S&P Global
Market Intelligence

W. R. Berkley Corporation NYSE:WRB

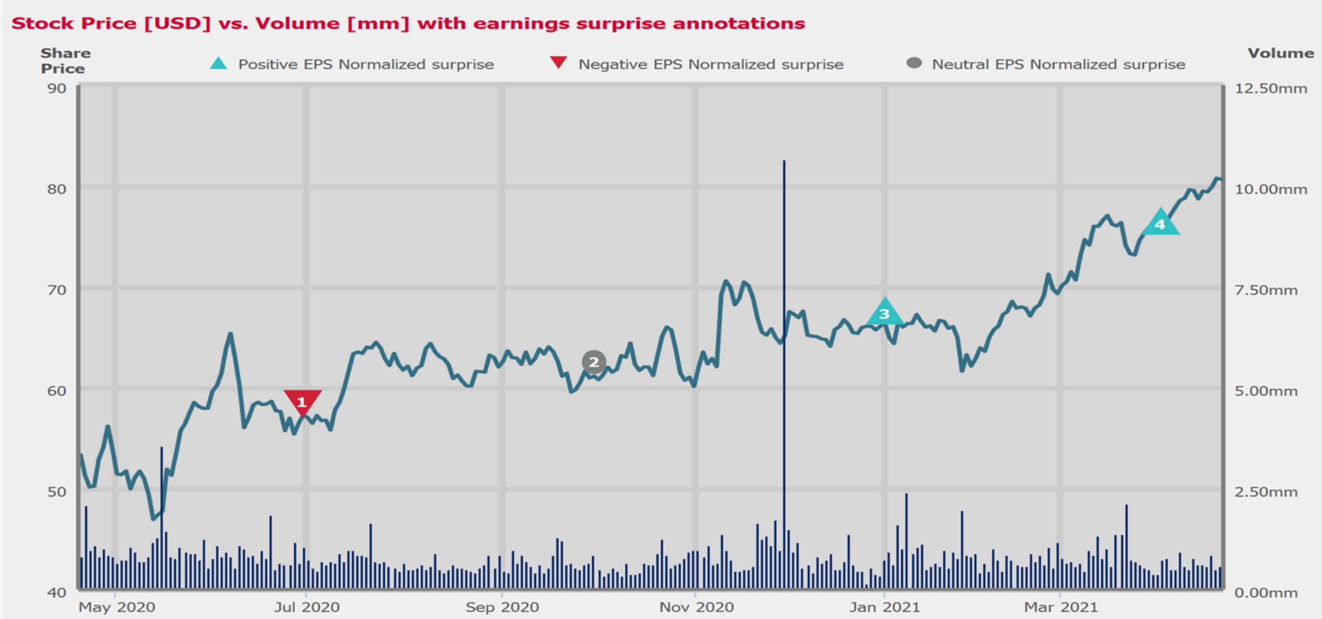
FQ1 2021 Earnings Call Transcripts

Tuesday, April 20, 2021 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.83	1.08	▲30.12	1.06	3.64	NA
Revenue (mm)	1840.90	1849.96	▲0.49	1880.10	7601.10	NA

Currency: USD
Consensus as of Apr-21-2021 12:44 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	0.09	0.06	▼(33.33 %)
FQ3 2020	0.65	0.65	0.00 %
FQ4 2020	0.78	0.92	▲16.46 %
FQ1 2021	0.83	1.08	▲30.12 %

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EXECUTIVES

Richard Mark Baio
Executive VP, CFO & Treasurer

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

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Philip Michael Stefano
Deutsche Bank AG, Research Division

Ryan James Tunis
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Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's First Quarter 2021 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, 2020, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors which -- 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

Mike, thank you very much, and good afternoon, all, and welcome to our Q1 '21 call. On the call, in addition to myself, you also have Bill Berkley, our Executive Chairman; and Rich Baio, Group Chief Financial Officer. We're going to follow a similar agenda to what we've done in the past. Rich is going to do the initial heavy lift and walk us through the quarter and some of the highlights. I will follow him with a few comments, and then we will be opening it up for Q&A. I'm happy to take the conversation anywhere participants would like to take it.

So with that, Rich, if you want to get us going, please?

Richard Mark Baio
Executive VP, CFO & Treasurer

Sure, Rob. Thank you, and good afternoon, everyone. The headline this quarter is a record underwriting profit with premium growth of more than 11% and solid net investment income and gains, which resulted in a return on beginning of your equity of 14.5%. The company reported net income of $230 million or $1.23 per share. The breakdown is operating income of $202 million or $1.08 per share and after-tax net investment gains of $28 million or $0.15 per share.

Beginning with underwriting income and the components thereof, gross premiums written grew by more than $250 million or 11.4% to almost $2.5 billion. Net premiums written grew 11.1% to more than $2 billion, reflecting an increase in both segments. The Insurance segment grew approximately 10% to almost $1.75 billion in the quarter, with an increase in all lines of business, with the exception of workers' compensation. Professional liability led this growth with 37.6%, followed by commercial auto of 21%, other liability of 13.1% and short-tail lines of 5.6%.

All lines of business grew in the Reinsurance & Monoline Excess segment, increasing net premiums written by 18.2% to more than $300 million. Casualty reinsurance led this growth with 21.9%, followed by 13.8% in property reinsurance and 13.6% in monoline excess. The compounding rate improvement in excess of loss cost trends has partially contributed to the expansion of underwriting income. Other contributors have included lower claims frequency and non-cat property losses, along with growth in lines of business that are generating the best risk-adjusted returns.

Underwriting income increased approximately 250% to $183 million. The industry continued to experience above-average catastrophe losses in the quarter, including the winter storms in Texas, and we have again been able to demonstrate our disciplined management to cat exposure. Our current accident year catastrophe losses were approximately $36 million or 1.9 loss ratio points, including 0.8 loss ratio points for COVID-19-related losses. This compares with the prior year cat losses of $79 million or 4.7 loss ratio points, which included 3 loss ratio points for COVID-19-related losses. The reported loss ratio was 60.6% in the current quarter compared with 65.5% in 2020.

Prior year loss reserves developed favorably by $3 million or 0.2 loss ratio points in the current quarter. Accordingly, Our current accident year loss ratio, excluding catastrophes, was 58.9% compared with 61% a year ago. The expense ratio was 29.5%, reflecting an improvement of 1.9 points over the prior year quarter.

The growth in net premiums earned continues to outpace underwriting expenses by a margin of almost 7%, significantly benefiting the expense ratio. Although we continue to benefit from reduced costs associated with travel and entertainment due to the pandemic, we are implementing initiatives that will enable us to operate more efficiently in the future. Summing this up, our accident year combined ratio, excluding catastrophes was 88.4%, representing an improvement of 4 points over the prior year quarter.

Shifting gears to investments. Net investment income for the quarter was approximately $159 million. The alternative investment portfolio, including investment funds and arbitrage trading account provided strong results. The fixed maturity portfolio declined due to the lower interest rate environment and the higher cash and cash equivalent position we've maintained over the past few quarters.

We did begin to reinvest cash as interest rates rose in the quarter, however, continue to maintain a defensive position with more than $2 billion in cash and cash equivalents. Our duration remains relatively short at 2.4 years, enabling us to further benefit from future increases in interest rates. And at the same time, our credit quality remains strong at a AA-.

Pretax net investment gains in the quarter of $35 million is primarily made up of realized gains on investments of $76 million, partially offset by a reduction in unrealized gains on equity securities of $24 million and an increase in the allowance for expected credit losses of $17 million. The realized gain was primarily attributable to the sale of a private equity investment and real estate assets.

Corporate expense partially increased due to debt extinguishment costs of $3.6 million relating to the redemption of hybrid securities on March 1. In line with our plans to benefit from the low interest rate environment, we've prefunded for a redemption in a couple of maturities in early 2022. To this end, you will have seen that we announced the redemption of our hybrid securities for June 1, which will result in debt extinguishment costs in the second quarter of approximately $8 million pretax.

Stockholders' equity increased more than $100 million to approximately $6.4 billion after share repurchases and dividends of $51 million in the quarter. The company repurchased approximately 0.5 million shares for $30 million in 2021 at an average price per share of $63.82. Our net unrealized gain position in stockholders' equity declined by $90 million due to the rise in interest rates in the quarter. However, this was partially mitigated by our decision to maintain a relatively short duration. Book value per share grew 2.4% before share repurchases and dividends. And finally, cash flow from operations more than doubled quarter-over-quarter to over $300 million.

And with that, I'll turn it back to you, Rob.

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

Rich, thank you very much. I noticed that there's a correlation here that the better the quarter, the less you leave for me to comment on. So I guess I should be pleased and grateful that there's not much left for me. Having said that, let me offer a couple of comments. I'll try not to be too repetitive on the heels of Rich's comments, but I would like to flag a couple of things.

First off, there is no doubt that there is a meaningful tailwind that exists in the commercial lines marketplace. And certainly, this organization is benefiting from that. And to that end, our top line, I think this is the highest growth rate we have seen since -- which I think you have to go back to 2013, you had mentioned to me when you look back in the history books.

And not only is the growth and market conditions attractive, I think what's even more encouraging is that there is a growing amount of evidence that the momentum is going to grow from here and that there is a fair amount of runway still before us. So again, I think that bodes well for not just how we see the coming quarters unfold, but quite frankly, the next several years.

To that end, clearly, the domestic economy and certainly parts of the global economy are improving. And that, without a doubt, is going to benefit our top line. We were seeing the health and wellness of our insurers continuing to improve. In addition to that, for the comment a moment ago, we continue to see the opportunity to push rate further. You may have noticed that we got approaching 13 points of rate in the quarter, excluding workers' compensation. We did have a little bit of a discussion internally, and we dug into it as to how do you compare this approaching 13 points of rate with what we saw in the fourth quarter. And after digging into it, really what this is a reflection of is, there are parts of the portfolio where rate adequacy has gotten to the point where we are so encouraged by the available margins that we are more interested in pushing harder on the exposure growth and not as preoccupied and pushing harder on the rate front. And again, we view that as a real plus.

This is -- we are coming up for some of the major product lines on a third year in a row where we are getting meaningful rate increases. And at this stage, we are seeing, as Rich suggested, rate on rate. And in many product lines where we have been getting rate on rate in excess of loss cost trend, again, we think that is very encouraging for what that means for margin.

Before I offer a couple of thoughts on the loss ratio, a couple of other quick data points that I've referenced on occasion in the past. Renewal retention ratio, in spite of what we're pushing on with rates and all of the other underwriting actions that we are taking, is still hanging in there at approximately 80%. And our new business relativity metric, which is another data point we've shared with many of you in the past, came in at 1.024%, which effectively what that means is on as much as an apples-to-apples basis as we are able to create in comparing a new account versus a renewal account, we are effectively surcharging a new account by 2.4% more. Why? Because a new piece of business you know less about, then obviously it's part of your portfolio that you've been on for some period of time. And I think it's important because people need to understand when you look at the growth, yes, it is rate, but it's also exposure growth, but we are not compromising in that growth in the quality of the portfolio.

Rich gave you some detail, which complemented the release on the loss ratio. Clearly, as he suggested, we're benefiting from the higher rates. A couple of other data points I would suggest. We are not taking a lot of credit for shift in terms and conditions when we come up with many of our loss picks. We will take some oftentimes, but certainly, we are never taking full credit for it. We want to see how that comes into focus. So more to come on that front.

The other piece, and I suspect that there has been some other discussion around the impact on frequency due to COVID. Again, that is something that we have been reluctant to declare victory on. There certainly are some lines of business where you have more immediate visibility as to what the impact of that reduction in frequency. There are other product lines where there is less visibility.

On that topic, I did want to offer a couple of quick comments on workers' compensation, which is the one outlier as we've discussed in the past couple of quarters as far as the marketplace and where things are going. Clearly, workers' compensation has been a product line where competition has been on the rise. We have seen the action of state rating bureaus. And ultimately, we'll have to see how that unfolds over time.

Two comments there. One is from our perspective, it is likely that the pendulum will swing too far in a certain direction. And as a result of that, as we have shared with people in the past, it continues to be our view that we expect the workers' comp market to likely begin to bottom out more visibly by the end of this year or perhaps the first half of next year. Could it be a quarter or 2 later? Yes. But generally speaking, that's how we see things coming into focus.

The other comment on workers' comp that I would like to flag because there has been an observation or 2 shared around the loss picks that we are carrying for the 2020 year. And given how benign the frequency has been in 2020, why have we not done anything with that pick? And it's very simple. We do not want to declare victory prematurely. We, as we have in the past, start out with what we believe is a measured pick. And as that seasons, we will adjust as we see fit and appropriate.

So the last comment on comp, which I will offer, and I think I've made the comment in the past is that I think that the lack of frequency that has existed recently in the comp line due to COVID has, to a certain extent, perhaps subsidized a severity trend, which looks pretty ugly in the comp line. And certainly, it is possible that the marketplace is setting itself up for a disappointment if there is not an appropriate level of attention paid to loss cost trend and really unpacking what is going on with severity, what is going on with frequency and what one should expect as frequency returns to a more traditional norm. I will leave it there as far as comp. That's perhaps more than people were looking for.

Expense ratio. Again, Rich touched on, as we've mentioned in the past, COVID is offering effectively a benefit of about 50 basis points to the expense ratio. So when he and I sort of do the back-of-the-envelope math, that's what we're [baking] back into the expense ratio. Having said that, it's also worth noting that we have some meaningful investments that are going on in the business, in particular, on the technology as well as the data analytics front. And these are our big lifts, which we think are clearly going to make us a better business, more efficient and will allow us to be able to be making better, more insightful decisions.

And let me just move on briefly to the investment portfolio. I'm not going to get into much detail here because Rich really covered it. I would just say that our approach to a focus on total return, our emphasis on alternatives continues to pay off. And quite frankly, it is helping to compensate and then some, the discipline that we are exercising with how we are managing the fixed income portfolio.

As Rich mentioned, we continue to maintain the duration on the shorter end at 2.4 years, and the quality is not something that we have or will be compromising on sitting there at a AA-. That being said, we are being rewarded for that discipline, as you can see where book value ended up at the end of the quarter. And while we were not completely insulated, we were far less impacted than those that have decided to take duration out further.

I just want to offer a couple of quick comments on what I'll refer to as cycle management. From our perspective, cycle management is the name of the game, knowing when to grow, knowing when to shrink. We as a team are very conscious of the fact that we cannot control the market. We are very conscious of the fact that this is a cyclical industry. And we are very aware of the reality that what we are able to control is what we do.

Oftentimes, people will ask the Chairman or Rich or myself where are the best opportunities. And the answer we give, because we do not want to get into the details, is look at our business, look at our public information, look at where we are growing. We grow where the margins are, we grow where the opportunity is, and we are not shy or scared or intimidated to let the business go when we don't think it is a good use of capital. You can see that very clearly in our numbers.
Right now, you can see the discipline that our colleagues are exercising in the workers' comp line. You can see in other parts of the business, whether it'd be the primary insurance professional liability line or what's happening in parts of our reinsurance portfolio. We are in the business of managing capital, and we are going to deploy it where we think it makes sense. And again, we have our eyes wide open.

Final comment from me before we open it up for questions, and that is a bit of recognition for where we are. This business, from my perspective, is particularly well positioned for the market conditions we are in and likely what the market conditions will be tomorrow. We are here because we have a fabulous team. We have 6,543 people that work together as a team in the interest of all stakeholders. And we were able to achieve this quarter because of their efforts in spite of the challenges that exist in the world, particularly over the past 12 years, and we thank them for what they have done.
So Mike, I will pause there, and we'd be very pleased to open it up for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I just want to start on the pricing conversation. So I said you got just under 13% ex workers' comp, and you guys sound pretty positive on the factors out there that you continue with the momentum you said for this year and perhaps into next year. So does that 13% feel like a good number for the year?

And the second question, I guess, you guys also mentioned that as you kind of booked at that 13% and beneath the hood, there was a portion of your business that's at rate adequacy. Do you have a percentage of your book that would fall within that rate-adequate bucket?

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

Well, thank you for the questions. And as far as a specific percentage, we don't. But I would tell you it is a growing percentage. And maybe to the first question, we look at the business at a pretty granular level. We look at it by product line. We look at it by product line, by operating unit. And then, of course, we are looking at it a more macro level. We have a view as to what is an appropriate risk-adjusted return. And depending on where we are vis-a-vis that return will guide us towards how much of a priority rate is versus once we get to a certain point, while rate will remain a priority, to what extent are we focused on actually growing the portfolio from an exposure perspective.

So as far as the 13% goes from -- I don't know for sure what tomorrow will bring. We continue to dissect the book and try to evaluate it. Could it go down a little bit? Could it go up a little bit? I would caution you not to read too much into one quarter, one way or another. But we are very encouraged directionally with where things are going. And again, the margin that we are seeing come through in the book itself.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question. You got around just over 200 basis points of underlying loss ratio improvement this quarter. That was down just a little bit relative to the Q4. And I know in past discussion, you guys had mentioned that the rate versus trend would become more evident in 2021. I'm assuming that comment still applies. And could you just kind of help us think through that and how we should think about rate earning in the book during the next 3 quarters of the year?

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

So rate earnings through -- in the next couple of quarters of the year, we can help you -- maybe we'd take it off-line and help you do the math on how that is coming through based on the public information that we made available. I would tell you that part of it depends on the loss trend, what is left over and then using a rough number, obviously, 2/3 of that, and also the benefit of the loss ratio, approximately 1/3 [indiscernible] is associated with the expense. So I would suggest if you'd like that we take it off-line and we can sort of help you use the public information to do the math as to what an earned level would be and what that would -- how long can extrapolate from there. But clearly, given the realities on rate on rate that we are getting in excess of loss cost trend, just at a macro level, that is going to [indiscernible] to the benefit, obviously, of the loss ratio.

Operator

Your next question comes from Mike Zaremski from Credit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Maybe we can stick with loss trend. In the earnings release, the term persistent social inflation was used. I think some of the data points we've seen on industry basis in terms of like paid loss ratios, and some executives -- some of your peers kind of talking about kind of near-term lull in terms of maybe social inflation, but specifically the claims frequencies.

Curious if you're still experiencing kind of a lull. Is there kind of a COVID benefit that's kind of been helping the underlying loss ratio or just the overall loss ratio?

Richard Mark Baio
Executive VP, CFO & Treasurer

Look, I think, clearly, frequency has been impacted by COVID. I think as the economy is opening up more and more every day, that benefit is eroding, eroding quickly. I think also as you're going to see the legal system opening back up, particularly -- specifically the court system opening back up, I think you're going to see that erode as well, which is one of the reasons why we have been reluctant to reach a conclusion as to what it's going to look like when the dust settles. That all being said, clearly, there is a benefit as a result of COVID on frequency trend. Having said that, the big driver, if you will, of social inflation has been more severity or what I would define as frequency of severity.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Thanks helpful. I guess shifting gears a little bit back to the expense ratio, which has been a great story for a while now. Is there a -- given your remarks, which sounded like you guys feel good about growth continuing well in excess of expense inflation, should we be thinking about kind of a newer lower normal in the near term for the expense ratio? Or are there still -- I think maybe, correct me if I'm wrong, charity is kind of a level we should -- you guys are kind of gravitating to for -- as a target?

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

I'm not in a position to give you a specific number, Mike, but I can assure you that we, as an organization, all of us as a team collectively are focused on making sure that we have a competitive platform to be operating from. And it is our goal to push through the 30 number.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And maybe lastly, maybe I missed in the prepared remarks. Can you talk about any specific COVID losses this quarter that were taken? And also if you could update us on approximately what percentage of your COVID reserves are in the IBNR bucket?

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

Yes. So we'll have enough information in the Q to make you go blind on COVID. But as I think we may have referenced in the release, in the current quarter, we had losses of approximately $15 million. And again, we'll have all kinds of additional information in the Q. COVID is a tricky one, particularly given a lot of our exposure associated with event cancellation. So a, trying to figure out when the world is going to open up; and b, trying to figure out what are the options in trying to triage a situation between a full cancellation versus just maybe a partial event. So we continue to try and make sure that we are putting our best foot forward. At the same time, we're conscious of the fact that we have imperfect information.

Operator

Your next question comes from Yaron Kinar from Goldman Sachs.

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

My first question goes back to the rate commentary. I guess I'm just trying to understand the willingness to take maybe less rate increase in order to more aggressively go after business that you view as more adequately priced. Is that a Berkley-specific phenomenon? Or is it something that you see for the industry as a whole? And the reason I ask this is, I think you mentioned that the retention rates remain pretty steady in the 80s. And I would have thought that if it were a Berkley-specific phenomenon, maybe we would have seen some increase in the retention rate.

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

Well, I think that -- I can't speak to what others do or to that matter, how they're thinking about it. I can just tell you that we are pretty comfortable with certain product lines and what the available margin is, and we are starting to push on that. I --

do I think that it's going to materially flow through at this stage? No, I don't think so. As far as the retention ratio, do I think, as you're going to see that become more and more the case with the portfolio? Yes, I think you'll probably see that a bit more.

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

Okay. That's helpful. And then another question. Just with regards to the reinsurance business. I think in the past you've said that you saw more opportunities or better rate adequacy in insurance over reinsurance. And if that is indeed the case, can you maybe talk about why the rate of growth in reinsurance is actually exceeding the rate of top line growth in insurance?

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

Well, to the extent I made that comment, and I don't know if I did or didn't, but if I did, I assume it was some number of quarters ago, if not more. So I would imagine that there was a moment in time when the insurance business was grown considerably quicker. Certainly, parts of it were growing considerably quicker than the reinsurance business. And as a result of that, that's where it would have made sense for us to be deploying capital, and that's where my colleagues would have been looking to grow.

So again, I don't know when the -- I don't have a recollection of the comment or the timing of the comment. But what I can assure you of is that we are focused on growing the business in areas at time that we think that the margin is there. And obviously, the reinsurance marketplace is going through a significant transition. And our colleagues that have, through discipline, shrank the portfolio considerably, are now finding it to be a marketplace that is much more attractive, hence, the growth you're seeing.

Operator

Your next question comes from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

I guess I wanted to drill a little bit more down on the loss ratio and just looking at the ex-cat loss ratio in insurance. Just it's kind of been hovering in that, call it, 59% to 59.5% range for the past several quarters. Obviously, we've had -- I can't really think of a lot of seasonality we'll be weighing on that. It seems like the magnitude of earned rate versus trend, it should be widening. So maybe just a little bit of color on why we're not seeing more sequential improvement in the ex-cat loss ratio in insurance?

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

Rich, do you have any thoughts on that? I have a comment or 2. But did you have anything?

Richard Mark Baio
Executive VP, CFO & Treasurer

So if I look at the -- for the insurance segment year-over-year, certainly, we have improved by 2 points and for the reasons that we've been discussing. I think if you look for the full year of 2020, we were just over 60%. So we did have some improvement coming through. And I think as you'll probably discuss, Rob, I think part of it has been our conservative nature with regards to the design ratios that we have as well in terms of making sure that we don't get too far ahead of ourselves with regards to how we're establishing our reserve position. But I'll defer that to you in terms of that discussion.

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

Yes. No, I think that's correct, which I think is consistent with what we have suggested in the past that we're going to start out with a pretty measured pick and then we will tighten it up over time. Workers' compensation being an example of what we talked and I think we referenced earlier in the call.

Ryan James Tunis
Autonomous Research LLP

Okay. And I guess I'm just kind of trying to explore this with the rate commentary. You're feeling -- you clearly feel good that the book is more rate-adequate. I guess the one observation I would make is if I go back to 1Q '19, your ex-cat loss ratio was only 2 points lower than it was 2 years ago, and we're kind of getting into the hard market. If these loss picks don't turn out to just be conservative and actually turn out to be prudent and correct, then I guess the question is, why are you happy or why are you satisfied with just 2 points of loss ratio improvement at a point when you're willing to start to give up little on the rate front?

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

Well, I think that ultimately, Ryan, you got to remember that we have a bit of a bouquet here. So we don't -- while we do look at the portfolio and we do speak to you and others at a macro level, what we were trying to do is give you a little bit of insight that there are 53 different operating units, many of them with various product lines within each one of the operating units, and there are components of that where we think that we are getting to a point that the rates are so attractive that we're prepared to maybe not push as hard on the rate front.

There are many components of it, as you can see, given the rate that we continue to achieve, where we think there is opportunity, and quite frankly, need to be getting more rate. So what we are trying to do is give you a sense and help you sort of think about the rate adequacy and how you compare what we got in the quarter with what we got in prior quarters.

But again, at this stage, I think that it's very clear, at least in our opinion, that we continue to get something measured in the hundreds of basis points in excess of loss cost. And we are doing that in most cases, for a second time, and the stage is being set for us to do that for a third time.

Operator

Your next question comes from Meyer Shields from KBW.

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

Rob, you talked about workers' compensation severity getting worse. Is that something you're seeing? Is that something you would expect? Is that tied to an economic recovery?

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

Yes. It's something that we have been observing in the data for some period of time. And it's like many things, you see a couple of isolated data points, and then you start to pay more attention and you start to find more and more of them. So I don't think that we could give you a precise answer. But directionally, that's what we're seeing happening.

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

Okay. Is it fair to separate that from the decline in frequency? I know they're not comparable, but in personal auto, frequency fell off the cliff and severity skyrocketed. I'm wondering whether that's the same phenomenon we're discussing.

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

I mean, clearly, during COVID, there were a lot of people sheltering in place. There were a lot of factories that were closed. There were a lot of people not going into offices. There were a lot of people sitting at their kitchen table. And as a result of that, you saw less frequency. Having said that, again, we have noticed that severity seems to become -- seems to be coming more and more of an issue.

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

Okay. That is helpful. If I can shift gears briefly, you've talked a little bit about the technological investment. Does that have any implications for the, I don't know, strategic decentralization of underwriting?

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

No. We view what we are doing on that front, which will perhaps bring some efficiency. But more often than just efficiency, it's also going to be empowering people with better tools and better information so they can make better choices. But certainly, there's an efficiency component as well.

Operator

Your next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions. The first one, this is just a numbers question. The COVID losses, is that booked in your cat loss like you've typically done?

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

Yes. The $15 million that Rich referred to from the current quarter is in that. So the actual, if you will, traditional cat number, I think, Rich was about $21 million.

Richard Mark Baio
Executive VP, CFO & Treasurer

That's correct.

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

With the balance in the quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

Good. Helpful. And then second question, Rob. I'm curious, are you seeing at all any appetite now by the standard market to kind of reach up into the E&S market, call it, to maybe take some business given where rate and stuff is going? Are we seeing any indication of that yet?

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

None whatsoever that we are seeing. If anything, it continues to go in the other direction, Brian. Our submission flow is gaining momentum, partly because of the economy, but partly because I think the standard market continues to revisit their appetite. I think you can see that in part how they're pushing more for rate. But simultaneously, they are weeding out the portfolio where I think they're revisiting what that appetite should be, and that is creating opportunity for the specialty market, in particular, the E&S carriers, and we're certainly in the middle of that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then my last question, I'm just curious, Rob. So given all of the uncertainty with respect to what loss trend is going to be looking like there going forward, I mean, you pointed out yourself. Is the return on capital that you're looking at on business higher today than it would have been a couple of years ago? Do you have to factor that into when you're thinking your pricing [indiscernible] that uncertainty? I mean I think back at prior cycle turns where you had -- you didn't know what loss trend really was running at, it was so, so, so high. And there were massive price increases, ended up resulting in some massive reserve releases going forward. But how do you think about that?

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

Well, we have a view as to what trend is. We think that it's based on reasonable fact that is available and analysis. And quite frankly, I would expect that we will be, over time, reaping the benefits from certainly the rate that we are getting in excess of that. Do I think that we are being overly conservative or overly optimistic with our pick on trend? No. But do I think we are being thoughtful and measured? Yes.

Having said that, as suggested earlier, Brian, I think regardless of the trend number that you realistically want to use, we are getting rate that is several hundred basis points in excess of any trend number I've heard people are using.

Operator

[Operator Instructions] Your next question comes from Phil Stefano from Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

So Rob, in your opening remarks, you had talked about there being a runway for growth and having a good bit of confidence in that. I would assume that when you talk about that, it's the product of both rate and exposure. And it feels like we're focusing quite a bit on the rate side so far. So I guess the first question, is my interpretation right? And then maybe you can talk to us about exposure and the extent to which that might be driving top line growth as we see a potential slowdown in the rate that everyone has mentioned so far?

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

Okay. Well, maybe a couple of things. So first off, I would encourage people not to get overly consumed on the fact that our rate increase was only 13%, which I think by most measures, is reasonably robust. But maybe that view is not shared by all.

That having been said, I also think that it's generally understood at this stage, and hopefully, it continues that we have an economy that is getting back on its feet and building momentum. As a result of that, we think that you're going to see payrolls going up. We think that you're going to see -- just the amount of commerce, you're going to see receipts going up. You're going to see more economic activity. Much of what we do is priced off of payrolls, receipts or economic activity. And I think that, that bodes well for the growth.

In addition to that, you continue to see, as I referenced a moment ago, a standard market revisiting its appetite and pushing business into the specialty, in particular, the E&S market, which is very much our strike zone, which is why, historically, we have done particularly well in these type of market conditions. And we think there's early evidence to support that, that will continue to be the case, and we have no reason to believe that it won't.

So we -- and I guess, lastly, I should add that on the topic of specialty and E&S, there are a lot of small businesses that went out of business. You're going to see them coming -- getting back on their feet, whether they're starting up again or starting something new. And new businesses tend to find their insurance coverage in the specialty, in particular, the E&S market.

So -- and lastly, I think I should add that I think there's a reasonable chance that there is going to be, later this year and next year, a meaningful catch-up on the auto premium front. So when you put all of those pieces together, in my opinion, while rate is and continues to be an important part of the story, and certainly for the past many quarters, it has been a rate-centric discussion because of the need that the industry has for rate. At this stage, with an economy that is opening back up and cooperating, I think that you're going to see great opportunity in the top line.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. No, I think that makes sense. And focusing back on the investments in technology that you had talked about, I was hoping you can give a little more color there. Is this something that COVID triggered? Was it happening in the background that we just weren't talking about it? And if you want to give us a flavor for any -- is there expense pressures now from the build-out that might abate in the near future, how we should be thinking about that?

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

No. This is not something that was triggered in any way, shape or form by COVID. It's rather just a focus on how we continue to move the business forward and how we use technology to make the business better. We're able to use data and analytics to empower people to make more informed decisions.

As far as what does that mean specifically for the expense ratio? I don't think it's particularly earth-shattering, but it's certainly something to keep in mind, certainly something that Rich and I pay attention to.

Just on the -- well, it's not in the expense ratio per se, but as it relates to expenses. One thing that I didn't mention, I don't believe Rich mentioned. We have done a fair amount of work on our balance sheet in this low interest rate environment.

And Rich, again I think we both get over this. But do you want to just give 30 seconds on what we've done on the capital front, please?

Richard Mark Baio
Executive VP, CFO & Treasurer

Sure, Rob. So I guess over the last 18 months, we've done a number of refinancings and capital transactions. We've raised about $1.75 billion of senior debt and hybrid capital with the intended use of proceeds to basically take out certain hybrid securities that were at higher costs and fund maturities that we had up through March of 2022. And so with that, we would anticipate that some of the results coming out of that would be an extended average maturity of about 10 years that we would be reducing our cost of capital by nearly 100 basis points. And if you were to look at the interest expense, probably in 2021, we'd see a reduction of a few million dollars in interest expense. And then going into 2022, we'd see an additional $20-plus million of interest expense reduction building off of the 2021 number. So definitely some good opportunity to take advantage of the low interest rate environment that we're seeing.

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

Thanks, Rich. So Phil, I know that doesn't get right at your expense ratio question, but obviously, it's a meaningful impact on our economic model. And it dawned on me, we should have flagged that with everybody.

Operator

That was our last question at this time. I will turn the call over to Mr. Rob Berkley for closing comments.

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

Okay. Mike, thank you very much, and thank you all for dialing in. We appreciate your questions and engagement. I think by virtually any measure, it was a very good quarter, and we remain quite convinced that there are more good quarters to come. Talk to you in 90 days. Thank you.

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