S&P Global
Market Intelligence

W. R. Berkley Corporation NYSE:WRB
FQ3 2020 Earnings Call Transcripts
Tuesday, October 20, 2020 9:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.65	0.65	0.00	0.77	2.19	NA
Revenue (mm)	1749.80	1748.92	(0.05 %)	1800.49	6902.98	NA

Currency: USD
Consensus as of Oct-21-2020 1:08 PM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	0.72	0.71	(1.39 %)
FQ1 2020	0.73	0.69	(5.48 %)
FQ2 2020	0.09	0.06	(33.33 %)
FQ3 2020	0.65	0.65	0.00 %

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Call Participants

EXECUTIVES

Richard Mark Baio
Executive VP, CFO & Treasurer

W. Robert Berkley, Jr.;President, CEO & Director

William R. Berkley;Executive Chairman of the Board

ANALYSTS

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UBS Investment Bank, Research Division

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

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Philip Michael Stefano
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Ryan James Tunis
Autonomous Research LLP

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Good day, and welcome to W. R. Berkley Corporation's Third Quarter 2020 Earnings Conference Call. Today's conference call is being recorded.

The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will, in fact, be achieved.

Please refer to our annual report on Form 10-K for the year ended December 31, 2019, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results. W. R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

I would now like to turn the call over to Mr. Rob Berkley. Please go ahead, sir.

W. Robert Berkley, Jr.;President, CEO & Director

David, thank you very much, and thank you all for dialing into our third quarter call. Similar to the past, we also have Bill Berkley, Executive Chairman on the call on our end; as well as Rich Baio, CFO and Executive Vice President.

We're going to follow a similar agenda to what we've done in the past. We're going to ask Rich to start off with some of his thoughts and highlights from the quarter, and then I will follow with a few comments, and we will be opening it up for Q&A. Rich, if you could, please.

Richard Mark Baio
Executive VP, CFO & Treasurer

Thanks, Rob. Good evening, everyone. The company reported a strong quarter despite the ongoing complexities arising from the global pandemic and the heightened natural catastrophes facing the industry. Our underwriting results improved both on a calendar year basis and even more so on a current accident year basis, excluding catastrophes. Net income for the quarter was $152 million or $0.81 per share, resulting in an annualized return on equity of 10%. Drilling down into the key drivers for the quarter, I'll start with our top line.

Gross premiums written grew by 8.1% in the quarter despite limited economic growth. Net premiums written grew 7.4% to approximately $1.9 billion in the quarter. The Insurance segment increased 6.5% to more than $1.6 billion, primarily driven by most lines of business with the exception of workers' compensation. The growth in the quarter was led by professional liability of 20.7%, followed by 17% in commercial automobile, 9.6% in other liability and 8% in short-tail lines.

The Reinsurance & Monoline Excess segment grew by 13.7% to $251 million in the quarter due to an improving market, as evidenced by an increase in property reinsurance of 26.6%, monoline excess of 18.9% and casualty reinsurance of 7.9%. Pretax underwriting income of $111 million, improved 3.7% despite increased natural catastrophe losses in the quarter. There were an above-average number of windstorms, named hurricanes making landfall and West Coast wildfires in the quarter, resulting in approximately $73 million or 4.2 loss ratio points impacting our underwriting results. This compares with last year's catastrophe losses of approximately $31 million or 1.9 loss ratio points. The reported loss ratio was 63.7% in the current quarter compared with 62.1% in 2019.

Prior year loss reserves developed favorably by $5 million or 0.3 loss ratio points in the current quarter. Accordingly, our current accident year loss ratio, excluding catastrophes, was 59.8% compared with 60.4% a year ago. The improvement is driven by lower claims frequency and non-cap property losses as well as a change in business mix. The expense ratio was 30%, reflecting a decrease of 1.5% compared with a year ago. The improvement in the expense ratio is attributable to the growth in net premiums earned of 4.3% and the reduction in underwriting expenses of 1%. We've already talked about the contributors to the growth in top line, which will continue to earn through our income statement.

The lower underwriting expenses is primarily due to the reduction in travel and entertainment costs due to the global pandemic, which represents a little more than 50 basis points of favorable impact on the expense ratio. The accident year combined ratio, excluding catastrophes for the quarter was 89.8% compared with 91.9% for the prior year. Pretax underwriting income on a current accident year basis, excluding catastrophes, improved approximately 32.5% to $179 million.

On the investment front, net investment income for the quarter was approximately $143 million, primarily reflecting a decline in our fixed maturity portfolio, offset by favorable market value movements in our arbitrage trading account. The decline in fixed maturity portfolio is due to a larger cash and cash equivalent position, which we discussed on our second quarter earnings call. Cash and cash equivalents are more than $2.7 billion or approximately 13% of invested assets.

And finally, income from investment funds in the quarter returned to a more normalized level. We believe the investment fund managers will be cautious to increase market values in their respective portfolios due to the potential market volatility and uncertainty surrounding the global pandemic. Pretax net investment gains in the quarter of $39 million is primarily attributable to an increase in unrealized gains on equity securities and an improvement in the allowance for expected credit losses. Much of the reduction in this allowance was attributable to foreign government securities that were sold at a realized loss in the quarter, effectively creating an offsetting result.

Turning to the balance sheet. Fixed maturity investment portfolio maintained a high credit quality of AA- and reported additional growth in our after-tax unrealized gains from the second quarter. In addition, the U.S. dollar weakened relative to several foreign currencies, resulting in an improvement in our currency translation adjustment, which is a component of stockholders' equity. Stockholders' equity was approximately $6 billion at the end of the quarter, reflecting an increase of approximately $200 million from the second quarter after dividends and share repurchases of $34 million.

Book value per share grew 3.7% in the quarter before dividends and share repurchases. The company had strong cash flow from operations in the quarter of $557 million. The liquidity remained strong at the holding company with more than $1.6 billion in cash and liquid investments. During the quarter, we further managed our capital position through 2 record-low financing transactions for Berkley.

First, $170 million, 3.1% effective interest rate, 30-year senior note; and second, a 40-year subordinated hybrid debt offering of $250 million at a coupon of 4.25%. The use of proceeds in large part have been and will be used to redeem $350 million of our 5.625 subordinated hybrid debt in October. Accordingly, 2 things for you to consider in your future modeling that will impact our financial statements. The reduced annual pretax interest expense of about $3 million and a nonrecurring debt extinguishment cost in the fourth quarter of approximately $8.5 million pretax.

With that, I'll turn it back to Rob. Thank you.

W. Robert Berkley, Jr.;President, CEO & Director

Rich, thank you very much. Obviously, a lot there, and we can get into that in the Q&A in more detail if people so desire. A couple of thoughts from me. First off, I think it goes without saying, but I'll say it anyways. 2020, clearly, a year that the world, the industry and all of us will not forget anytime soon. And additionally, in many respects, a year that hopefully will not be repeated. If COVID-19 wasn't enough then frequency of severity around cat activity, I certainly think is really testing society.

If there is any silver lining on this from my perspective, perhaps it provides an opportunity for the insurance industry to demonstrate the value that it brings to society, and I would just finish this by saying that certainly, our thoughts are very much with all of those that are directly and indirectly impacted by these circumstances.

Turning to a couple of comments about the marketplace. Clearly, it remains in a time of transition. I would suggest that it is accelerating every day. I would also suggest that it would appear as though there is a significant amount of runway in front of us. We can see this in a variety of different data points that we monitor we can see it in our submission flow, particularly in our specialty businesses and the extreme would be in our E&S businesses, and that flow continues to build significant momentum.

Additionally, we can see it in the rates that we are achieving. As referenced in the release, ex workers' comp, we got 14.5 points of rate increase on our renewal book. To give you a couple of historical data points that we've shared with you in the past, but no sense of having to go back and dig them up. If you go back to Q3 2016, we've got 70 basis points of rate increase. If you go to Q3 2017, we got 1.8% rate increase. If you go to Q3 '18, we got 4.1 points of rate increase. Q3 '19, 6.6. And then again, as mentioned a moment ago, in our release, 14.5 in Q3 of '20.

When we look at what is driving this, what is driving the firming of the marketplace with the exception of workers' compensation, those catalysts from our perspective, if anything, are becoming more acute. As far as workers' compensation goes, as we've discussed over the past few quarters, it is our expectation that, that marketplace is more likely than not to begin to firm as we make our way into 2021 or I would suggest sometime next year.

Turning to some of the underwriting activities for the group during the period. Clearly, lots of moving pieces. Rich covered them on some detail, and we can take the conversation wherever folks would like to in the Q&A. I would just flag that the big driver here is the growth in earned premium. And if you look at our net written, there is good reason to believe that, that momentum will build. Hopefully, the world will open up, and you will see the short-term benefit that we're getting on the T&E front, that will return to a more normalized number. But again, that momentum on the expense side stemming from higher earned premium we expect to still have more opportunity as we remain focused on our controllable expenses.

Rich gave you a good background on the loss ratio. Just a couple of points that I would add on there. Number one is, clearly, there is an impact stemming from COVID-19 and the shutdown and what that has meant for frequency. It is unclear to what extent that impact is just temporary, and we will see a surge in claims and a catch-up or whether that is a permanent shift, though we expect things will ultimately return to a more normal level. For purposes of our income statement, we have not assumed anything other than we continue to carry things, by and large, at the loss ratio we used at the beginning of the year.

To that end, point number two that I'd like to flag. The loss ratios that we selected at the beginning of the year assumed that we would not be outpacing loss cost trend by the level that we are. The rate increases that we have been getting throughout the year, by and large, are above and beyond what we had anticipated. But again, given the uncertainty around loss cost trend and specifically social inflation, we have deliberately decided to take a wait-and-see attitude.

Switching over to the investment front. As we have discussed in the past, it's no different than what we do on the underwriting side. We start with a view towards risk-adjusted return. As Rich mentioned, our duration is relatively short at the 2.3 years, and that is a conscious decision. That decision clearly comes at a cost, but we think it is an appropriate and manageable cost. It is our view at some point in the not-too-distant future, though not tomorrow, you will see likely interest rates begin to move up. And at that moment in time, those that reach too far out on the yield curve, you will likely see a reduction in book value because of the leverage that exists in the slight movement in interest rates moving up on the value of those bonds.

No different than what we've done with the alternative portfolio, there are certain investments that we have made that have not given us great investment returns from an operating perspective. But it is our view that we are focused on total risk-adjusted return for shareholders, and because of our long-term view, we are willing to forgo some ordinary regular investment income in order to create that additional value. When we look out at the marketplace, again, from our perspective, there is a lot of runway once again in front of us. We are encouraged by where the market is and even more so where it is going. And from our perspective, the circumstance that we see today and expect tomorrow will only benefit more with a recovering economy, which we anticipate will hopefully be the case over the coming quarters.
So let me pause there. And David, if we could please open it up for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from the line of Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

I guess my first question is going to be an expense ratio, which I know I think sometimes I speak to investors, I think it's kind of boring. But I was trying to look back at the last year or so at underwriting income and -- versus consensus expectations, and it seems like most of beat -- a good amount of beat has been on the expense ratio, especially this quarter. How much of the improvement do you feel is kind of structural directionally and kind of more sustainable versus somewhat cyclical and could it kind of ebb and flow during the next soft market, whenever that is, probably not for a while, clearly? Directionally, do you think that you can build upon the current -- below the 30% threshold, I guess, is what I'm trying to figure out?

W. Robert Berkley, Jr.;President, CEO & Director

Well, it certainly is our goal to be able to push through 30% but I think that the big opportunity there is, yes, efficiency, but even more so scale. One of the things that you need to remember is that -- or keep in mind is that the vast majority of the businesses in this group are businesses that have started from scratch. And oftentimes, because they operate with such outstanding underwriting discipline, once they get started, they may not be able to achieve scale. But as you come into market conditions that allow you to scale, that allows you to leverage those fixed expenses. So long story short, I think the improvements that we are seeing on the expense ratio, putting aside those that are related to COVID on the T&E front, I think those are real. And we are very focused on not just maintaining them, but continuing to build upon them.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. I guess next question, Rob, I think you -- last quarter and this quarter, you talked about there being some benefit as a result of slowdown, I believe, in claims activity during COVID. I think you keep reminding us you're not -- short-tail lines are taking some of the credit, but not for the long-tail lines. Any quantification or color you want to kind of give us and try to think about how much of the loss ratio improvement might be driven by temporary factors and understanding that there might be more benefit if you are being -- if your assumptions prove conservative?

W. Robert Berkley, Jr.;President, CEO & Director

Well, I think the position that we're taking is that it would be premature to reach a conclusion. There may be -- if you look at our mix of business, the vast majority of what we do has some tail to it. So again, it's a very modest amount of our short-tail business, very short-tail business that we would be willing to reach a conclusion on. So from our perspective, we need to take a wait-and-see attitude to make sure that this is not just a temporary phenomenon where things will swing back and then some. And as we've been talking about even pre-COVID, we're sensitive to social inflation. So I think we are being thoughtful and measured. And I think over time, we will get more clarity. And obviously, once that becomes available, that will be shared with you and others.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Okay. Great. Last question is on investment income. Now you've been clear that you're willing to take some pain in the expectation of interest rates eventually. Moving Higher, Berkley clearly has one of the best track records in the entire industry from an investment income perspective. So I'm just curious, is this a stance you've taken in the past in terms of -- it seems kind of somewhat of a bold bet? Or is there a kind of a line in sand where you can only take so much of a bet in terms of rates moving higher and you eventually are going to put some more money to work? So just curious, it is causing the -- our estimates to kind of move lower pretty materially as the whole industry is, but more so on the investment income front.

W. Robert Berkley, Jr.;President, CEO & Director

Yes. Well, we share the observation. And I would tell you that it is a deliberate decision. We do have a view as to what the threshold is of short-term pain that we're prepared to live with in order to make sure that we preserve the long-term optionality. And at this stage, it's something that we grapple with every day. But from our perspective, if you think about specifically the fixed income portfolio, the price that we are paying to maintain the position we are in is not inconsequential. But it pales in comparison to the cost, if you see rates move up a relatively modest sum and what that would mean for book value.

Michael David Zaremski
Crédit Suisse AG, Research Division

And as a follow-up, is there any -- do you feel that there's more opportunities or better harvesting? Or is it a tougher environment on the alternative side? Maybe there's things going on the alternative side that we should be thinking about in terms of your view in the current situation we're in?

W. Robert Berkley, Jr.;President, CEO & Director

I think that the world is awash in capital, and there's a lot of money chasing a certain number of opportunities, and I think you see that in virtually every asset class. Fortunately, for us, as an organization, we have some very capable people that manage the investment portfolio. And in spite of how challenging the environment is we continue to find opportunities for the shareholders. That having been said, sometimes it's lumpy. And that having been said, sometimes, maybe you look a little bit foolish today, but maybe you don't look so foolish down the road. And that is the reality that we've had to accept, both on the underwriting side, and we're prepared to accept on the investment side of the business, too. Again, we are focused on risk-adjusted return, and we do not run the business just for the next quarter.

Operator

Your next question comes from the line of Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

I guess my first question, Rob, goes to your comment about -- have seen great, well in excess of loss trends today, but so figuring a cautious view on the timing of the release, just given the uncertainty in the landscape. I guess my question is to some degree, there's always some uncertainty out there. And I realize that today, there may be elevated uncertainty. But can you maybe talk through kind of your thoughts of kind of what level of uncertainty is acceptable? At what point you feel more confident in releasing this breakover trend as opposed to where we are today. Not that I'm looking for a specific date, but I just want to conceptually understand what level of uncertainty is comfortable.

W. Robert Berkley, Jr.;President, CEO & Director

So I don't have a scale or a perfect barometer to be able to point you towards. What I can tell you is that we look at a very granular level by operating unit in the group, by product line, by year on a very regular basis. And we think about the risks, we think about the visibility, and we think about how we view the margins. So I would tell you that with every passing day, we have more visibility. But we are not going to declare victory prematurely. We still need to see these things season out. The average duration of our reserves is give or take around 4 years. And there's a lot of distance between the time that you write the policy and the time where you have clarity around the outcome.

So in addition to that, there's a lot of uncertainty as you pointed out, and I agree within the world. And again, we are just taking it one step at a time, at the same time as I suggested, and I think you picked up on, if things play out as they would appear to at first blush at this stage, it is -- there is a possibility that there is more margin in the business than is coming through in our financial statements at this time. But again, there is a lot of distance between here and when we have clarity. But every day, we have a bit more.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And with this kind of slow increase in clarity over time, should one think of the release of that and up margin as a slow release as you get more and more comfortable? Or do you think that one day you cross a certain threshold, and we just see a step down in the losses?

W. Robert Berkley, Jr.;President, CEO & Director

No. I don't think you should expect that one day there, all of a sudden, be a dam that breaks. We respond to the information incrementally as it becomes available. So from my perspective, there is a growing amount of evidence that you will see our picks coming down both in the prior year and the current year possibly in the future. But again, we are not going to go too early.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And then my second question on COVID. Can you maybe talk about any puts and takes that you saw in the loss ratio this quarter, whether good or bad?

W. Robert Berkley, Jr.;President, CEO & Director

Generally speaking, the number that we put up for COVID, we remain comfortable with. But just as a reminder, we contemplated that things would be getting resolved, give or take, by the end of the year to the extent that things are not getting resolved, then we'll have to see what actions we may need to take along those lines. But as far as specifics, there are certain pockets where things have proven to be more challenging, and there are certain pockets where they proven to be less challenging.

Operator

Next question comes from the line of Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

So I want to go back to something I heard Rich say about mix. So clearly, loss ratios are improving year-over-year. It had been for the past couple of quarters. I get you being conservative. Is there a mix -- I think you mentioned that mix was one of the contributors there? Would there have been less margin expansion if we weren't talking about mix?

W. Robert Berkley, Jr.;President, CEO & Director

Well, I think that -- we have a view that we are not in business to issue insurance policies, as my boss says, we're in business to make money. And you can see from Rich's comments, which highlighted the by line growth or not. There are certain parts of the portfolio that are growing and growing considerably. And there's one part of the portfolio, that being workers' compensation that is shrinking notably. We look to deploy capital where we think the margins are, and we are prepared to shrink the business where we think we can't make an appropriate risk-adjusted return.

So workers' compensation rates have been coming down for a few years. And at some point, they get to a level where we say we're done. And as you can see, our workers' comp product line has been shrinking considerably both for the quarter and year-to-date. So there are other parts of the business where we like the margins a lot, and we are benefiting from the available rate increases in the marketplace. And we are growing that part of the business considerably. And I think you should expect us to continue to do that. And if the economy opens up a bit, you're going to see the growth rate go from high single digits to something considerably above that.

Ryan James Tunis
Autonomous Research LLP

Understood. And then just an observation about Berkley, I just want to hear your thoughts, Rob, I think relative to the other underwriters, consensus is assuming a relatively flat accident year loss ratios 2021 versus '20. What would -- in your view, what would need to go wrong? Or what would need to happen for that consensus for you to turn out to be correct, no margin improvement next year?

W. Robert Berkley, Jr.;President, CEO & Director

Look, I think if it turns out that we grossly misassessed our loss costs, then it would prove that maybe we have an issue. But as I suggested, from my perspective, and again, I don't have perfect clarity, but the data points that I look at would suggest that there's good reason to believe, given the rates that we are achieving that margins are improving, and we'll continue to. Because you got to remember, the rate increases that are coming through on an earned basis continue to trail the higher rate increases that we are getting on a written basis. And I think by anyone's measure, the rate increases that we are and have been getting for an extended period of time in all likelihood will prove to outpace almost anyone's assumption of loss cost trend.

Ryan James Tunis
Autonomous Research LLP

Understood. And then the last one I wanted to ask about was, I saw the press report on the London building, and I know you guys own a lot of buildings. But can you give us some sense of where that property is held on the books? And if there's potentially a broader strategy you guys are considering in terms of monetizing some of those real estate assets you held for so long?

W. Robert Berkley, Jr.;President, CEO & Director

So as far as the value that we carried out, if you want to give Karen or Rich a call, they can point you towards our statutory statements and where that is public information. As far as just our view about real -- any particular piece of real estate, the real estate portfolio, in general, the alternative portfolio or the portfolio overall, we have a pretty good size investment portfolio. And the vast, vast majority of what's in it is something that is available to be purchased if the price is right. So again, from our perspective, that's really how we think about all of the assets that belong to the shareholders.

Ryan James Tunis
Autonomous Research LLP

What do you think that real estate portfolio might be worth?

W. Robert Berkley, Jr.;President, CEO & Director

A lot.

Ryan James Tunis
Autonomous Research LLP

I know you guys have talked about this in the past. So it's marked at like $2.2 billion, twice that.

W. Robert Berkley, Jr.;President, CEO & Director

Yes. I think as we've commented in the past, we think that the group's stated book value is understated and a lot of that, we can thank the accounting for. But the fact of the matter is that our view is that we have a lot of assets that are on the book that are worked more than they're carried at. And just generally speaking, we don't get into specific conversations about a specific asset as to what it's worth or anything else around it.

Operator

Your next question comes from the line of Meyer Shields with Keefe, Bruyette, & Woods.

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

So two small questions. First, if I can, and then a bigger picture thought. Can -- I guess it's a question for Rich to talk about the tax rate in the quarter, either on net pretax or operating.

Richard Mark Baio
Executive VP, CFO & Treasurer

Sure. Yes, I am. Absolutely. So the effective tax rate is elevated from where we have seen that historically in the quarter, it was about a little over 26%. And that really was attributable to where the losses are emerging with regards to COVID-19, and to that extent, our ability to utilize the losses currently or not. And at this point in time, we've taken a conservative position with regards to not recognizing a tax benefit with regards to those losses in the foreign jurisdiction. But we do plan to recognize those at some point, even if we need to put in place some planning strategies.

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

Okay. That's very helpful. And I was hoping you could talk through the, I guess, negative catastrophe losses in the Reinsurance & Monoline Excess segment?

W. Robert Berkley, Jr.;President, CEO & Director

Sorry, what -- could you repeat that?

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

Yes, I'm sorry. The negative catastrophe losses reported in monoline excess and reinsurance?

W. Robert Berkley, Jr.;President, CEO & Director

Richie, you want to cover that?

Richard Mark Baio
Executive VP, CFO & Treasurer

Sure, absolutely. So when we established our COVID-19 reserves, we had established IBNR, as you can imagine and anticipated where we thought that IBNR would emerge as a result of further information coming through in the third quarter. We concluded that some of the IBNR that we had allocated to the Reinsurance & Monoline Excess segment would need to be reclassified to the insurance segment. And as a result of that, that's what giving rise to a small amount of negative catastrophe losses in the third quarter.

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

Okay. Perfect. And then I know...

W. Robert Berkley, Jr.;President, CEO & Director

If I can -- sorry, just to add on to Rich's comments. So just to highlight it. So the aggregate number didn't change at this stage. We just shifted from one bucket to another.

Richard Mark Baio
Executive VP, CFO & Treasurer

Correct.

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

No, that helpful. We've talked a lot about the action in 2020 picks in light of lower claim frequency. Can you talk about the application of trend to prior years? In other words, do we see the same directional conservatism in the reserve reviews that are ongoing now? Is there any change in the observed development of past year losses?

W. Robert Berkley, Jr.;President, CEO & Director

From our perspective, we are seeing -- from our perspective, we are taking a wait-and-see attitude, both on the current year and the prior years as well, by and large. But yes, we are very sensitive to the, as we discussed, social inflation and the legal environment. And we think that there's a lot of uncertainty around that. And so the more recent past that we've seen these rate increases that are significantly outpacing loss cost trend in our minds.

Operator

The next question comes from the line of Philip Stefano with Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

There's been a clear focus on the pricing side of the house and the impact to the underlying margins, I guess. Can you refresh us on your outlook for loss costs? Has this changed over the past 3, 6, 12 months? I mean understood there's a level of conservatism in this and not trying to take forward the frequency or the pricing momentum we've seen as of late, but has anything in the loss cost previous changed?

W. Robert Berkley, Jr.;President, CEO & Director

Not from our perspective, I think for many quarters at this stage, we think it is more likely than not that we are outpacing loss cost trend by several hundred basis points. We can't prove it yet.

Philip Michael Stefano
Deutsche Bank AG, Research Division

No. Understood. Understood. And when I look at a line like commercial auto, I mean, clearly, it feels like there's been an inflection in the appetite for this business. And you had talked about the earlier question about workers' compensation and it's fallen below a line. I mean is there a line in the sand where these businesses are viewed as profitably or unprofitably that you ratchet up or ratchet down significantly? Or is there a trend that you think about the slowing the business or growing the business as you approach that line?

W. Robert Berkley, Jr.;President, CEO & Director

So the answer is both. And what I mean by that is we have a view as to whether it is an acceptable loss ratio, which really stems from an acceptable risk-adjusted return. And obviously, that -- the market doesn't just flip one to another overnight, it's a gradual erosion or a gradual acceleration, typically, though sometimes faster than others. So look, when we look at the workers' comp market, we've observed it getting more and more competitive for not to some number of quarters or few years now. And at some point, that reaches the point that you say, I'm not willing to play anymore. Same thing has happened with other product lines. There was a moment in time, I think, just going back a couple of years where we took that position with commercial auto. And again, that's why you see comp shrinking the way it has been this year. I expect that it is likely and certainly hoping that next year, you'll start to see the workers' comp market, generally speaking, bottom out, and start to move back in the other direction.

So one of the things that has changed at least over the time that I've been working in the industry is once upon a time, by and large, at least in the commercial line space, the marketplace across product lines marched somewhat in lockstep. I think the fundamentals of a cyclical business is still alive and well in the commercial lines marketplace, but major product lines do not march in lockstep anymore. And I would suggest that workers' comp would be perhaps an example of that today.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. And the last one, and I don't want to get into a political conversation, but any thoughts around the potential for a change in the corporate tax rate in the U.S. and the extent to which maybe that serves as another boost to pricing or at least the competitive impacts it might have for you?

W. Robert Berkley, Jr.;President, CEO & Director

Well, the good news is that our lead political expertise in the group is on the call as well. So I'm going to turn it over to him for that.

William R. Berkley;Executive Chairman of the Board

When you get old enough, they turn you over to politics. We could see that in the candidate. But I think that the reality of tax rates, clearly, tax rates are going to change if we have a democratic president and democratic legislature. And I think that's just part of the life is no different than we're likely to see some inflation and higher interest rates, which has both benefits and detriments. I think that's just part of the business and we have to adjust to it. Fortunately, we do our best. When we look at our risk-adjusted return to keeping much flexibility as we can. And it will meanwhile own more municipal bonds and will own other kinds of securities to try to optimize our returns given those changes.

W. Robert Berkley, Jr.;President, CEO & Director

Phil, is there anything else?

Operator

[Operator Instructions] Your next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here. First, just a quick one. Any impact of FX on top line in this quarter?

W. Robert Berkley, Jr.;President, CEO & Director

Richie, do you have that with you?

Richard Mark Baio
Executive VP, CFO & Treasurer

Yes, I do. It was a little over 1% impact.

Brian Robert Meredith
UBS Investment Bank, Research Division

So net positive?

Richard Mark Baio
Executive VP, CFO & Treasurer

No, it was a negative. The U.S. dollar -- yes, the U.S. dollar weakened on a relative basis to a number of currencies in the quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Great. And the second question, perhaps I'm just curious. If I take a look at your insurance written premium growth in the quarter and let's strip out workers' comp, given the implied rate that you're getting right now, it appear that you're either cutting back on business still or exposures are still a headwind, is that true? And by how much is that happening right now that hurting growth?

W. Robert Berkley, Jr.;President, CEO & Director

So clearly, we continue to be impacted by the broader economic circumstance that both we face domestically as well as outside of the U.S. So I would tell you, it's -- the third quarter was a lot easier than the second quarter by quite a margin. Policy count is less where the story is, and it's more about insured businesses to see they're having shrunk, and we can see that in the initial premium estimates as well as the audit premiums. So is there an impact on policy count? Yes, but it's very, very modest. It's more just about the scale. And as a reminder, putting comp aside on the payrolls, a lot of what we ensure is off of receipts or revenue.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Great. So that's a potential other kind of tailwind here we could see going into next year's economy?

W. Robert Berkley, Jr.;President, CEO & Director

Yes, absolutely. I mean, my expectation is, assuming that the economy is able to open up even at a gradual pace, you are going to see that have a meaningful impact on our top line.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my last one, I know you kind of briefly touched upon it in the beginning on the expense side. But I'm just curious, with this reduction in T&E, are you finding that some of this could be kind of permanent? I mean I'm hearing from other companies that productivity is actually up quite a bit without some of the T&E that's going on right now. How much of this do you think is potentially sustainable? And how you're thinking about that?

W. Robert Berkley, Jr.;President, CEO & Director

So the answer is that we are actively discussing it internally. And our colleagues that run the operating units are very focused on it. And at the same time, from our perspective, while we're pleased with the savings of the 50 to 60 basis points in the scheme of how we are going to capitalize on the opportunities in front of us, we care about that, but that's not where the leverage is.

Operator

The next question comes from the line of Joshua Shanker with Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

So I'd like to talk about the states in 2 regards. One is, can you just talk about -- you're not willing to take too much rate cuts in workers' comp before it becomes unattractive? Can you talk about how it's different, depending on which state you're in, in the regulatory regimes and whether or not you have the flexibility to dictate your own future in some states while other states, the regulatory regime makes it harder for you to want to stick around?

W. Robert Berkley, Jr.;President, CEO & Director

Well, look, clearly, each state has its own rating bureau, by and large. And some cases, you have insurance commissioners that are more involved and in other states, we have insurance commissioners that are less involved. From our perspective, the workers' comp marketplace is not sort of one and the same, to your point, I share the view that it varies quite a bit by region. And undoubtedly, there are certain parts of the market where we've gotten to the point where we are not satisfied with the margins, and we are prepared to let the business go away. And there are other parts of the marketplace or other territories where in spite of the reduction in rate, we still think that the margins are acceptable. But clearly, it does, to your point, vary by territory. And even within a certain territory, it varies by exposure within that territory.

Joshua David Shanker
BofA Merrill Lynch, Research Division

And so you could stick around some states, in other states, you might leave depending on what the rate environment is, I guess?

W. Robert Berkley, Jr.;President, CEO & Director

We don't leave any states, just to be clear, Josh. I'm sorry, I should have been more clear before. We are in the market every day at a rate that we think is appropriate for the risk that we are taking on, and the market moves away from us. And sometimes -- not sometimes and then oftentimes, as people change their appetite, the market will move back to us, the cyclical nature of the business. But I wouldn't want you to think for a second that we would draw from markets. We actually are focused on being responsible so we can offer continuity to the marketplace as opposed to being irresponsible and then having to respond in a irrational manner.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Appreciate it. And then the Chief Political Scientist made a comment about tax rates and willingness to buy more munis as a means of helping the task condition of the company. Can you talk a little bit about the federal budget, the lack of sort of progress on an aid for the states and whether or not we need to be concerned about municipal budgets for pensions and whatnot in the purchasing of munis?

W. Robert Berkley, Jr.;President, CEO & Director

Well, we're in luck that adviser is still here, and I think he has strong views on the topic. So I'm not going to get in the way of that.

William R. Berkley;Executive Chairman of the Board

I think anything we do having to do with politics at the moment is highly uncertain and unpredictable. But for the most part, the vast majority of governments have behaved responsibly in municipal bonds. And I think that there certainly are some states that one needs to be concerned about. But for the most part, municipal bonds have proved to be good investments, and one can rely on them. That is not the world we are living in now. So we sit and look in. Every day, it's a new game, you look and you measure and you try and be careful. And we've been a cautious investor for an extended period of time.

Operator

And there are no further questions at this time. I will turn the call back over to Mr. Rob Berkley.

W. Robert Berkley, Jr.;President, CEO & Director

Okay. David, thank you very much for hosting us, and thank you all for calling in. Hopefully, you come away from the call recognizing, at least what we were suggesting that when we look out ahead, it was very encouraging. We think there is opportunity for margins to improve from here. We think there's opportunity for growth. And I think there's a clear line from where we are to that happening. So thank you again, and we will talk to you in 90 days.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.