the quota share reinsurance contract that was canceled in the third quarter of 2023 net written premiums grew by 16.5% in the quarter. Turning to our underwriting results; the second quarter combined ratio was 92.2% and our ex-cat combined ratio was 89.4% with 0.4 point improvement compared to the third quarter of 2023. The current accident year non-cat loss ratio of 60.6% was consistent with the prior year.

During the quarter, catastrophe losses, principally from Hurricane Helene and to a lesser extent, other cats in the quarter only accounted for 2.8 points on the combined ratio. Our year-to-date cat loss ratio of 1.5 points is 0.3 better than the same period of 2023. We are still assessing the impact of Hurricane Milton, barring any further major events we maintain the guidance we previously provided for our full year cat loss expectations to 2 points to 2.5 points.

The expense ratio was comparable to the third quarter of 2023 and in line with our expectations of a sub-30 expense ratio. Lower acquisition costs were primarily driven by the impact of canceling the quota share reinsurance contract in the third quarter of 2023. We also continue to get leverage from the increase in earned premiums. Turning to our investment results; our strategy to derisk the portfolio continues to pay off with net investment income of $19.5 million in the quarter, an increase of $6.4 million compared to the same period of 2023.

Consistent with our investment strategy to deploy free cash flow to fixed income, in the third quarter, we put $118 million to work at 5.8%. The net investment income from our fixed income portfolio increased $15.5 million from $9.5 million in the prior quarter, driven by improving portfolio yield and significant increase in the invested asset base. Our embedded yield was 5% at September 30 versus 4.1% a year ago and 4.8% at June 30. We reported a loss of $1.1 million in our alternative and strategic investments portfolio compared to a loss of $0.1 million in the prior year quarter.

Both periods were impacted by a decrease in the fair value of limited partnership investments that was previously classified as opportunistic fixed income. At September 30, this portion of the portfolio only comprised 6% of our overall investment portfolio. At September 30, we had approximately $206 million in short-term investments and our yield on short-term investments was 4.6%. We finalized the credit facility with the Federal Home Loan Bank, and we used $57 million of proceeds to pay down a portion of the revolver.

Our financial leverage is modest as we finished the quarter with a low 13% debt-to-capital ratio. Given the new facility and our current leverage, we have ample financing flexibility. Lastly, I'm pleased that our Board of Directors has approved a share repurchase program of up to $50 million of Skyward ordinary shares. Authorizing a repurchase program is part of the maturation of Skyward as a public company and underscores our commitment to maximizing shareholder value.

Given our strong cash position, our cash generation as well as our financing flexibility, we can fund any repurchases from either operational liquidity or via our credit facility that has undrawn capacity of $107 million. We remain confident in the strong growth trajectory and the additional growth opportunities we are targeting and our ability to act on the share repurchase program in an appropriate way.

Now I'll turn the call back over to Andrew.

Andrew Scott Robinson
CEO & Chairperson of the Board

Thank you, Mark. The consistency of our results reflects our disciplined approach to underwriting and executing on our Rule our Niche strategy. Our emphasis to seek out growth in high-return areas that are less exposed to the P&C cycles appears to be prudent, and we're making good progress. For Skyward, this currently includes A&H, surety, captives, mortgage, credit and agriculture, which accounted for 37% of our $400 million of gross written premiums this quarter.

This aspect of portfolio management has increasingly been an area of focus in our drive to consistently deliver top quartile underwriting returns. Beyond the portfolio focus I just noted, we had double-digit growth in 6 of our 8 divisions. In Industry Solutions, negative growth was again driven by our intentional actions in Commercial Auto, which I have discussed at length in each of our last 3 quarters' earnings calls.

In Professional Lines, it's a tale of 2 cities where we have a strong market backdrop for our healthcare professional liability products and services, and we anticipate that our recently launched Media Liability unit will be a significant contributor as we look forward to the coming quarters. On the flip side, we remain in a defensive posture on D&O, and we have experienced a significant change in competition in our miscellaneous E&O unit. That said I remain bullish on both of these divisions given the adjustments we have made and anticipate that we will return to growth without margin compromise in the quarters ahead.

We continue to deliver outstanding growth in our transactional E&S and surety divisions as well as consistent strong growth in our other divisions. I'm confident that our strategy, the diversity of our portfolio and our team's execution gives us a formidable platform and that we're well-positioned to deliver strong and profitable growth as we look out over the coming quarters. Turning to operational metrics; we had a strong quarter. On pricing, we delivered mid-single-digit plus pure rate and new business pricing was above our trailing 12-month in-force pricing.

Global Property and to a far lesser extent, our other property units continue to be impacted by downward pricing trends. It is too early to assess the impact of the recent hurricanes on property pricing, but our working assumption is that the recent activity may slow down but not arrest the softening in the property market. As I mentioned, we will continue -- we continue to see an intensely competitive backdrop in D&O and now in miscellaneous E&O.

And conversely, the market backdrop on casualty and occurrence liability continues to be supportive of decent rate, although the loss cost inflation environment continues to be challenging, and thus, we're being selective in our growth in these areas. Retention was in the mid-70s for the quarter, driven by business mix and our intentional actions on Commercial Auto. Lastly, we continue to see strong submission activity, which was up over 25% from the prior year quarter.

It is hard to believe that we're approaching the end of our second year as a public company, and we are hitting our stride as we continue to deliver outstanding and consistent earnings growth and upper teens ROEs. We remain laser-focused on executing our Rule our Niche strategy and delivering top quartile returns at all parts of the market cycle.

Lastly, I'd like to take a moment to again acknowledge my 560 colleagues. Recently, we were recognized as one of the best places to work in insurance by Business Insurance and Best Companies Group. This marks our second consecutive year earning this prestigious recognition, which is a true testament to the dedication and passion of our entire team. I cannot be more grateful to our team for their continued efforts in making Skyward a standout organization in our industry.
I'd now like to turn the call back over to the operator to open it up for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matt Carletti from Citizens JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Andrew, you talked a bit about, obviously, some of the new initiatives that you are optimistic about driving growth going forward. I think Media Liability is one of the newer ones. Can you talk a little bit about -- just zoom out to kind of 30,000-foot level kind of -- you've added a lot of puzzle pieces since going public and examples like that. What other puzzle pieces or are there many other puzzle pieces that you look to continue to add going forward?

Mark William Haushill
Executive VP & CFO

Yes, good morning Matt and thanks for the question. So well, look, I think that as we have talked to you and to others in the past, the first thing I'd say is that we are very strategically oriented, right? So we're not -- it's not sort of we're thinking about something now that we weren't thinking about one or 2 years ago. And in most cases, we're talking about starting with talent that oftentimes we're in conversations with for multiple quarters, sometimes multiple years, right, before we're able to get them across.

And that was true in Ag, it was true in mortgage. It was true in Media Liability. And I expect that for the next set of things that will come, it will be true as well. And to that extent, just timing is a little uncertain, right? Because sometimes we're focusing on an area that we want to enter into the market, but we don't control when the person or persons that we're talking to actually are sort of ready to come free and join our team. What I will say to you is that I don't believe at this particular moment to sort of achieve what we believe we need to achieve on the next turn, right?

So the sort of continued very profitable growth in our organization to be able to distinguish ourselves both on the underwriting line and on the growth line that we really need to add anything. Most of what we're doing at this particular moment is just filling out some of the investments that we've already made. We're adding some adjacencies around those. And so in that regard, I actually feel very good.

That said, as I think we've experienced like just in our -- my 4.5 years at the company, right, I came in, there was this crazy pricing environment in access, and there was a crazy pricing environment in cyber and a crazy pricing environment in public D&O and then we had a crazy pricing environment in property. And in every one of those instances, we've seen the sort of the turn going the other way. Now access is coming back again.

And so I think a big part of how we're trying to think about this is just to ensure that a sufficient portion of our portfolio is well-positioned to deliver that top quartile underwriting outcomes we're talking about and buttress against the kind of cycles that we see. And I would say that, that's sort of a never-ending process, but I feel very good about where we are today. But would I like to add more to that? Sure, I'd like to add more to that. But I don't -- there's nothing I have to announce.

What I will say is just a final comment is when you look at something like Media Liability, right, in a short period of time, we have a market-leading team. Literally, I mean, we accumulated some of the best underwriters, claims professionals and a position in the market with a product that I believe is unmatched by anybody. I think we are -- if we're not -- there's an admitted product, if we're not admitted in every state, maybe there's one outstanding large state that we're waiting on.

And that's just going to bode really well for our ability to sort of take that particular category by storm and put our sort of Skyward imprint on that market. And that's the way we do things. And I think it's a really great example of how in light of other things that are going on in professional, we're really well-positioned to make sure that portfolio is shaped for us in the right way. So I said a lot there, but hopefully, that gave you at least some color and texture to help you better understand your question.

Matthew John Carletti
JMP Securities LLC, Research Division

For sure. No, that was great. And then one other, if I could. I mean, obviously, for the industry, casualty reserves are in pretty good focus. You guys have had very stable results since going public and for a while now. Can you just peel back the onion a little bit and give us a little color on kind of what you're seeing, if there's any moving pieces of note kind of behind the scenes as you think about managing that part of your book?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. Well, look, I think that -- the first thing I'd say to you, though, Matt, on sort of outlook is that it's a pretty decent rate backdrop on occurrence liability, casualty. And I think the reason is, is that everybody is properly recognizing social inflation, which I feel like we have been talking about, even though we're a small company, and we don't necessarily command the attention of others, I feel like we are talking about in front of others. I'll remind you and others on the phone that we consistently talk about reserving at a very conservative level.

And so for us, that might mean that if our indication on a particular book of business is X, we might reserve at X plus 3% or X plus 5%. And oftentimes, with the best knowledge that we have about what loss cost inflation looks like. And in some cases, in our casualty portfolio, that X plus 3%, that 3% or 5% buffer that we set it with might today have eroded to being 2% or 3% or 1% or 2%. It's not across our portfolio. There are some places in our portfolio. I'd particularly point to the liability side of our transactional E&S business where we reserve very conservatively, but above our indications.

But we've seen development that's been favorable to our indication. So it's not sort of a single profile across our entire book. But certainly, for us, and I've been saying this and we talk about it in the context of Commercial Auto, that bodily injury exposed risk for us, in particular, is the place where you can see the sort of the changing severity.

And the good news for us is that, by and large, because we're conservative relative to our indications that the current position is inside of where we're reserved, meaning that we haven't backed up and thus why you haven't seen necessarily any reserve movement from us on the negative over the last few quarters. And we expect that we'll continue to see that sort of conservative position that we've taken to provide dividends for us as we look forward.

Operator

Our next question comes from Gregory Peters from Raymond James.

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

I guess I'm going to build on part of your answer to the previous questions. This is the end of the year. I know budgets are being submitted. I'm just trying to triangulate between your commentary on pricing, certain lines, you call Commercial Auto, financial lines, you called out property where rates could be under pressure depending on what the outcome is of hurricane season for the fourth quarter here.

So as I put those negatives in, then we hear a lot of positives about areas of growth for you. Just trying to figure out how you're thinking about top line growth because when I see the share repurchase program, it might signal that you don't have opportunities to invest in internally. So I'm just trying to figure it all out.

Andrew Scott Robinson
CEO & Chairperson of the Board

It's -- thanks, by the way. I'm glad we're being asked this question. And one of the reasons we wanted to get out the share repurchase program announcement as part of our earnings release and be able to then address it on this call. So I'm glad you asked the question. So let me just say this. First is I just will amplify what Mark said in his prepared remarks, right? There's just a maturation of the company. We -- I'll remind you that in our first year, we almost eliminated the entire overhang of Westaim. And since then, Westaim has exited.

So our -- we have the full float of our company out in the public markets now. So I would just tell you that kind of we've gotten to the point where we've grown up as a company, a public company in terms of the float, and we view this as just a sort of a sensible thing to do. It's just part of the maturation. We note that it's not a particularly large buyback, which is an indication of really how we want to use it.

And I do want to just talk a moment about how we want to use it, which is that if you look over the last quarter, and I think many of you have heard from us on this, we believe that in spite of the rise in our share price, we're still a company that the full value is not appreciated by the -- by our investors, and we understand that, that will take time for us to continue to deliver consistent outstanding results for us to be fully valued.

But if you look at what happened over the last quarter, there were 2 periods where following our disclosures after the Q and then when Westaim came out of the remaining 4.5%, 5% of the stock, the stock went way down. And we didn't have this tool in our toolkit, and we would have liked to have this tool in our toolkit because we believe it would have been an incredible buying opportunity. When you look at our share price and you look at our performance on a relative basis against others, and I'll remind you that at a 13% debt to capital, right, as compared to others, we are very underlevered, right?

So if you put proper leverage into our business, you start to understand the intrinsic value of this company. And so for us, this is much about a buttress against sort of any moments in time where we believe that there's a situation where the company is not sort of seeing the full and fair value of our stock. And as I said, we experienced that, and this is just an instance where if we had this tool in our toolkit for the last quarter, we probably would have acted on it.

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

That makes absolute sense.

Andrew Scott Robinson
CEO & Chairperson of the Board

And it's about 3%.

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

Totally -- the message is crystal clear on that, triangulating back to just the budget outlook for the.

Andrew Scott Robinson
CEO & Chairperson of the Board

Oh, I'm sorry, the growth side. Hey listen, we -- last year, this time, we told you and others what our internal plans look like. And as we look forward to next year, when we're ready, we'll certainly -- we will communicate again what our internal plans call for. But what I would say to you is that at this moment in time, despite what I would characterize as, by and large, a more challenging market.

And the reason I say that is that because it's the rate backdrop for casualty may be better right now than it was this time last year. I think that there is a fuller appreciation of the industry that, that rates required given maybe starting point, loss cost inflation, etcetera. What I would say about our business is that we feel as good about our growth outlooks right now, next 5 quarters as we did when we entered this year. And you saw -- you saw the growth that we had over the first 3 quarters.

If you listen closely to Mark's comment, he would tell you that in his comments, in his prepared remarks, the 12.4% was consistent with our expectations for this quarter. We did -- we had expectations. We understood enough about our book about how things had some seasonality and some ebb and flows that we looked at our 12.4% growth this quarter, and that was entirely consistent with the 15% plan that we set out at the beginning of the year.

So there's nothing about this quarter that surprised us, and there's nothing about this quarter that gives us concern. And as we look out, we feel darn good about our growth outlook. And again, it will be up to us to execute, and it will be contextualized whether we see that sort of market in a sort of condition that we see it in right now. And so I'd say very positive.

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

Okay. Just a follow-up. In your comments, you mentioned submission activity. And obviously, it continues to be quite strong. Can you give us some context about what that means and how that translates to your top line results, please?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. No, listen, we definitely see submission activity increasing. And we talked a little about this in the past, but I'll break it into sort of 3 parts, right? Part number one is kind of almost if you think about like same-store sales, right? So underwriters that were sort of fully in situ this time last year. Obviously, we've added a lot of new underwriters in almost every instance because of the markets we compete in the business tends to follow those folks like they have their strong relationships.

The trading partners tend to want to trade with those underwriters. So the books of business will oftentimes follow them, and we'll see a lift as a result of that. So that's sort of part 2. And then part 3, there's no question that in a number of areas in our business and most notable things that are in surplus lines, but not only in surplus lines -- we're seeing a, what I'd say, a considerable increased flow. E&S is the easy part, right, because you still have a lot of business that's coming out of the admitted markets into the surplus lines market.

What I will say is that in select instances, we're seeing sort of more pitches, but they're not necessarily pitches that we're swinging at, right? So maybe more stuff is coming in. But it doesn't necessarily fit entirely with what we're looking for. But by and large, I just will say that for the surplus lines part of the equation, the flow is increasing.

And so when I sort of put those 3 equations together, the first being kind of same-store sales, we're still seeing increases simply because we're delivering technology and things that improve the efficiency of our underwriters. We've added a lot of new underwriters, which, of course, gives us growth. And in a number of our markets, we're just seeing an increased amount of submission activity because those markets, either economically or in the case of surplus lines are gathering a larger share of the market.

Operator

Our next question comes from Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Totally different topic perhaps. Could we revisit the investment income portfolio and changes that you've made? And just sort of what is left to be done as we try to get a better sense of how investment income will change prospectively?

Mark William Haushill
Executive VP & CFO

Hey Paul, it's Mark. What I would say is what's left to be done is very little. We like the structure of the portfolio. We like the asset allocation. I like the duration. So there's really not much left to do in the portfolio. Well, the only thing that we are focused on or more focused on is the redemptions out of opportunistic fixed income or the alts. That's in line with exactly where we thought it would be for '24 and will be a very small portion of the portfolio at the end of '25.

So in its simplest form, Paul, think about $1.4 billion in core fixed income that I said the embedded yield is right at 5%. We continue to have about $200-ish-million in short-term investments where the yield there was 4.6%. I recognize that there may be pressure on short-term rates, and we are looking at that in terms of putting that to work longer term. But in terms of the overall portfolio, I feel great about where it is, and I don't think we need to be doing anything different. Having said that, if the interest rate backdrop does change, we have the flexibility to move within different portions of the portfolio.

Jon Paul Newsome
Piper Sandler & Co., Research Division

But the impact of the liquidation of the alternatives portfolio is largely in the current run rate or not?

Mark William Haushill
Executive VP & CFO

Yes. It is.

Andrew Scott Robinson
CEO & Chairperson of the Board

I mean just -- Paul, just to qualify one other thing. I mean the last part of that, what was formerly opportunistic is less than 6% of our portfolio. And as Mark noted, it's in redemption. We'll be out of those. Obviously, we're going to redeploy that, and it will generate returns that are -- have probably less volatility with them is what I would say. And as you think forward, look, we obviously are putting a lot of cash to work.

We've been -- just our paid incurreds have been running in the kind of mid-60s worst case, low 70s for a number of quarters. We're putting a lot of cash to work. We expect to continue to put a lot of cash to work. And what's working probably against us for next year, we're at a 5% embedded yield on fixed income. I don't know if we're going to go much north of that. But if you look at the first 3 quarters, there's -- as you look forward, there's probably on average over the first 3 quarters, there's some upside to it.

The thing that works against us is that we had unbelievable yield on the circa $300 million of cash that had been sitting on the balance sheet that will not be replicated next year regardless of where we put it to work, whether you put it into core fixed income or we stay with a heavy dose of cash. It's not something that we can replicate just simply because what we were able to earn on our money market was extraordinary this year. And so that's the one thing that's probably working against us as we look forward to next year.

Operator

Our next question comes from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

So Andrew, I hear some caution on Professional Lines and Commercial Auto pricing. I don't think that's really new here. So I was hoping maybe you could touch on why the Professional Lines and Industry Solutions gross premiums written started declining this quarter.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. So Yaron, thanks for the question. On Professional, it's really easy. I'll remind you that first, our D&O portfolio is -- has virtually no public in it, right? So it's been a private company portfolio predominantly and over time, has become almost an entirely private company portfolio. And as we're in the whatever X number of quarters of what has been, I think, just out and out insane public D&O pricing market, we clearly have seen just quarter-on-quarter continued pressure into the private company market, right? So it's not like that has followed exactly the public D&O market.

It's a lot worse today than it was a year ago. So that's one sort of small change. And when we take a defensive posture, I will tell you, our loss ratios are absolutely outstanding. I mean, like literally outstanding, where as we're planning for next year, we're seeing indications that are coming down 5 points, 6 points, 7 points. And we're like, yes, we probably won't react to that, but it tells us that our guys are underwriting in a very, very thoughtful way.

The big change I will tell you is what's happening on the miscellaneous side, and maybe a little bit of history here will be helpful, which is as the cyber market kind of blew up a couple of years ago, our miscellaneous business or unit, which has just probably 15-plus of the best underwriters I've ever met, a number of which had worked for me in my prior life, we built an extraordinary book of business in a very short period of time, largely because the brokers were so overwhelmed during the sort of difficult cyber period with that, that we were just seeing incredible opportunities for us in the miscellaneous side.

We built the book of business, terrific book of business. We added a lot of technology to it that gives our underwriters leverage in ways that they haven't had. And then what we've seen in the course of the last couple of quarters is just competition probably from a number of folks who are finding it difficult in other areas of professional, most notably in D&O, private company D&O, reallocating time, capital resources towards the miscellaneous portion of the market. And we just -- we've seen just a fundamental change.

And that, that is probably the thing that I would just describe as most notable. It's a great book. It's incredibly profitable for us. We have an incredible team, but the market has changed in a very short period of time. And I'm sure that if you listen closely to some others, you'd probably hear some version of this message. And then on the Industry Solutions, yes, I think that what I would describe to you is if you -- again, if you listen closely to my remarks, we are in a great rate backdrop, but we're being more cautious, not because we have concerns with -- in fact, I would argue that our energy book is probably our second or third most profitable and second or third highest returns on capital.

And what I -- and that's one of 2, right, construction being the other piece of it. But I'd tell you, the loss cost inflation backdrop is something that I'm sure every CEO is taking sort of attention to. In our case, I'm generally sort of taking a more cautious view and believe that if we're to deploy capital in our business, I want to deploy it in places where I feel a little bit better about the loss cost inflation. So we've kind of suppressed the growth over in those areas.

And I think what you're seeing here in this quarter is the sort of Commercial Auto impact really come through. I do suspect that if you look out maybe one or 2 quarters, given some adjustments that we made, entrance into -- in our Energy business, some of the things that we're doing in renewables, I suspect what you're going to see is that, that will be sort of returning to the kind of growth trajectory that maybe you're more accustomed to.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. That's very helpful and comprehensive. My other question just goes to the cat catastrophe guidance that you're offering for the full year. I think that comes to about 4 points or over $10 million of cat load in the fourth quarter, which would be the highest in the company's history. Is that just a matter of conservatism here or do you have greater weighted exposure to like Western Florida where Milton hit?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. No, I think the way I would interpret what Mark said, which is that we're going to be within the 2 point to 2.5 point guidance that we gave at the beginning of the year, barring any unforeseen additional cats is consistent with normally what you get from us is that we are providing commentary that we believe reflects a conservative view.

We know our claim count on Milton. It has not changed now for probably 6, 7, 8 days. We have a loss quantum on that. And I would just say to you that we feel very good about our cat results for the fourth quarter. I'm not going to say more than that. I think you jumped to the $10 million number. I wouldn't necessarily jump there is what I would say.

Operator

Our next question comes from Meyer Shields from KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Andy, I was hoping you could talk about whether we're seeing any changes in competition for Surety business. I know you and a couple of other companies have talked about growing that book and [the line] track record is phenomenal. Is that manifesting itself in pricing or commissions in any way that's different from the last couple of years?

Andrew Scott Robinson
CEO & Chairperson of the Board

To be honest, Matt, no. I mean, just straight up, no. We monitor our rate levels and surety has never really had a hard market recently. And while our surety guys will call it a soft market it's clearly not a soft market given the results that we're generating. But if you look at -- there's a relationship between sort of size of bond, size of program and the rate per unit exposure. What I will say to you that's really a positive thing is that this is the one part of the P&C world where inflation is a wildly good thing for us because a bond that maybe you bonded 4 years ago for $10 million, and that same work today is, let's say, $18 million, just using kind of a number.

Well, it's not like your loss likelihood has changed. And so once you pay out commissions, right, everything else in there is higher exposure for effectively if you have a, let's say, your loss ratio target in surety is a 20% or an 18% or 22%, you're generating more profit. And it's been a really positive thing. We've not seen a change in competition. But I also will tell you, and it's maybe the first place that I would brag about our company is we have built a genuinely world-class surety business. I would argue that in the part of the market where we compete, we are one of one.

I mean I literally -- we have a great team. We every day are attracting talent who are coming to us. It's been almost overwhelming. You saw an announcement last quarter. We got another one coming that's going to be equally compelling and the breadth of what we do on the commercial contract, SBA, transactional, all the different areas, we just have a great business. And then the last part of it is that we recently got approval where we're restructuring our -- the sort of organization of our statutory entities, which restacks our capital such that we can effectively double our T listing.

And so that's going to give us just another tool in our toolkit as we look out to, I think that, that normally is a 6-month delay from the end of the year. So by mid next year, we'll have that approved. And that's just going to be another tool in our toolkit that's going to just continue to drive what is a really outstanding business for us situated with some of the best people in the industry on the underwriting and the claims side that I have ever met.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's very helpful. Second question, I guess, if we look at the Accident & Health book, should we think of medical inflation as being sort of the key risk out there or is there some other factor that we should also be monitoring?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. Because it's a stop-loss book, and so your covers are specific and then like an aggregate loss, I think that the -- so the medical inflation part, we really get in terms of how we structure. I think the bigger thing is starting to be like the prevalence of designer drugs, genetics, things like that, that are changing some of the course of actions that directly are the kinds of things that if you think about what our product is, right, it's an excess product, the kind of things that would expose us. And what I would say is that without going too far into this because I'd prefer if we had our experts at the table on this, that we understand that part of the issues. And I think that we're building product and our business with full consideration for that.

Operator

Our next question comes from Mark Hughes from Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Andrew, I wonder if you might talk a little more about the property market. I know you all do more sophisticated underwriting. You participate in a lot of the towers. How do you find the supply, demand, the competition for that property business now?

Mark William Haushill
Executive VP & CFO

Good morning Mark and thanks. Great question. So the first thing I'd say is it's definitely not even across the various places where we write property. So by and large, I would say that the marine market, yes, we're definitely seeing some competition. We're seeing probably more pressure on terms than price. In transactional E&S, where, again, I'll just remind you, we generally are writing property exposures that are measured in single millions or low double-digit millions kinds of exposure and probably 60% of our business is we're writing the entire [TIB] and maybe 40% of the business, we're writing the primary, and there's an excess above us.

That's still -- we're seeing a lot of flow. It's definitely a more competitive market from a price perspective, but we're talking about pricing that we can make a really, really, really attractive return. So you're coming off of a really good position. Global Property is an entirely different story. The crazies have taken over, to be honest. We have examples of companies doing things that are every bit as irresponsible as maybe what you've heard in the D&O market. I'm thinking of some recent accounts.

I will give you one example where we were a lead line on a large account, so writing a significant portion of the primary $100 million. We wrote that for a 20% rate. So just think of you wrote that entire line, that's a $20 million premium. And this year, that primary layer, which we came off of was renewed with the leaders taking a $300 million stretch, not $100 million stretch for $21 million. So they added $200 million of vertical exposure for an additional $1 million.

That is just irresponsible. There's no justification for that. And we see these kind of spot examples popping up with more regularity. And so despite the fact that you've heard from me about our Rule our Niche strategy, our Rule our Niche strategy in Global Property has everything to do with our long-standing position, strong relationships with risk managers and most importantly, we bring a lot of capacity given our quota share support we're just not going to let -- we're just not going to follow the market down when it behaves that badly.

And it's coming from a number of places, London and some of the large multinational players. And it's just a grab for a lot of premium, and it's being done in an irresponsible way and let them [have at it], and it will come back around to us once they sort of get their sort of their full experience and what it's like to write that business at that kind of price.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

With that in mind, is that a growth business as we think about the next 4 quarters, say?

Mark William Haushill
Executive VP & CFO

No. I would say that our plan coming into this year, last year in Global Property, if my memory serves me correctly, we wrote around $235 million specifically in Global Property. This year, we came in with a plan below that. And already next year, I know that, that is an area where I already know what our plan looks like for next year. And yes, we will, within our assumptions, make sure that we are holding the line on what we believe is appropriate, which means that we're going to be letting business go.

And by the way, the flip side of this is this could turn into Robinson said, let me just say that one of the reasons we have the portfolio that we have is that when we see these kinds of changes in the market that we are incredibly well-positioned to continue to drive attractive profitable growth that's distinctive relative to our peers because we have a portfolio that allows us to do that. I'm like -- it doesn't feel great when this happens, Mark, but I certainly feel very good about the outlook of our business regardless because we have enough other great things in place that this would not overwhelm us the way it might some other organizations.

Operator

Our next question comes from Michael Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess first question, so Global Property and Agriculture, I'm not sure how big agriculture is, and I don't know if you could size it up, but the data we've seen points to the -- at least the U.S. crop season looking particularly profitable better than a normal year. I don't know if you all have exposure to that.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. So Mike, last year, rough numbers. And by the way, as we roll into next year, we're going to the -- changing our divisions. Last year was our first year with Ag. And so it was tiny, really, we tried to put it in a place where it made best sense. It was probably about $30 million this year. It's considerably above that. So you'll see those numbers as we run the corner for next year. Relative to the U.S. crop exposure, I don't have the numbers in front of me, but I'll remind you that our business is a global business.

So across the Americas, we write in Canada, Brazil, U.S. and the U.S. multi-peril crop probably is I'm going to guess, maybe 20% of our business. There's a separate U.S. program dairy and livestock that we participate in that's independent of the MPCI. But we would agree that it's a good year. What I will say to you is that given the size, some of the very large sophisticated primary writers will adjust their loss picks over the course of the year. We set our loss picks at an incredibly conservative level, and we've not, in any way reflected that sort of that positive outlook that you're describing in our picks, but we see it.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's super helpful. And just lastly, as a follow-up, I think this was asked a bit, but I don't know if you could provide any more color. Any kind of puts and takes that are noticeable on reserve releases or small adds in the major lines or anything -- or was that already covered?

Mark William Haushill
Executive VP & CFO

Mike hey, it's Mark. No, there were no puts or adds during the quarter.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. I would describe this quarter as a very quiet quarter for us. And I go back to what I said earlier, which is that, again, by and large, our reserving, we are reserving consistently above indicated. So should there be erosion, there's a delta between indicated and where we booked. And for us, the most important thing is that we always stay on the right side of the book. And -- but this quarter was a very quiet quarter for us.

Operator

Our next question comes from Michael Phillips from Oppenheimer & Co.

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

Andrew, I wanted to maybe just drill down a little bit deeper into a couple of prior questions. On your earlier answer to the Industry Solutions segment, you talked about maybe in a couple of quarters, we'll see some things turn to normal there. Does that mean you're where you want to be in your Commercial Auto book or is there still more cuts to come? I think the cuts were kind of offsetting or being offset by rate. Maybe that wasn't the case here because you're being more cautious. But are you where you want to be with that segment or is there more kind of cuts to come in Commercial Auto?

Andrew Scott Robinson
CEO & Chairperson of the Board

There is -- so thanks for the question, Michael. So the first thing I will say to you is that you are correct in that rate is hiding a further reduction in exposure, right? So if you're hitting that category with 10%-plus rate, then obviously, units are coming down even faster than that. So that is true for Commercial Auto. I think that we probably have 2 more quarters of some adjustments that we're making that -- I don't know if it will come through in the results, I'll certainly be talking about it.

But I think as we look out probably to the end of the first quarter of next year, the things that I've been talking about for the last 3 quarters where I think we were probably one of the first to basically say it's no longer acceptable to deliver 10%, 11%, 12% rate against what is a difficult loss cost inflation backdrop regardless of the profitability whether you're booking at a 60% or 65% or wherever you are, regardless of the profitability, that's just a really tough loss cost inflation backdrop. And so we still have some exposure reduction that we're going after, and that probably run through the fourth quarter into the first quarter.

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

Okay. Good. So when you were talking earlier about inflation in that Energy Solutions and you're more cautious, was that specific to that -- your Commercial Auto or was that also part of energy and construction as well, the inflation you were cautious about?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. It's Commercial Auto first for sure. But we write auto as part of the solutions for construction and energy. What I'd say to you is that energy for us is we're very -- it's a very profitable business. It's been that way for a long time, it's a very well-seasoned business. But at the same time, like some of the things that we're entering into on the renewable side, which will be a liability-focused principally exposure, it doesn't have this kind of bodily injury things that you might see in other parts of our portfolio.

Construction is frequently a bodily injury exposed book of business. And it really is -- I think it is bodily injury specifically where we are seeing -- and that can happen in both auto as well as on liability, where we're seeing the greatest loss cost inflation occur. And so the parts of our portfolio that not every exposure in GL is equivalent, right? Some have heavy prem ops exposure, some don't. And so obviously, we're making adjustments with a view towards where I'm describing we see some of the greater loss cost inflation. But rest assured it is, first and foremost, driven by auto.

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

Okay. No, thanks for the details. And then just one more, if I could. I certainly appreciated your comments on kind of the reserves and the conservatism and staying above where things might go. But I guess on -- and you mentioned before the liability occurrence stuff, it's just a quiet quarter. But you have said recently that you're seeing some extra emergence in some of that business. And I guess it sounds like that extra emergence didn't continue or get worse. It kind of just stayed where it was, but I just kind of want to see what your thoughts there were.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. I mean I'll take a shot at trying to clarify and then Mark will probably clean up what I say, right? So I think what Mark has said in the past is that it is consistent with what I described, which is that if you look across, let's say, liability, general liability, as an example, occurrence liability, it's not like we see consistent patterns. Again, on one hand, if you look at our E&S transactional E&S book, like if our indicated was X and we were picking our booked was at X plus 5 or X plus 6, we've seen that develop to below X, right?

So it's more favorable than what our initial indicated has been, and we haven't responded to that. And there are other parts of our portfolio where, again, we might be at X plus 3 or X plus 5 in terms of where we're booking with X being the indicated and some of that position indicated has eroded. It hasn't been consistent. The key part for us is to not sort of be in a negative position relative to our book, right? We might start to back up from our initial indicated, but not to book.

And again, I think that some of what we saw last quarter, we didn't -- it didn't repeat itself this quarter. And by the way, I mean, let's be practical, right? We have $450 million of direct written premium running through our books on every quarter. It's made up of lots of pieces. And so unsurprisingly, you can have a large loss in a quarter or 2 large losses and you're like, oh, well, that really changes our view over here, but it isn't necessarily replicated across our business and might not even be replicated from period to period.

Operator

Our next question comes from Gregory Peters from Raymond James.

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

Sorry about that. I had my phone on mute. Thanks for letting me squeeze in one last question. Hey Andrew, there's been a fair amount of activity in the delegated underwriting market over the last year. And I'm just curious if you could just help us frame your perspective on how you're approaching that market and your views. It's certainly -- when I go over to London, it certainly seems to be quite a hot topic.

Andrew Scott Robinson
CEO & Chairperson of the Board

Great question. Thanks for that, Greg. So I guess what I'd say is this, there are some really great MGAs, program administrators out there, people that I have long-standing relationships with some of the underwriters who are some of the best out there and have great appreciation. I believe that the frothiness that's out there is way overcooks the quality.

There's a lot of business that I would describe as kind of like dirty admitted or light E&S, tough business, a lot of have prem ops kind of exposure where the industry is fooling itself in terms of what that profitability disposition. I have -- we unsurprisingly have great respect for very select competitors. And one of our competitors said in this call that I would encourage you to go look at the schedule piece of the fronting companies.

I thought that was a really thoughtful thing to say they would agree with that. That's a transformer into some portion of the MGA market. So look, there are parts that are very attractive. Our whole philosophy is Rule our Niche. So if we can partner with somebody who can -- where we can go Rule our Niche in a category and not replicate what they do, owing to some technology, distribution, some dimension of their business, that's where we'll seek to partner if it's in a category that is strategically relevant to us.

And we have a number of those efforts already obviously in place, and then we have a number that are underway. But I would describe our -- sort of our approach as being more selective. And I think I would just echo some of the best underwriting companies out there who are rewarded with really high valuations who are saying pretty much the same thing, which is that there are parts of the market that really aren't very good, and it's just a matter of time before that sort of sorts out.

Operator

Our next question comes from Alex Scott from Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Hey, thanks for squeezing me in here at the end. I had a question on transactional E&S. I just wanted to see if you could dig into some of the details of what's driving the really strong growth there. I mean, on the property piece of that, are you seeing some of the same competitive dynamics that I think were more comments on the Global Property?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. Thanks, Alex, and good to have you with us, by the way. So what I'd say is that transactional E&S for us has been -- is and continues to be terrific. It's -- the bulk of that is, as I mentioned, on the property side, we're talking about writing exposures that are measured in the millions of dollars to low double digits and about 60% of our book is the full limits and 40% we're writing the primary and somebody is writing the excess.

And on the liability side, the bulk of it is primary. We do write a book of excess. We write almost no Commercial Auto exposure at all in our E&S in excess. And so it's a real -- it's truly a GL book. And look, I think it's really simple. We have a great team. The majority of that team has been connected to me professionally for a number of years. So dating back to my prior life, and we've added that team with some incredible talent, some of which we've been public around announcing.

And then I think just the backdrop is there's just still a very strong flow. A large portion of the growth that you hear about when I talk about 25% increase in submissions, one of the big sort of weighted average contributors to that is still E&S. And I don't see anything that's going to change that, to be honest. I feel very good. And terms and price continue to be very good. On property, they're coming off a little bit, but from what I would describe as historically profitable levels.

And on the liability side, I think just generally, the loss cost inflation backdrop in general is putting a sort of a nice lift into the GL market for us on our transactional E&S liability, and I feel great about it. As I said, almost every turn when we do another actuarial review, we're like, oh, well we booked above our indicated and then we're like, oh, this is developing favorable to our indicated. That tells us that we're in a really great position with the book in terms and conditions that even if we were to see a bit of a deteriorating market, we'll be delivering outstanding returns and probably would not dimune the way that -- because of the way that we book, it would not dimune our sort of our underwriting profitability.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Got it. Very helpful. And maybe a quick follow-up on gross to net premiums. Can you help us out a little bit in terms of just what to expect in 4Q because we still sort of have, I think, the weird comparable associated with the quota share cancellation last year?

Mark William Haushill
Executive VP & CFO

Yes. I mean, it's Mark. The way we think about it is just assume low 60s in terms of gross to net.

Andrew Scott Robinson

CEO & Chairperson of the Board

For the full year.

Mark William Haushill
Executive VP & CFO

Yes, for the full year. It can bounce around due to the way we book excess of loss treaties, but just think about it in the low 60s.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. And Alex, I might be wrong, so let us follow up, but I don't believe that in the fourth quarter, what we addressed in the third quarter repeats itself. The third quarter was unusual because with the cancellation of that quota share, we unwound what was in the first and second quarter. So you recaptured 3 quarters of ceded premium, thus distorting the third quarter of last year.

I think the fourth quarter is a very, very good reference point. And the one thing I would just pay attention to a question that was asked earlier, I forgot you asked the question, I'll always remind folks that our gross to net is pretty normal, except for 2 areas, which is captives and our Global Property, captives because that's structurally the way it works and Global Property because we are a large line writer with significant quota share support, long-standing quota share support.

So if Global Property becomes a smaller portion of our overall percentage, obviously, you'll start to see that drift up. And then as a company, as our balance sheet gets bigger and bigger, our risk appetite goes up. And so we'll try to take back some of the underwriting profit where we believe that we can. And I think as we get to the turn of the year and we give you guidance for next year, we'll be specific on what that looks like for the full year. In the interim, I believe that Mark's guidance is pretty good.

Operator

I am showing no further questions at this time. I would now like to turn it back over to Natalie Schoolcraft 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 Specialty. I am available after the call to answer any additional questions that you may have. We look forward to speaking with you again on our fourth quarter earnings call. Thank you, and have a lovely Halloween.

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