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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

Charlie Rodgers
Jefferies LLC, 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

Rowland Juran Mayor
Oppenheimer & Co. Inc., Research Division

Unknown Analyst

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Skyward Specialty Insurance 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, Sean. Good morning, everyone, and welcome to our second 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.

With another great quarter reporting Q2 adjusted operating income of $0.80 per diluted share, which is our best in company history and nearly double the same quarter last year, our underwriting income is up over 50% and our investment income is up over 150% from the prior year. This quarter marks the sixth consecutive quarter we've delivered a sub-92% combined ratio and 18% plus growth. Our fully diluted book value per share was up 8.9% from the beginning of the year to $17.38 and our annualized adjusted return on equity and tangible equity through 6 months were 19.6% and 22.4%, respectively. Altogether, these outstanding results are a testament to the high level of execution across our underwriting divisions and the functions that support our business.

This is also a direct reflection of our Rule our Niche strategy, including our intentional efforts to have a well diversified portfolio of underwriting divisions that enables us to deliver top quartile underwriting profitability across all market cycles. As you may have read, last week, Skyward Specialty was upgraded by AM Best to an A rating. This is no small achievement given that the company had an A- with negative outlook when I joined in May of 2020. The incredible commitment, drive and execution of our 540 employees are the force behind this important achievement. I am confident that this will add to the momentum we have and will further fuel our winning in the marketplace.

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 $31 million or $0.75 per diluted share compared to $19.5 million or $0.51 per diluted share for the same period a year ago. On an adjusted operating basis, we reported income of $33.1 million or $0.80 per diluted share compared to $16 million or $0.42 per diluted share for the same period a year ago.

In the quarter, gross written premiums grew by approximately 18% with our Captives, Transactional E&S and Surety divisions and our Global Agriculture business within our Global Property and Agriculture division, each contributing meaningfully to growth.

Turning to our underwriting results, the second quarter combined ratio of 90.7% improved 1.3 points compared to the second quarter of 2023. The current accident year non-cat loss ratio of 60.7% was consistent with the prior year. During the quarter, catastrophe losses from convective storms only accounted for 1.2 points on the combined ratio compared to the second quarter of 2023, which was impacted by 3.5 points of cat losses. We maintain our guidance we previously provided for our full year cat loss expectations.

The expense ratio increased 1 point compared to the second quarter of 2023. We've talked in prior quarters regarding our business mix shift and investing in the business. So this is in line with our expectations and target of a sub-30% expense ratio. We're also getting leverage from increase in earned premiums.

Turning to our investment results, our strategy to derisk the portfolio continues to pay off with net investment income of $22.1 million in the quarter, an increase of $13.6 million compared to the same period of 2023. Consistent with our investment strategy to deploy all free cash flow to fixed income, in the second quarter, we put $98 million to work at 6.4%. The net investment income from our fixed income portfolio increased to $13.8 million from $7.9 million in the prior year quarter, driven by improving portfolio yield and the significant increase in the invested asset base.

Our embedded yield was 4.8% at June 30 versus 4.2% a year ago and 4.7% at March 31. Income from our alternative and strategic investments portfolio increased to $3.6 million from a loss of $3.2 million in the prior year quarter due to an increase in their fair value of limited partnership investments. At June 30, this portfolio only comprised 8% of our overall investment portfolio compared to almost 11% at December 31. The redemption of the alternative assets previously classified as opportunistic fixed income is beginning to work its way through. At June 30, we had approximately $250 million in short-term investments and our yield on short-term investments continued to be north of 5%.

Lastly, we are finalizing a credit facility with a federal home loan bank and we are awaiting final regulatory confirmation which we expect shortly. The facility will be used to pay down a portion of the revolver. We finished the quarter with a low 14% debt-to-capital financial leverage ratio and given the new facility and our current leverage, we have a good deal more financing flexibility.

Let me now turn the call back over to Andrew.

Andrew Scott Robinson
CEO & Chairperson of the Board

Thank you, Mark. As Mark commented, our 18% growth this quarter was fueled by our Captives, Surety, E&S, and our Global Agriculture unit within our Global Property and Agriculture division. This is noteworthy as we're intentionally seeking growth in high return areas that are less exposed to the P&C cycles. For us today, this includes A&H, Surety, Captives and Agriculture, which accounted for 36% of our gross written premium this quarter. This aspect of portfolio management will increasingly be an area of focus in our drive to consistently deliver top quartile underwriting returns, and I expect that you'll hear more about this from us in the quarters ahead.

Operationally, we had a strong quarter. Our 1.2 points of cats referenced earlier is outstanding in light of the considerable property portfolio we have across Global Property, Transactional E&S, and our Industry Solutions, including our inland marine unit which together are 26% of our portfolio. The quality of our property underwriting and aggregation management continues to produce a differential result.

Turning to pricing. We delivered mid-single digit pure rate and new business pricing consistent with our trailing 12-month in-force pricing. The aggregate rate metric ticked down this quarter due to a large renewal book in Global Property where pricing softened considerably. Otherwise, pricing was broadly consistent with the first quarter. I will remind you that in this quarter last year, we achieved our largest ever rate increase, similarly driven by Global Property, which I had noted on the call.

We've not seen a similar step down in property pricing for Transactional E&S or inland marine. Pricing in most of our key markets is orderly, which should allow us to continue to deliver differential growth while maintaining strong underwriting margins going forward. Retention was in the mid-70s for the quarter, driven by business mix and our intentional actions in commercial auto which in the quarter made up 12.8% of our gross written premium as compared to 16.6% in the prior year quarter.

I will note that exposure for auto is down even further than the written premium metric given the considerable pricing increases we have achieved. Our decision to shrink auto is principally driven by the loss cost inflation backdrop. We simply believe that it is unwise to add exposure in a market that appears to now structurally have 10% plus loss cost inflation, regardless of our ability to achieve above 10% rate increases. Lastly, we continue to see strong submission activity which was up over 25% from the prior year quarter.

Finally, I'd like to take a moment to talk about our team. In June, we were recognized as one of the best places to work by U.S. News & World Report, a testament to our commitment to creating a positive, inclusive, and empowering workplace for our employees. This honor reflects the collective efforts and dedication of our entire team. It is a direct result of our focus on fostering a supportive work environment, prioritizing employee well-being and investing in professional development. This recognition reinforces our belief that we have created an environment that has a competitive advantage for attracting and retaining the best talent in the industry.
I'd now like to turn the call back over to the operator to open up for Q&A. Operator?

Question and Answer

Operator

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

Matthew John Carletti
JMP Securities LLC, Research Division

Andrew, I was hoping you could maybe dig in a little bit more to your commentary about kind of where you grew this quarter, and importantly, kind of being areas of the business that aren't necessarily linked to P&C cycles. I think I caught kind of a 36% of the business, sort of number, kind of where that stands today. How do you view that longer term? Do you have kind of a perfect mix that you're looking to get to, or how do you think about that and the benefits that might bring to Skyward over multiple cycles?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, that's a great question, Matt. Well, look, maybe I'll just back up and put a little context around this. So, in the 4 years that I've been with the company, we have seen, I would describe it as kind of explosive market cycle -- [micro] cycles in various lines of business. We saw public D&O go through the roof and then probably come down even faster than it went up. Early in my time, when I joined Skyward, we saw a big movement on high access. I remember a number of peers who were talking about mid-teens rate increases, and it's just because they had a very big, high access, large access portfolio.

Similarly, we saw a cycle where cyber went way up, and now cyber is soft. You go through the list, property, same thing. And of course, we're in the P&C business, right, so we're never going to fully buttress ourselves to that. But it is our belief that the more that we can build a portfolio that is less susceptible to that, the more predictable we can be around not only our growth, but the quality of our earnings. And I just believe simply the durability of the outlook for our business.

And while this quarter was 36%, it was really just a byproduct of a quarter that had a relatively large growth in agriculture, as an example, where I think what we're aiming at for our overall portfolio is more like a 1/3 over the course of a year. And today we're probably at around 25%. So we want to grow that while not limiting the growth, by the way, on sort of our other lines. It just means that this is an area where we'd expect to grow faster than the rest of our book of business. And by the way, I think that as you look at over the coming quarters, you'll hear some announcements from us about new lines that we'll be entering that they kind of fit into this portfolio.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. That's very helpful. One other, if I could kind of diving in a little bit to one of your other comments, your commentary around bringing exposure down on commercial auto, which makes a lot of sense in a market that structurally just has a loss cost issue. Can you just maybe give us a little bit of color or remind us, commercial auto is a broad category, and there's lots of different flavors of commercial auto, just kind of what kind of, I guess, what you have left on your book, kind of what that flavor of commercial auto might be. And as you bring that exposure down, are there particular areas of commercial auto that you're reducing emphasis of, or is it more of a broad bring down across the entire category?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, also a great question. Let me just back up here, because we've watched and listened to what others have said about this, and we've also observed, and I just have to say that this is not about profit. This is about durability. And if somebody believes that loss cost inflation today is 10% or 11% or 12% or whatever they might believe, but everybody believes that it's rising. Nobody's to say that 2 or 3 years from now that will have been underestimated, particularly given sort of the changing dynamic there.

So I will just say to you that it is a very, and describe it as more uncertain. And we're aware that some of our peers, many of whom we respect, have a different view on this than us. But our view is really simple. It is not a question of profit, it's a question about durability. And then as it relates to where we see it, look, the bulk of our business for commercial auto is not the fleets that would make up kind of a lighter end. It's medium to heavy, including intermodal trucking, which is kind of medium distance, not long haul, but generally medium to heavy vehicles. And that is the area that there is no question is the most susceptible to the loss cost inflation that we've seen in. And trucking is kind of the extreme end of that, heavy trucking. But I'm not sure that we really can distinguish between the inflation that we're seeing and kind of the medium part of the market versus the heavy part of the market. And so our disposition about this is kind of across the board.

Operator

And our next question comes from Meyer Shields with KBW.

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

Andrew, I want to continue on commercial auto, just to make sure we're covering it. It sounded like one of the reasons for the change in the net to gross was on commercial auto, which I guess means you're buying more reinsurance. Are ceding commissions there offsetting expenses? Like, how is that impacting the expense ratio?

Andrew Scott Robinson
CEO & Chairperson of the Board

No, maybe I didn't quite get the question, Meyer, but I think when we're talking about growth, we're actually talking about a very considerable reduction in units offset by a very considerable increase of price. But the net-net of which is a meaningful step down in written premium for auto. There's really been no change to our reinsurance structure for auto, no change in kind of the ceding commissions, nothing there that is noteworthy. So I don't know if that addresses your question. Maybe I didn't quite get it. So does that address your question?

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

Yes, no, it does. I just wanted to know whether there's any trend that we should worry about. I don't think this is the intent, it sounds like the shift towards less cyclical lines also means lines with shorter tails. I guess as you move away from commercial auto, more agriculture and more surety, does that impact the fixed income allocation at all in terms of duration?

Andrew Scott Robinson
CEO & Chairperson of the Board

Well, look, I think at the macro sense, instead of just thinking about the one specific part that I referenced around, trying to build a larger position in lines that are less exposed to the P&C cycles, today, about 56% of our liability portfolio is what we call short duration, less than 2 years of liabilities. That's been ticking up. I don't think it'll go that much higher because even though you noted 3 areas that are generally shorter tail lines, another area that we hope to grow over time is more exposure to other areas of credit insurance, which will have a little bit longer tail.

So I would say, by and large, we're probably going to stay in that 50% to 60% range of being short tail liabilities. And we've pretty much been holding our duration on our investment portfolio consistent at around 4 years for the fixed income portion, and other than the fact that that's growing as a portion of our portfolio, it's very well laddered. We feel pretty good about that that's the right place for us to be.

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

Okay, perfect. And last question, just because I'm not as familiar, is there any pricing of note in the agricultural component of global property and agriculture? I get the less cyclicality. I just don't know what's actually happening day to day in that market.

Andrew Scott Robinson
CEO & Chairperson of the Board

Well, for us, it's a global business, so we write all over the world. That's just the first thing to note, right. So the second thing is that this is only our second year of operation. We had relatively flat rate on the portion of our business that was renewals, but that was a relatively small portion of what came through, particularly in the first quarter. So it wasn't really noteworthy and didn't influence our metrics. As the book seasons over time, we will certainly be prepared to talk about that in the context of sort of what we're seeing on rate overall.

Operator

And our next question comes from Michael Zaremski with BMO.

Unknown Analyst

This is [Dan] on for Mike today. Just maybe one starting with the benign cat loss ratio, maybe a little bit lower than we would have thought relative to peers, especially given the Texas exposure there. Touched on it on the prepared remarks a little bit and attributed it to the lower severity in the press release, but just wondering if there's anything we should be thinking about Skyward's cat exposure there.

Andrew Scott Robinson
CEO & Chairperson of the Board

I think the thing that you should be thinking about is that we're better than others in the industry. That's what I think, and I think our results just bear that out. 26% of our portfolio is Property, yet, which is a pretty sizable chunk, and broadly in line with the commercial insurance market, yet we're consistently out-delivering, which effectively means that our portfolio is, by and large, less traditional cat exposed.

We've said it all along that the first peril that we write is fire. It isn't cat. And so I think that the thing that we point to is that we have a high earning short tail liability book of business and low volatility, and we don't believe that it's appreciated enough by the investor community. That's the profile of that business. It's not to say that we're immune to cat, because we're not. It just says on a relative basis, we certainly, in our 6 quarters of being a public company, have outperformed, and this is no different.

Unknown Analyst

Made that clear. Then maybe just switching gears to social inflation, maybe if you could just touch on tort reform progress year-to-date that we've seen in your key geographies, maybe particularly Louisiana, where you guys have material exposure, and we've seen some headlines there that they're limiting third party litigation funding by foreign entities.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, by the way, that may be the case. I actually don't know that law has gone into effect. I think that the issue, by the way, in terms of the sourcing of funds, that is easily circumvented. So like, I don't believe that alone is going to be something that's going to have a material effect. I think just generally, disclosure is a good thing. It will certainly raise the awareness. But the fact of the matter is that I think that there's a lot of talk, there is some action, there's currently action happening at Congress, which is terrific. And you feel like that there's more momentum here, but I am suspicious.

The plaintiff bar and the litigation financing industry are incredibly well organized. And until we see a kind of change that not only just limits disclosure, but puts some boundaries around what's reasonable and practical and starts to provide very real examples where damages start to look like they have in the past, adjusted for inflation, until we start to see some signs of that, I'm skeptical.

Operator

And our next question comes from Greg Peters with Raymond James.

Unknown Analyst

This is [indiscernible] on for Greg. Just given the growth in the professional lines division over the last year, I'm curious if you could comment on what you're seeing there as far as additional opportunities, and maybe if you could take a moment to clarify what type of exposures you're focused on in that market?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, sure, our growth drivers in professional have been miscellaneous professional and/or healthcare professional. We write medical facilities, various miscellaneous classes on the healthcare side, and those have been the 2 principal drivers. What I would say is that sort of the buoyancy that drove a lot of the growth on the miscellaneous piece, which we are more mature on, we've been in the business for a while, was actually an outflow of a lot of brokers who were overwhelmed during sort of the difficult period on cyber.

And so we saw very heavy flow to us because we were rapid to respond. Good technical team can understand the sort of the unique exposures that sort of make up the miscellaneous class. And today I think it's a more competitive environment simply because it's a segment that is profitable. And our book is very profitable, right. So that slowed down a bit.

On the flip side, we're certainly getting our sort of feet underneath ourselves on the healthcare professional side. And that's been an important growth engine. We've added a lot of great talent into that and we've expanded our appetite a little bit. And I find that market to be, as I described in my opening comments, orderly enough, where good underwriters like us with a relatively broad appetite and the ability to sort of look at exposures and assess them on an individual basis and price that risk, that we can pick off business that we feel really good about at margins that we think are super attractive. And that's been a principal driver.

In that book, in our professional book, we have a D&O book. It's principally private, a very small amount of public. I've talked about some of the segments that we focus on there, so that we get away from kind of the mainline sort of competition there. I noted in the past areas like cannabis and distressed homeowners Web3 kinds of exposure. We're really 1 of only 2 writers in that market. Another piece of our professional is architects and engineers, and we do some small amounts of financial institutions in a very focused way. And that pretty much rounds up the business. But the growth drivers have been the 2 that I spoke about. And in the other areas, we're picking off business as we see the opportunity, but hasn't really been a material growth driver.

Unknown Analyst

And then just switching gears to the investment income with the increase in income from the alternative and strategic investments. I know you've reduced allocation there, waiting there. And so just hoping you can help frame how we should think about the results from that portfolio moving forward.

Mark William Haushill
Executive VP & CFO

It's Mark. What I would say is it stabilized a little bit during the quarter, but we have seen volatility in the past. It's hard to judge how that will play out. I would say we just take it a quarter at a time. It's running off and it's running off in the fashion that we expected it to. And it's just becoming smaller, if that answers your question.

Operator

And our next question comes from Michael Phillips with Oppenheimer & Company.

Rowland Juran Mayor

Oppenheimer & Co. Inc., Research Division

It's Rowland on for Mike. Wanted to start with the Global Property and Ag growth. So you called out the Ag piece as growing pretty significantly year-over-year. Are you able to give us what the sort of property component of that unit was and just discuss your thoughts there? Their geographies are shrinking. Yes, anything there would be helpful.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, I mean, I'll be direct. We saw a double-digit step down in a written premium in Global Property in this quarter as compared to last year. Now, last year was, I would describe, as the absolute peak of the market. There was probably some bits of the market that were sort of at the opportunistic end for us. But I'll be honest with you, in most of our business, we have a pretty rational and competitive backdrop. This is one place where we saw some pretty darn irrational behavior. A lot of that coming from Lloyds, but not only from Lloyds. And this is very large stuff, right. So it attracts the attention of folks who are basically looking to put capital to work and try to write some big ticket items.

We're just not going to follow the market down. We are a very significant line taker in the primary layer, and there aren't too many folks that are like us. So we're very important to our insurance. But the fact of the matter is, quite honestly, it was pretty ugly behavior out there and we just let some business go. And you saw that division was pretty much flat versus the prior year, that difference was picked up by tremendous growth that we saw on Ag, which we're really pleased about.

Rowland Juran Mayor
Oppenheimer & Co. Inc., Research Division

That's very helpful. And then is that driving what is causing the net premium retention to rise significantly year-over-year? Or is that part of the runoff of the LPT or is there a way to think about the full year net retention on premiums?

Andrew Scott Robinson
CEO & Chairperson of the Board

The only thing I would say about our full year net retention is at the beginning of the year, in our guidance, we pointed you to the 2023 net retentions, which I believe are right around 62-ish percent, give or take a bit. And we explained that those are good planning assumptions for this year. And really nothing's changed around that.

There are some movements, by the way, where we've changed some renewal dates on particular programs to put ourselves in windows that we felt better about. But by and large, I think it still remains a good planning assumption. Not really much has changed, and I wouldn't over read the sort of the quarterly gross to net or any of that. I think that the macro assumption at the beginning of the year was the right assumption.

Rowland Juran Mayor
Oppenheimer & Co. Inc., Research Division

And if I could sneak one more, and you guys have hired a number of teams in the past 2 years. You talked about the growth investment, sort of pushing up the expense ratio a bit. When you bring a team in, how long does it take for them to reach scale? And is there a time line you expect sort of the expense ratio to normalize for the growth you've been investing in?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, it's a really great question. The answer, unsurprisingly, is it depends. It's very interesting. One of our executives describes what we do as a big venture capital like, because we hold back investments in our planning at the beginning of the year, and then we ask our businesses to compete for it. There are certain areas that we consider to be very strategic. We will be making an announcement around one of those here in the weeks ahead, which is an area that we've been focused on for a long time. And it's so strategic, though, that what we see is that the payback might be longer, but the margins in that business are very durable and very defensible. And so we like it. And so the payback, sort of the length of the payback being a little bit longer is acceptable. But by and large, we're generally seeing that our underwriters are more than paying them, paying for themselves within 12 to 18 months. And the exceptions to that might be in particular classes of business, where it just simply takes a longer time to build. But we want to enter that class because we consider it to be very strategic.

Rowland Juran Mayor
Oppenheimer & Co. Inc., Research Division

Is the market for talent becoming significantly more competitive?

Andrew Scott Robinson
CEO & Chairperson of the Board

I think the market for talent has been very, very, very competitive, principally because we are a specialty carrier, there is a dearth of talent that are really sort of in the specialty classes. But that said, we point to the fact that last year, our voluntary attrition was what we believe is at or near industry low of 7%. We're not running far off that again this year. And our ability to attract, like, really, really great talent speaks for itself, right. I mean, just last week's announcement of adding what we consider just an absolutely astoundingly good technical leader for a life sciences launch, and similarly an incredible technician who's leading our Transactional E&S Property portfolio. And you look at their backgrounds, you look at the companies that these people are coming from, these are great companies, and these are impressive people. And so I would just say to you, regardless of what's happening in the market, we are clearly winning the talent war. There's no question about that.

Operator

Our next question comes from Yaron Kinar with Jefferies.

Charlie Rodgers
Jefferies LLC, Research Division

This is Charlie on for Yaron. Congrats on the quarter. I have a question for you guys on reserves. If you guys could just provide a little bit of color on maybe longer tailed reserves, particularly for accident years 2020 and more recent?

Mark William Haushill
Executive VP & CFO

Sure. It's Mark. So in terms of the '20 through '22, we saw some isolated pockets of emergence in other liability occurrence. But when I say that, I think you need to take that in the context of our philosophy and what we do here. First, we're not going to move around each and every quarter. We look at our reserves ground up at the end of the year. But the movement was small and I feel great about our loss picks, which I think is where you're going.

I would also remind you that how we've been conservative since 2020, we have intentionally been very conservative on our loss picks. We have not taken full credit for rate increases. So honestly, I feel great about where we are in '20 through '22. We did see a little bit of emergence, and we're watching it.

Charlie Rodgers
Jefferies LLC, Research Division

And then on the AM Best upgrade, could you just provide some context on how you think that's going to impact maybe growth from here?

Andrew Scott Robinson
CEO & Chairperson of the Board

It's a great question by the way. I don't think we would assign a specific kind of value of growth. What I can tell you is, it's very interesting how these things happen. As soon as we got the upgrade, I was given a small number of examples in our professional lines cutting across E&O, D&O and in a healthcare professional where we had lost an account or 2 and ratings was part of that. And by the way, as soon as we got the upgrade, I had an example of us being included in submission because of our rating. And I think the way I would describe it is in my experience, as the market gets a little more competitive, it's always been my experience that if you don't have an A rating, the jump ball goes to the team with the A rating and now we have the A rating.

And I feel really great about that. If nothing else, I can just tell you that the energy level around our organization on the back of that, which is already at a very high level, has just kicked up another notch. And so if I were to assign anything to it, I would just assign the energy that our underwriters have to use that and get out and win some more is something that I can almost point to as being quite palpable. But I wouldn't say, hey, as a result of this, our growth outlook changes. I feel though over time it'll be one of the things that proves to be a really important part of our sustainability as a business.

Charlie Rodgers
Jefferies LLC, Research Division

Okay, great. And then one more, if I could. I know you guys spent some time talking about the difference in the severe convective storm losses relative to the prior year quarter. I think last year you guys called out a couple of large losses in the south. Obviously, the industry had a very high number of SCS related activity and significant losses this quarter as well. How much of the improvement year-over-year in the cat load would you say you attribute to just the geographic difference in where SCS occurred versus where you guys...

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, that one's a pretty straightforward one. I'd say none. I mean, last year a tornado touched down on top of a factory that was a very large exposure and we took a big loss and that was a big part of it. And this year, we didn't have one of those. It was literally that simple. I think our largest loss in this quarter was sub-$1 million. And last year, if I remember correctly, we had one very large loss and we had a second one that was above $1 million.

And so when it comes to convective storm, the truth is there is being good, which I think we are, we're good at aggregation management, we're good at underwriting, we protect ourselves the right way in terms of coverage forms, price, et cetera, we're good at aggregation management, but a lot of it has to do with just being lucky, right, because you can be the best underwriter but if you've got the factory that the tornado touches down on the roof of, well, guess what? That just is what it is, and that's what happened last year.

Operator

And our next question comes from Mark Hughes with Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

You've talked about the growth in these non-cyclical areas, Captives for one. What has been driving that? And is that momentum going to continue again in that Captives market?

Andrew Scott Robinson
CEO & Chairperson of the Board

Look, it's a great question. So here's the data I would point you to. Long before the sort of hard market started to be called a hard market, back sort of around 2020, maybe a little bit earlier than that, if you take a look at the growth in Captives, even during the soft market period, it was pretty darn astounding. And I think there's a bunch of reasons for that. I just generally believe that there is a class of companies out there who want to be directly invested in their cost of risk and they have a focus on risk management.

And I believe that, obviously information technology is playing an important role in companies that have an ambition to directly participate in their cost of risk and take greater control. That clearly has accelerated during the hard market, right.

I mean, as price has gone up, the sort of the attractiveness of, in our case, we're talking about group captive solutions, just goes up and up and up. And it has been the case and it continues. And I think that set of data that I just shared with you is between soft market and hard market is an intractable trend. So we like that. And in that regard, we find that certainly the participants that go into group captives, they're ultimately being priced based on really their true loss experience. And it is generally less cyclical and less exposed to what's changing in the external market. And I believe that we've done quite a bit to position ourselves really well against that.

And I'll highlight for you two areas, Mark, as an example. One was, I guess probably about 2 years ago when we shared with you that within one of our key classes, within construction crane and rigging, that we created a captive that effectively sits side by side with our guaranteed cost solution. That's proven to be a really smart move. And another was our partnership with a technology company called Understory Weather in addressing the automotive dealer segment. And that is another one where we've made great inroads with tremendous knowledge and experience in that class, but we created a captive around that based on a really unique approach. And those are the kind of things that I think we're getting a reputation for that's positioning us really well, as we're looking to grow this part of the market.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And refresh me, if you write $100 worth of business in a captive, what's going to be the bottom line contribution?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. So a way that I would describe it to you is that, roughly the premium that goes to what a group captive participant retains in terms of risk will be, let's call it 80% of the first $1 million of limit and the premium associated with that. And so the 20%, let's say, it's a [650 excess of 350] or [500 excess of 500], that might be worth $0.20 on $1 of the total premium. And then depending on the specific program, it may be that the captive participants do or do not participate in the excess. And in the cases they don't participate in the excess, it goes into our corporate excess treaties and we participate as if we were writing the first dollar on a guaranteed cost basis.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Appreciate that. Then the accident and health business also kind of a similar profile. How do you control volatility there? Your experience historically, is that more or less volatile than your overall book?

Andrew Scott Robinson
CEO & Chairperson of the Board

So our A&H, a medical stop loss business, effectively, we are writing a specific and aggregate excess cover. That's effectively what we write. We actually buy an excess cover as well so that our actual loss corridor is effectively capped. And so we've done that every year since I've been with this company as a matter of process. And so the reality is that the range or volatility that we might see in that business is rather low.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Understood. And then a final question. The transactional E&S, real strong growth. What are the standout lines of business there that are driving that?

Andrew Scott Robinson
CEO & Chairperson of the Board

GL and property. I would put our team in what we do, right. Our average premium size is a little under $50,000. I would put this team against any team in the industry. They're terrific. They have a great following. They're the folks that truly take the time to understand exposure, craft coverage, and they're technically just off the charts. And so if I want to assign kind of our success there, our success is tied to a team that is incredibly well respected and followed by our key distribution partners. And we're adding folks, and the people who are coming in are every bit as good as the people that are already in place. And I think the backdrop there is terrific. And, well, Mark commented on some of the occurrence liability kind of, pockets of trends that we saw. One place that we are just seeing absolutely outstanding results on emergence is inside of our transactional E&S on the GL side.

Operator

And this concludes the question and answer session. I would now like to turn it back 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 you may have. We look forward to speaking with you again on our third quarter earnings call. Thank you and have a wonderful day.

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