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Skyward Specialty eyes inland marine and property insurtech opportunities

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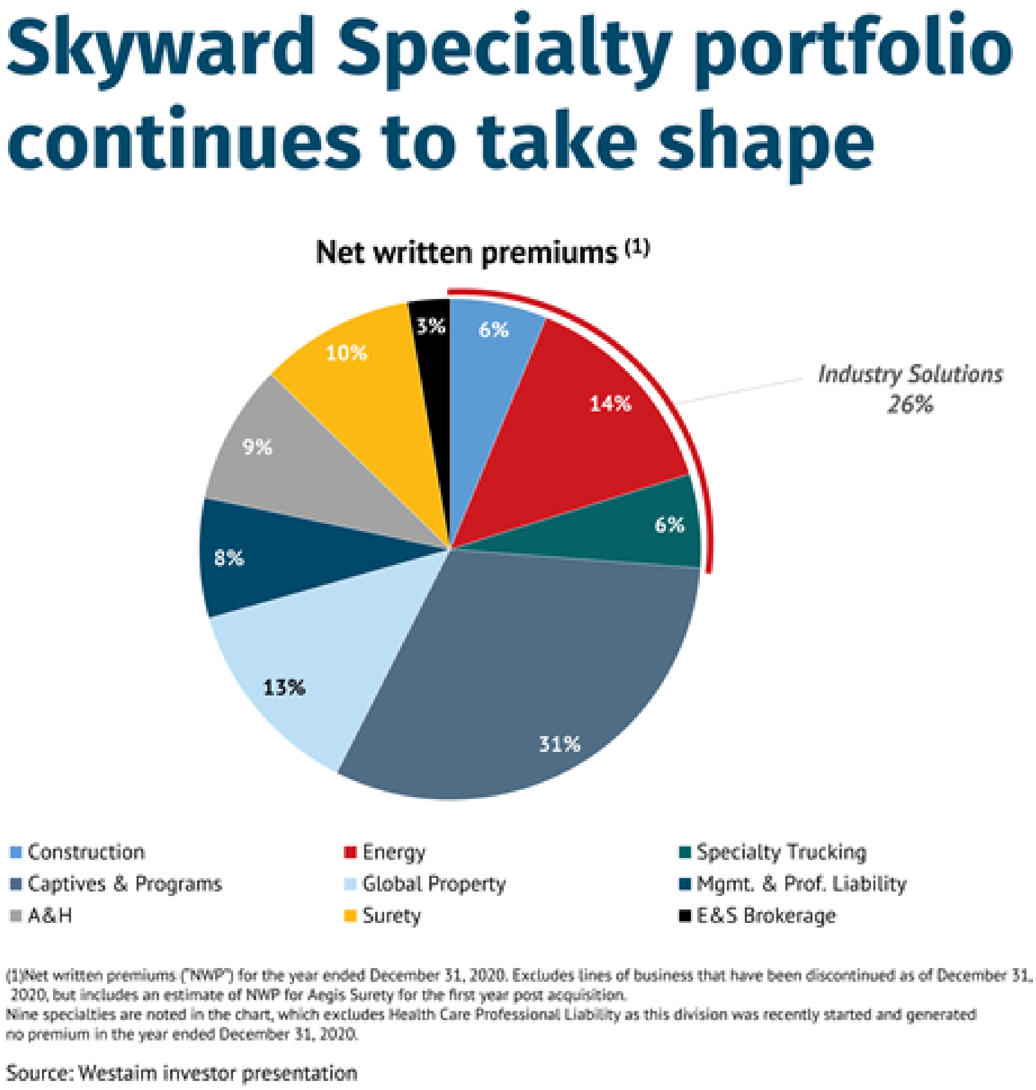
Skyward Specialty is planning an inland marine entry and an insurtech commercial property partnership as it looks to maintain an equal balance between short-tail and long-tail business in its portfolio after recent expansion in areas such as professional liability and construction, *The Insurer* can reveal.

- **Skyward aiming to maintain 50:50 balance between short-tail and long-tail**
- **Will look to build out in existing lines after recent additions and selectively add specialties**
- **Turnaround saw it deliver $13.6mn net profit in Q1 (Q1 2020: net loss of $48.1mn)**
- **Underlying combined ratio improved by 3.7 points and NWP up 10% despite re-underwriting of book**

- **CEO Andrew Robinson says aim is to retain more business on balance sheet**
- **Going public is likely end point but no current capital need**

In an interview with this publication coinciding with his one-year anniversary as CEO at the US specialty insurer, Andrew Robinson revealed he has been recruiting for an inland marine leader.

He added that the expansive carrier is also closing in on other opportunities in short-tail lines of business, including a property-focused insurtech with a single peril focus.



"We've been able to construct our business so that 50 percent is short-tail and 50 percent is medium- to long-tail.

"As we've put stakes in the ground in areas like professional liability and industry specialties like construction, I want to make sure we have the right focus on short-tail growth as well so they're in equal quantities," he explained.

Robinson was commenting after it was revealed in the results of Skyward Specialty's 44 percent owner Westaim Corporation that the Houston, Texas-based insurer had turned a Q1 2020 net loss of $48.1mn into a net profit of $13.6mn in the most recent reporting period.

It also cut its underlying combined ratio excluding its loss portfolio transfer transaction by 3.7 points year on year as the Q1 result of 93.8 percent benefited from the re-underwriting of its portfolio under Robinson's stewardship, aided by improved market conditions.

The insurer was able to grow net written premium by 10 percent to $109.8mn despite churning around 27 percent of its portfolio on a gross basis as it undertook significant re-underwriting and repositioning.

Gross written premium (GWP) was up by less, increasing 2 percent to $237.8mn as Skyward Specialty upped the amount of business it retained on its own balance sheet.

Skyward Specialty financial metrics

($mn)	Q1 2021	FY 2020(1)
Select Income Statement Metrics		
Gross written premium	238	874
Net written premium	110	413
Pre-tax income	17	23
Net income	14	18
Combined ratio	**93.8%**	**96.2%**
Select Balance Sheet Metrics		
Cash and invested assets	917	877
Total assets	2,024	1,953
Total liabilities	1,620	1,559
Adjusted stockholders' equity(2)	415	406

(1) Does not include charges related to the Loss Portfolio Transfer ("LPT") transaction completed in Q2 2020, development subject to the LPT or other unusual items.
(2) The adjusted stockholders' equity of Skyward Specialty at March 31, 2021 reflects the Skyward Specialty stockholders' equity pre pared in accordance with US GAAP adjusted for a reclassification of stock notes receivable. Refer to Westaim's MD&A at March 31, 2021 and December 31, 2020 for further details.
Source: Westaim investor presentation

"To be able to grow and also finally get to the point where we had a clean quarter with good results – in only three quarters – is pretty fast.

"And the balance sheet on the liability side is really strong and has been moved to a conservative place," said Robinson.

Gross line underwriters

As well as the moves to add capabilities opportunistically in areas like inland marine, the executive said the core focus for the insurer is to scale the businesses it has been building out over the last year.

Since his arrival it has made a slew of key underwriting hires; launched an E&S brokerage business unit; added a D&O offering for public companies; expanded its construction business; acquired Aegis Surety; partnered with program manager Corvus in cargo and property; and entered healthcare professional liability.

"It's largely about stretching our legs on that portfolio, and at this point we have tremendous opportunities to not only grow our gross line but to grow our net as a portion of our gross.

"We are on the path to cross $1bn of annual premiums in the next year and the investments we've made can take us comfortably to $1.5bn by maintaining our current focus," said Robinson.

"We see plenty of opportunity to eat more of our cooking and part of that is to do with our balance sheet growth and having the scale to be able to increase our net lines"
Skyward Specialty CEO Andrew Robinson on the carrier's strategy of retaining more business as it grows its book after recent repositioning

Skyward Specialty in the first quarter retained a little under 50 percent of its GWP – up on the prior-year period. But the executive said that its retained share is likely to meaningfully increase towards the two thirds mark over time.

"We're gross line underwriters and we're writing to a profit for us and our reinsurers. On everything we are writing that is new we are endeavouring to take a material share of the risk.

"We see plenty of opportunity to eat more of our cooking and part of that is to do with our balance sheet growth and having the scale to be able to increase our net lines," he added.

Public path?

Skyward Specialty has been actively adding talent in the last year as it builds out its capabilities and continues to reposition its portfolio for profitable growth.

According to Robinson, a big selling point to potential new employees has been a flat management structure, a "bit of irreverence" in the character of the company, and a willingness to back talent.

"We have punched way above our weight in terms of getting great talent, and as the talent has come that's got the attention of distribution," he said.

"We want people who believe they can actually do really good things, want the backing of the company and no bureaucracy and the support of all the functions to make the businesses go. We've got that and it's hugely attractive to a good slice of the folks that are the sought-after talent," Robinson added.

Despite being a private company, equity is a big part in the compensation being offered to employees as Skyward Specialty builds a business that has mechanisms to combine short-term bonuses with long-term incentives, he explained.

Asked about a possible path to going public, Robinson said the question of capital access and liquidity are important to the insurer over the long term. But he added that Westaim is a hugely supportive investor and Skyward doesn't currently have the need for additional capital.

"Right now we're generating a lot of capital but we also have a growth trajectory that's very attractive. Being public is a likely assumption as an end point. You've got to create liquidity and capital access as a mechanism for the company and that's a really good way to do it.

"Whether we head in that direction and it's the next move or some other approach...all I'll say is we have a lot of capital options and we're not yet in need of capital," he said.