S&P Capital IQ

CONTENTS

W. R. Berkley Corporation NYSE:WRB

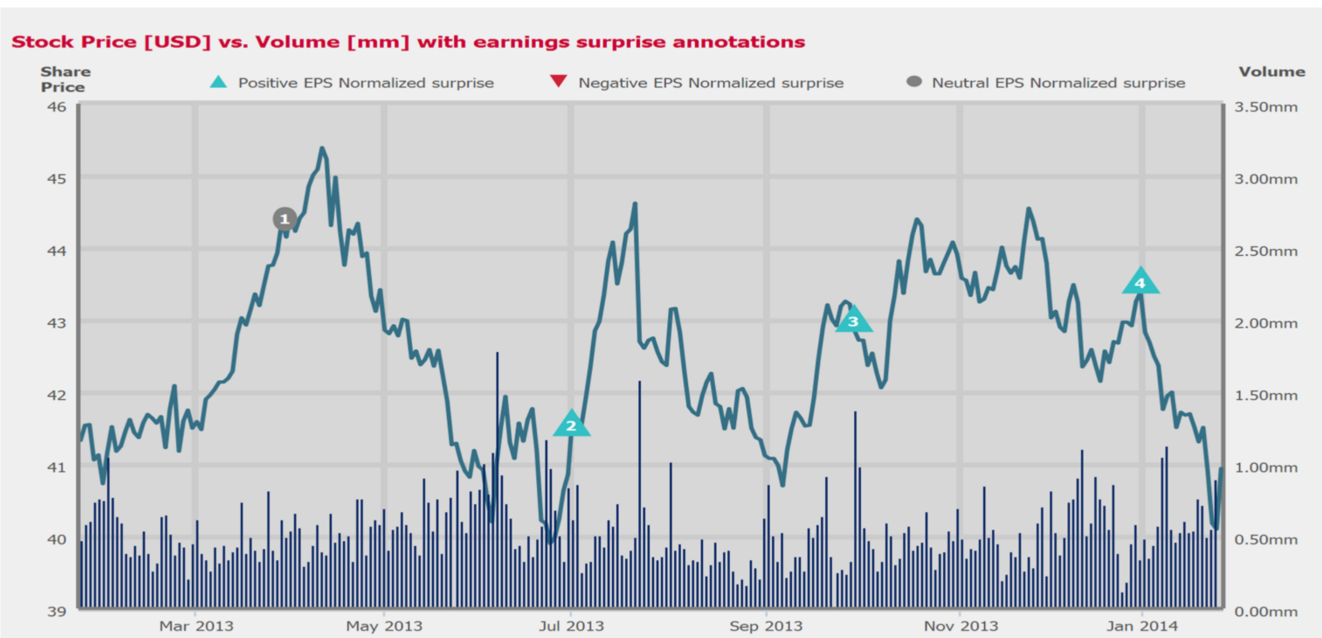
FQ1 2014 Earnings Call Transcripts

Wednesday, April 23, 2014 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	1.00	▲26.58	0.77	3.27	3.55
Revenue (mm)	1611.76	1706.91	▲5.90	1597.05	6855.80	6997.45

Currency: USD
Consensus as of Apr-23-2014 1:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	0.74	0.74	●0.00 %
FQ2 2013	0.68	0.70	▲2.94 %
FQ3 2013	0.73	0.77	▲5.48 %
FQ4 2013	0.78	0.85	▲8.97 %

Call Participants

EXECUTIVES

Eugene G. Ballard
Executive Vice President of Finance

William Robert Berkley
Founder and Executive Chairman

William Robert Berkley
Chief Executive Officer, President and Director

ANALYSTS

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Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to the W.R. Berkley Corporation's First Quarter 2014 Earnings Conference Call. Today's 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, expect 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 are contemplated by us will, in fact, be achieved.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2013 and our other filings made with the SEC for 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. W.R. Berkley. Please go ahead, sir.

William Robert Berkley
Founder and Executive Chairman

Good morning. We were very pleased with our results, and I'll talk more about it. I think that -- as we move through the next period of time, I think we'll be able to demonstrate many of the things that we think differentiate our company from many of our competitors. So we'll start with Rob talking about our operations.

William Robert Berkley
Chief Executive Officer, President and Director

Thank you. Good morning. Trends in the commercialized property and casualty insurance market and reinsurance markets remain reasonably consistent with what we've seen over the past few quarters. The 2 markets, while they are intertwined with one another, continue to march to the beat of a very different drum.

The domestic insurance market, while modestly more competitive than in the recent past, still offers opportunities to raise rates beyond loss cost trends and consequently, providing us the opportunity to expand margins. In particular, casualty and workers compensation remain amongst the most attractive. Having said that, this can vary by territory or class.

Professional liability, overall, is flat. Having said that, again, it can vary by class. Non-cat exposed property is also, generally speaking, treading water, while cat exposed property continues to be under mounting pressure.

Commercial transportation continues to be the great puzzle to us. We talked about this a few quarters ago, how it is right for change and has been right for change for some period of time. When you look at the triangles for this line of business, it's hard to imagine that the things have not changed more or hardened. Having said that, when we look at this line, it appears now some commonality with what we've done, workers' compensation a few years ago.

The insurance market outside of the U.S. continues to be reasonably competitive, and generally speaking, has not benefited from the type of rate increases that we've seen on the domestic market. Having said that, there are some early signs in some territories that their market is timing [ph] for change.

On the other hand, the reinsurance market remains painfully competitive. The combination of an ongoing change in the opposed [ph] that seating [ph] companies are taking to buying, combined with the increasing participation from nontraditional capacity coming into the space is putting a tremendous amount of pressure on the market.

Traditional market participants are grappling with this new reality and trying to figure out what their model will be going forward.

While this intense competition should be -- has been more focused on the U.S. reinsurance market and the Western European insurance market -- reinsurance market, excuse me, as well as global accounts, it would seem as though this new phenomenon within the reinsurance space is spreading to other regions.

With regards to the company, net investment premium for the quarter was $1.53 billion, an increase of approximately 11% when compared with the corresponding period last year. Of the 11 points of growth, 4.6% were associated with rate increase with the balance coming from exposure.

Our domestic insurance business had particularly strong quarter, growing at 14%, while achieving a rate increase of slightly more than 5%. Our renewal retention ratio for the group remains at approximately 80%, giving us comfort that the quality and integrity of the book remain intact.

The company's loss ratio for the quarter was at 60.3%, which includes 1.8 points of positive development and 1 point of cat losses associated with main storm. As Gene has defined for you in the past, we define cat losses based on PCX or main storm. Having said that, if you adjust that to include unusual losses associated with weather or not typical, one could more than double that number. So by example, in the month of January, in one day, we had this -- at one of our operations, we had the same number of slip and falls that we would typically have in 1 month.

Our international insurance operation, overall, showed some level of improvement from the fourth quarter. However, it continues to be unacceptable. Quite frankly, the performance of most of the segment was reasonably good. The issue lies with our non-Lloyd's European insurance operations. As I mentioned last quarter, we believe that we have identified the issue and have taken the action and are in the process of fully adjusting what has been the root of the challenge of the problem.

The paid loss ratio for the group was a 50.7%, which we believe is a very positive indicator for what the future might hold. The expense ratio for the period was at 33.6%, which is an improvement of more than 0.5 when compared with the same period in '13.

The expense ratio continues to be a priority for us as an organization, and we expect this improvement trend to continue, although it may not be a smooth curve.

When we put all the pieces together, the company achieved the combined of a 93.9% and on a accident year basis, a 94.7%. Obviously, those numbers would possibly -- would improve on an accident year basis, depending on how you handle the cat number.

Our balance sheet, in general, remains in very good shape and I'll leave the discussions around that to others. However, I would make the comment that the first quarter of '14 represents the 29th quarter in a row of net positive reserve development, and more specifically in the quarter, we had net this positive development of approximately $45 million.

When we look at our policy numbers in combination with the fact that we are still able to get rate above loss cost trend, we are very encouraged. We continue to focus on making sure that we optimize the balance between pushing for rate versus adding to exposure count. Thank you.

William Robert Berkley
Founder and Executive Chairman

Thank you, Rob. Gene, do you want to take us through the numbers?

Eugene G. Ballard
Executive Vice President of Finance

Okay. Thank you. As Rob said, we had another solid quarter with strong premium growth, continued improvement in our overall combined ratios, both on an accident year and calendar year basis. And significant increase in our operating income and net income compared with last year. Overall, our net premiums were up 10.8% to over $1.5 billion.

For the domestic segment, premiums were up 14% primarily as a result of growth in our 2 largest lines: Other liability, which increased 15%; and workers compensation, which was up 16%.

For the international segment, premiums increased 18% in terms of original currency and 10% when converted to U.S. dollars. And our reinsurance premiums decreased by 6% as a decline in our Asia-Pacific reinsurance more than offset growth in our U.S. and U.K. reinsurance companies.

Our underwriting profits increased 28% to $83 million. The accident year loss ratio before cat losses improved by 0.8 to 61.1%, due primarily to higher prices. In addition, overall expense ratio improved by 0.7 due to premium growth, as well as the benefit of various initiatives underway to reduce administrative cost. That gives us an accident year combined ratio of 94.7%, down 1.5 points from a year ago. The pretax accident year combined ratio for our domestic segment, which represents 74% of our Q1 premiums was 93.7%. And for the international and reinsurance segment, it was 97.2% and 97.1%, respectively.

Cat losses were $14 million compared with $5 million a year ago. Most of the 2014 cat losses were actually from 2 winter storms in the first week of January. And as Rob said, we also experienced more-than-usual losses in the first quarter from freezes and other unnamed weather events that are not included in the cat loss number.

Prior year reserve releases were $25 million this year compared to $23.5 million a year ago. Favorable to reserve development of slightly more than $25 million for the domestic segment was partially offset by very modest increases in prior year reserves for the international and reinsurance segments. Again, Rob mentioned the paid loss ratio at 50.7%. That's actually the lowest it's been since the first quarter of 2008.

Our investment income was up 24% to $169 million due to a significant increase in income from investment funds, specifically, funds that are invested in real estate, energy, aviation and rail car businesses. And the annualized yield on our overall portfolio was 4.5%, up 0.8 from a year ago.

Realized gains were $53 million, up $20 million from a year ago, primarily from the sale of commercial real estate and unrealized gains increased over $100 million to $510 million at March 31.

At quarter end, our average portfolio duration was 3.4 years, and our average credit rating was unchanged at AA-. You'll see our effective income tax rate increased to 30.5% in the first quarter from 26% a year ago. That's due entirely to significantly higher income from investment funds and investment gains, which are generally taxed at the full 35% tax rate.

We repurchased 4.8 million shares of our common stock in the quarter for $193 million. And I look back since 2006, we've now -- actually, since the beginning of 2007, we've now repurchased over 76 million shares of our stock or about 40% of the outstanding stock at the beginning of that period. And over the same time, our shareholders equity has grown by 30%.

So for the quarter, overall, that gives us 45% increase in net income to $170 million, a 51% increase in net income per share to $1.25 and an annualized return on equity of 15.7%.

William Robert Berkley
Founder and Executive Chairman

Thank you, Gene. We are very enthusiastic. Although many of you might say I'm always enthusiastic, which would be absolutely correct, but who would want a company run by a pessimist? The fact is we have had over 7 years of positive development, which I might point out, is twice the average duration of our loss reserves. It would be hard, in spite of at least one person pointing out that they think we are short of reserves, to continue that process if that were the case. But there are people who write fairy tales as well as historical facts.

We're enthusiastic because the paid loss ratio over time has come down, which reflects reality. We did have a period of time, back over 10 years ago, where we were concerned about our reserves. And we changed everything we did about our reserving process and practices. So now, we have a tendency to be more conservative, which, in fact, over the long run, is probably an additional problem because we end up being more conservative than we'd like to be. Overall, our insurance operating business is good to very good. We continue to get rate increases. When you have 52 operating units, you always have a problem at some place. But overall, we see continued improvement in underwriting results and a continued decline in our expense ratio. So we're very optimistic for our operating results for the year.

As for the investment front, for now several years, I have been suggesting we would have improved gains. Improved gains in our portfolio are not a reflection of, gee, weren't we lucky something happened? It was a reflection of our dissatisfaction with fixed income returns in our efforts to find other alternatives. We do not invest in hedge funds. We have one modest investment in what would be considered hedge funds, less than $100 million in our $16 billion portfolio, all the other investment funds, our asset-based funds, lending or some other type of asset-related income. We sold a building. We made a gain. We sold some other things, airplanes, which were in a fund and had depreciation less -- a large portfolio of airplanes, which gave us no income, suddenly gave us income as the planes were sold. It wasn't a sudden change. Cannon rule [ph] says you have to depreciate the airplanes and when you sell them, you recapture the depreciation, plus you get an equivalent return.

So we continue to do those things, and while we believe this quarter, in some ways, was better than we might have expected, it is in line with our expectation. We continue to believe we can achieve our 15% return. We are optimistic about all aspects of our operations and we continue to believe our investment portfolio will generate increased gains as we go through this year and next year. It is going to be a bit more lumpy than portfolio yields from bonds. On the other hand, we think the people who have tried to get yields by extending the maturity are taking risks that we think are hidden today, but are real because our view is inflation is out there. We don't know whether it's around the corner or a mile away, but it inevitably is there.

So overall, very positive about the year. Don't see anything on the horizon at the moment that's going to hinder us from having an outstanding year. We continue to be able to grow, take market share because of service and focused expertise and people want that. People are much more conscious of the value you deliver through both claims and underwriting expertise.
So with that, Nicole, I'm happy to take questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Thinking -- so kind of looking out from here, where do you see the environment shaking out for the rest of '14 and into '15 in terms of rate versus loss trend in your domestic book?

William Robert Berkley
Founder and Executive Chairman

Why don't I let Rob talk, and then I'll add? Go ahead, Rob.

William Robert Berkley
Chief Executive Officer, President and Director

I think our expectation is that we should be able to continue to certainly keep up with, and in all likelihood, exceed loss transfer for the balance of the year. The only reason or caveat I would throw out there is there are parts of our books, and we mentioned this on the fourth quarter call, and I probably should have been more specific about it today, where we feel on our policy-year basis, we are making high teens or into the 20% returns. And as a result of that, we aren't going to just keep our foot down on the rate pedal as hard as we possibly can because we will becoming more focused on that adding to policy count and increasing share. So I think that the market conditions are not going to become terribly more competitive through the balance of the year. And there are some folks that have series that would suggest that it will become less competitive between now and the balance of the year, depending on certain things that could unfold. But as far as our numbers, I think you will see us be able to keep up or outpace loss cost and to the extent that you see us really just keeping up or below loss cost is because -- going to be because we are so pleased with the policy of returns we are able to achieve.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And when you talk about those high teens ROEs, I mean, is that mostly in -- on the comp side? Or are there other long-tailed areas where you're seeing those sort of returns?

William Robert Berkley
Chief Executive Officer, President and Director

I think the answer is that as we suggested earlier, we think the casualty space and in general, and perhaps, parts of the workers compensation market are particularly attractive. At the same time, I would caution one not to use too broad of a brush because it can vary by territory and it can vary by class.

William Robert Berkley
Founder and Executive Chairman

And Mike, this is Bill. One of the things that is particularly interesting is people see classes of business that look attractive. And then they find ways to enter, and then they tend to enter the least attractive places for the business because that's where you can get in. So it may be a line of professional liability is out, professional liability looks great and where can we get in. And they find where they can get in the easiest is exactly that part of the business that's not attractive. The same is true of particular states for workers' compensation in particular areas of the country for other lines of business. So one of the things, and to finally answer your question, is the differential between good places and good niches and bad has never been greater.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Got it. And I guess, maybe, Bill, you mentioned your, sort of, 15% ROE goal...

William Robert Berkley
Founder and Executive Chairman

Not 50, 15%, 1-5.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

No, that's what I said. Sorry, I have a cold. So maybe that came out like 50. Sorry about that. But -- so if we look at your -- the first quarter, we normalized investments, you kind of -- it looks like you're closer to that sort of 10% range. How do you get there? I mean, is it given the environment you see, is it...

William Robert Berkley
Founder and Executive Chairman

I don't think you're -- I don't know if you'd normalize. I think you can't take -- what I've said to people is we'll have $25 million-plus of gains. And our partnerships are going to do better than they had. So for instance, we had a rail car leasing business that had an especially good quarter because of market-to-market the value of the rail cars because we got into that business early. But there are a lot -- it's not going to go back to the same level we were at in prior quarters. I think all of that is going to be better, and we're going to continue to have gains. And I would do the base level of those gains, sort of $25 million. So I would say, with no improvement in expenses or underwriting, we're probably, today, at $13.5 million. And I think we'll have improvement in underwriting and expenses. And I think between now and the end of the year, we'll have at least 1 or 2 more significant realized gains. So I'm pretty comfortable about that. And I think the answer to that also is we bought back a lot of stock in the first quarter. So that helps us a little bit also.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it, great. And then just last quick one, if I could. Rob, on Europe, and you mentioned that -- I guess, the non-Lloyd's Europe insurance operation where you were making some changes or some re-underwriting things or re-underwriting actions. Can you talk about where you seen the growth in that international book recently? And how -- what's the overlap with the area that you're talking about?

William Robert Berkley
Chief Executive Officer, President and Director

So let me talk -- first, talk to you a little bit about where we've taken the action and what those areas are. One is within the U.K., a part of the professional liability space, a particular class in that. We also, there was a subclass in Spain within the professional liability space as it relates to health care. And in that subclass, we have taken action there as well. And finally, related to the surety line in Europe, specifically Germany, and we have taken action there. As far as the growth opportunity, probably the leading growth opportunity there is coming out of Australia.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I see. Got it. So not within that area?

William Robert Berkley
Chief Executive Officer, President and Director

No, no, no. It's -- the places that we are taking action to eliminate, we are reducing or eliminating, we are not increasing. The growth is coming from places like Australia. We're having some growth in the Scandinavian territory, not in some of the professional lines within Europe and U.K.

Operator

Our next question comes from the line of Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Just 2 or 3 quick questions. First of all, going back to the discussion on capital management. There's a big ramp up in buybacks, such as that perhaps you see better value in your stock versus writing more business going forward.

William Robert Berkley
Founder and Executive Chairman

No. What it suggests is, we think we'll have a lot of capital gains that will generate more capital than our planning anticipated, so we have more resources to buyback stock. We think our stock is attractively priced now. As we have said a number of times, meaning that our balance sheet is very conservatively stated, both because of our reserving and because we have assets that we carry a cost because of the nature of the accounting rules that we think we value. And therefore, we think the stock is attractively priced. And given that, we'll convert some of those to real value when they get subtracted and repriced and as we convert those to real value, we'll have more revenue than we anticipated. So we'll have -- we have the capacity to buy it back, while keeping in mind the rating agencies want us to maintain our level of capital.

Amit Kumar
Macquarie Research

Got it. That's helpful. That's somewhat similar to what you have said in Q4, so I think, I get the point. The second question I have is on the discussion on the reinsurance global. I know that you talked about the non-notable losses. The loss ratio for reinsurance global was elevated at 64.6% versus 55% in Q1 2013. Were there any onetimers in that number to...

William Robert Berkley
Founder and Executive Chairman

Gene, I believe we have some positive development coming through a year ago, is that correct?

Eugene G. Ballard
Executive Vice President of Finance

Yes, we did. Yes, that actually did your base [indiscernible].

William Robert Berkley
Founder and Executive Chairman

That was the big difference.

Eugene G. Ballard
Executive Vice President of Finance

Yes.

Amit Kumar
Macquarie Research

Because if you strip the -- no, sorry, the development out, what's a good sort of underlying run rate number to think about?

Eugene G. Ballard
Executive Vice President of Finance

In terms of a loss ratio?

Amit Kumar
Macquarie Research

Yes, loss ratio.

Eugene G. Ballard
Executive Vice President of Finance

So we're -- it's like in the low 60s now.

Amit Kumar
Macquarie Research

Low 60s, okay. That's quite helpful. The final question I have is for Bill. Recently, we've seen, I guess, a return of consolidation discussions in Bermuda. And I know this does not somewhat directly relate to you, but could you sort of refresh us what your view is on consolidation at this juncture of the cycle for the W.R. Berkley and some of the properties which might be for sale?

William Robert Berkley
Founder and Executive Chairman

We manage our business for what's in the best interest of our shareholders, all shareholders. Unlike some companies, every single senior person here has their maximum economic gain by having the stock do well. We, therefore, will always look at buying, selling or doing whatever is in the best interest. At this point in time, we're always hearing about opportunities, but the opportunities have to create value for our shareholders. And we think there'll be a lot of consolidation, especially of what I call the Billion Dollar Club, the people in the reinsurance business who have $1 billion, plus or minus, of capital and don't fit in the marketplace where we have so much mobile capital. People can step in and offer cat protection and so forth. So we think that, unless you're a specialized reinsurance that billion dollar class, a lot of those people are going to disappear. I think in addition to that, it's going to be hard for midsized players in that same size category to continue to generate value unless they have a real special niche. So I think there will be substantial consolidation in both the insurance company and broker side.

Amit Kumar
Macquarie Research

But haven't we been talking about this for some time, and yet the consolidation really haven't happened. What do you think has been sort of the factor, which is restricted more consolidation in the space?

William Robert Berkley
Founder and Executive Chairman

Well, you heard my starting point, which was that in this company, the senior management of the company has more vested in the value of the shares of the stock than they do in anything else, which gives them the same interest as the shareholders. I think in many companies, the senior management is more interested in their jobs and their pay than they are in what's best interest of the shareholders. And it's very hard to differentiate that at all times, so I think there's a lot of people convinced their boards, or otherwise, to do what's not the right thing. And the right thing is an always to sell at the highest price. The right thing is to create value for your shareholders over the long run, and that's not so easy.

Operator

Our next question comes from Roni Bobman of Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

Rob, in your prepared marks and then even I think in the Q&A, you mentioned where comp, and again, not broadly, you, sort of, caveated that to degree. And I was wondering -- 2 questions in the work comp area. One is, does California -- your California work comp book fall into that, sort of, attractive categorization or one of the caveats? And then, I think, you also mentioned 16% growth in workers comp. And I was wondering if California or other states was a particular driver or not a driver of that?

William Robert Berkley
Chief Executive Officer, President and Director

Yes. As far as comp goes, you're right. It -- we did suggest that it varies greatly by classes within the comp space, but it also varies greatly depending on the territory. We think that, whether it will be workers' comp or any line of business, the places where typically get ugliest is where it becomes most attractive because the pendulum tends to swing in the broadest manner. As far as workers' compensation goes in California, certainly and historically, California has been one of those markets where the pendulum has swung very broadly. There are opportunities in California that we think are attractive currently, and there are some opportunities in California that we would not touch with the 10-foot pole. The growth that we have had in workers' compensation, there has been a meaningful amount of growth coming out of California, but it would be wrong to reach the conclusion that is being solely driven by the growth that we're experiencing in California.

Ronald David Bobman
Capital Returns Management, LLC

That sounds like a very delicately and selective response. I didn't expect that sort of...

Eugene G. Ballard
Executive Vice President of Finance

Given who I'm surrounded by in this room, you would understand if you could see them all.

William Robert Berkley
Founder and Executive Chairman

Either -- he has 2 warriors. He has all these people and -- he has me and all being careful that we're not in -- we're happy to inform people, but we're not happy to inform our competitors.

Operator

Our next question comes from the line of Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

Just looking at the pace of rate increases, I think you mentioned it was 4.6% overall for the company this quarter. I think last quarter it was 5.7%. Curious whether that's a function of the markets, which I thought you said was kind of stable or you being sort of trying to gain get more market share because you think that you're adequately priced?

William Robert Berkley
Chief Executive Officer, President and Director

It's a combination of both, and, I mean, specifically, the domestic business where we are getting a bit over 5%, there is a place where we are seeing opportunities to lighten up our foot on the rate accelerator a little bit because we are quite pleased. So to make a long story short, it's really a combination of both. I can assure you though that if -- we're not going to be writing business where we can't get an adequate rate in order to justify the utilization of the capital.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. Secondly, your retentions in the primary insurance, in the domestic insurance themselves, just curious if there was just business mix or are you choosing to keep more net on your books?

William Robert Berkley
Chief Executive Officer, President and Director

The retention, as far as how much we see versus what we keep net?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes, correct. I think that was up modestly this quarter. Last year it was more.

William Robert Berkley
Chief Executive Officer, President and Director

I think it's up modestly. I don't think that there is a lot to it. Having said that, I would tell you that we continue to, like others, examine our reinsurance purchasing and are considering whether the way we've been buying reinsurance historically will be the same approach that we take going forward, or whether there are opportunities to try and optimize that. So it is certainly possible that you will see us retraining a bit more going forward, but we are going to reexamine that. But as far as what you're referring to right now, I don't think it's particularly material and I would not suggest that you read too much into that at this stage.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. And just one last follow up on the non-cat, whether you said -- was it about 1 point on the combined ratio, you would think?

William Robert Berkley
Chief Executive Officer, President and Director

It becomes a little bit of a slippery slope, no pun intended, because how do you define that? We've tried to come up with what we would suggest is a very black-and-white definition in using PCS. But the reality is, after the winter storm season that we've had clearly, PCS does not fully encapsulate all of the weather-related losses that are atypical or not the norm. So whether it'd be roof collapsing, or pipes breaking or slip and falls, Gene and I and others, we hear about this in our dialogue with our colleagues, but it doesn't get incorporated in. How one wants to calculate that, again, turns into the shades of gray. But when Gene and I did our back of the envelope with the assistance of some colleagues, we were getting to something that is comfortably a point and arguably well north of that.

Operator

Our next question comes from the line of Mark Dwelle of RBC Capital markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. Can you just remind me, on your reinsurance business, that business is still predominantly casualty-oriented business, right? What percentage is property?

William Robert Berkley
Chief Executive Officer, President and Director

Let me -- yes, I'd say maybe 20%, if that, is property. Having said that, I would tell you that the vast majority of the property business is risk as opposed to cat. So the cat component is quite modest.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. And so to the extent that you're feeling competition pressure, price pressure in that business, it's really more a derivative of just a lot of capital sloshing around, as compared to direct alternative vehicles or anything directly attacking your core markets?

William Robert Berkley
Chief Executive Officer, President and Director

Yes, at this stage, I think that's right. And you've gotten somewhat of a ripple or a domino effect where you've seen some of this alternative capital coming in and trying to play the property or property-related game. And that, in turn, is driving some of the traditional players to be feeling the pressure in the property space and to be looking to participate in a broader manner in the casualty space. I would suggest to you, so far, because of the -- quite frankly, the feel of our colleagues, the balance sheet that they operate from and the service that they provide and the intellectual capital, we have been reasonably insulated compared to many others that are upfront and center in some of the, I guess, parts of the reinsurance market place that are very much in the cross hairs of some of this alternative capitals.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Changing gears. On the domestic business, you commented on the overall rate environment, in terms of your own experience. Are you seeing much differentiation in rate gains between, say, your E&S book and your more standard lines book?

William Robert Berkley
Chief Executive Officer, President and Director

The answer is that we are seeing more differentiation, honestly, today than we saw last year at this time. But it's not an overwhelming amount.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Which one's better?

William Robert Berkley
Chief Executive Officer, President and Director

We'll talk when we want to talk about it.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Well, I guess, broadly differentiating, I mean, if you're saying it's less -- more differentiated now than before, that would imply one's better than the other. So I guess you can answer it how you like.

William Robert Berkley
Chief Executive Officer, President and Director

Let me try and answer it in what will be somewhat of a sanitized way, but I think it will be, hopefully, helpful to you. I think what you're seeing in the standard market, and particularly, national carriers, that by and large, are the ones that set the tone for the overall market because as their appetite ebbs and flows, that determines how much falls off or spills over into the specialty, and more specifically, the E&S market. What you see -- what we've seen in the first quarter, as far as national carriers, and I am generalizing now, is they're taking their foot slightly off the rate pedal and looking for ways to try and not shrink their business, as far as count goes, because they have been grappling with the balance between rate and growth for some period of time. National carriers, in general, what we saw particularly in the quarter, when it's a line of business that they think that they have their head around and they're happy with the margin, they are becoming a bit more aggressive. Not significantly more aggressive, but marginally more aggressive. Having said that, simultaneously, we are seeing them becoming increasingly selective in the marketplace and where they are choosing to participate. So there are a growing number of examples of where they are kicking business out of the standard market and it is going into the specialty and E&S markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

That's helpful.

William Robert Berkley
Chief Executive Officer, President and Director

I would add one other comment. I would suggest to you that there seems to be an increased focus on large accounts on those -- some of the national carriers. I don't know if it's pressure on field underwriters that they feel like they need to make a budget, and it's easy to write large accounts to get there, but that would be another nugget that's something we're seeing out there.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Would you characterize these subtle shifts as maybe the opening shots of the ultimate turn in the market that we may eventually see? Or would you perceive these as just the ebb and flow of emphasis within portfolio of risks?

William Robert Berkley
Chief Executive Officer, President and Director

I think I could probably argue either side, to tell you the truth. And having said that, I'd like to think that this is the further indicator that at some point there will be some further tightening. But honestly, I do not participate into the internal meetings of some of these national carriers to understand how they're thinking about the business.

William Robert Berkley
Founder and Executive Chairman

This is Bill. I think one of the things you need to recognize is the unforeseen event is what changes the pattern of behavior. And the advent of Big Data and all kinds of analytics and people's belief in the certainty of such is taking us down a particular path. And an even the best actuary, who's old enough to be experienced, knows that it is that unforeseen event that gets you. And I think that what's going to surprise people is that unforeseen event when it comes, and a lot of people have that big amounts on the certainty of the actuarial science and the mathematics of Big Data. So it's hard to predict one way or the other, but you know it's sitting out there and you know the history of this business always surprises you by that unforeseen event. The best example was all the mathematical models said Katrina was a $15-billion storm.

Operator

And our next question comes from the line of Bob Farnam of KBW.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

A couple of quick questions on the segments, different segments. So on the global reinsurance segment, gross written premium is down for the quarter. Given the competitive pressures in that space, are you expecting -- would it be hard for us to imagine a case where you're going to have much growth in that line and that segment for the year?

William Robert Berkley
Chief Executive Officer, President and Director

As far as the reinsurance goes, as Gene referenced, a fair amount of the reduction that you saw there had to do with also a change in our appetite for property exposure in Asia. We certainly remain or participate -- a participant in the property reinsurance market in Asia, but we made a strategic decision to dial that down a bit and to be a bit more selective, perhaps, than we had been. So I think that was probably the biggest contributor to that.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So the decline in the property in Asia, that would likely impact in the next few quarters as well? Is that...

William Robert Berkley
Chief Executive Officer, President and Director

I think that you should assume that you -- I don't have the numbers in front of me, Bob, so I can't be very granular about it. I think you will see that we are going to continue to reduce our participation in the property reinsurance market in Asia. Consequently, it is very possible that will be impacting our top line. As it relates to the other markets, I think that there's probably some level of opportunity, but not as strong as you'll see in some of the other segments.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Right. Okay.

William Robert Berkley
Founder and Executive Chairman

We always had a saying, "Volume is vanity, profit is sanity." We're not interested in being a big reinsurance company and losing money.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Good saying. And the international insurance segment, you -- the expense ratio is around 40%. Just kind of curious if you have a target expense ratio, you're looking for that space as you guys try to gain scale there?

William Robert Berkley
Chief Executive Officer, President and Director

Yes. Our -- I think there are couple of things there. One has to do with commissions, quite frankly, and the commissions that you have to pay in different parts of the world are higher than we would like. And I think the second piece is we have some operations that we've started up in certain territories where they don't have the critical math as of yet from unearned premium perspective. So we haven't been able to get the full scale to leverage the fixed expenses. We expect -- as far as the expense ratio and our internal expenses, we expect that we will be able to continue to try and leverage that, and we are focused on trying to bring that in line. Certainly, scale will help, but we are looking at how we're spending money and how efficient we are. And then, as far as commissions go, to a certain extent, they are what they are. But obviously, we examine that as well because it is a material cost of doing business.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Right. Now I understand that the expense ratio in that segment is going to be higher than the others, but just curious, on a combined ratio basis maybe, just what kind of combined ratio are you looking at in that segment to achieve acceptable returns?

William Robert Berkley
Chief Executive Officer, President and Director

We need to get into the low 90s.

Operator

And our next question comes from Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, you briefly mentioned earlier about some of the alternative capital that you see in the property reinsurance space, but you've have had at least one competitor now start up a fund attacking casualty reinsurance, which is where you guys played. My question is, one -- 2 questions, maybe. Do you see that as a trend? And secondly, is there an opportunity for you to do something in that space?

William Robert Berkley
Founder and Executive Chairman

I think that there's 2 things. You're talking about Wexford [ph] and Arch [ph] and I think that -- we think that it's a good opportunity. It's different than we would do it. We think that it's a thoughtful approach, but it's different than we would do it. We think there are opportunities to manage alternative capital, but it's got to be a very long-term alternative capital from our point of view, because we view this business a little differently than most people, and we think it's a long-term business. And we think it's probably not best designed for hedge fund to kind of investors, who, for the most part, don't have a long-term view. So we're just trying to think about it and mull over how we think we want to do it and where we want to do it. But clearly, more and more people are looking at the industry. The problem with most people's views is they look as the industry has lower risk than it is. Over the very long run, it's a very low risk business. Over any 3- to 5-year period, it can have a much more volatility than people think. And many of these investors are investing in riskier kinds of securities. So the composite of those packages result in higher risk insurance enterprises. So it's an interesting thing. It's going to continue. It's going to represent opportunities. We've been looking at it for an extended period of time. I only have -- I would hate to tell you, in fact, since Mac 3 [ph], which was the first one down the line, we have been looking at it. So that tells you how slow we are. But we are slow because we think the risks are hidden and unforeseen, and every time we think we figured it out, we find out there are some things we haven't thought about. But I wouldn't be surprised if we didn't find some way we thought appropriate.

Operator

Our next question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

And the first question is about the insurance segment domestic, the year-over-year improvements on the loss ratio, accident loss ratio, ex-cat. Remember about a year ago when some of your, like, peers showing big improvement because of pricing increase last 2 years. You were able [indiscernible] peers. At that time, you mentioned that you had some pushback from your actuaries and they wanting more conservative, [indiscernible]. So I'm just wondering going forward, as the rate actually increase and starting to sort of slow down a bit, so the gap between the pricing and the lost cost to narrow, are we going to see sort of like a slower year-on-year basis loss ratio improvements? Or you're actually now becoming more confident because the past year development that you will be able to sustain the level of year-over-year loss ratio improvements?

William Robert Berkley
Chief Executive Officer, President and Director

Thank you for the question. From our perspective, as we suggested, we tend to, for better or for worse, take a cautious approach to coming up with our initial loss pick [ph]. And then as more information becomes available and they become more seasoned, then we will tighten those picks [ph] up. Certainly, we did not want to declare victory prematurely. It was not just with the rating thesis that we have achieved, but some of the adjustments we have made in our underwriting appetite as well, so if you will, rate plus selection and terms and conditions. And I think it is fair to say that generally speaking, we, as a group, have not taken full credit for all the benefit that we believe is likely to appear over time. Having said that, and as I suggested earlier, we are not an organization to declare victory prematurely. And to your point, I think it is very possible you will see our reported results improve from here.

William Robert Berkley
Founder and Executive Chairman

So I would now add, but -- now the lawyer is looking at me with evil eyes. What I would suggest is the spread between the incurred and payable loss ratio of 10 points is much more than one would normally accept -- expect, and especially given the growth rate. I think that what that's probably implying is that we're booking somewhat too high an incurred loss ratio at the moment. And as we move along in the quarter, we hope to persuade the actuaries that they're being a bit too cautious.

Kai Pan
Morgan Stanley, Research Division

Second question is regarding to your international segments. The loss ratio, accident loss ratio ex-cat actually deteriorate a bit last 2 quarters. I just wonder, is that related to the issues that Rob mentioned earlier or some sort of business mixed shift change?

William Robert Berkley
Founder and Executive Chairman

No, it's related to the issues Rob spoke about. We're managing through them at the present.

Kai Pan
Morgan Stanley, Research Division

Okay. My last question on the investment portfolio and we saw a interest rates have been going down for years. And last year, we see some hope of a higher interest rates. And now, this year, that expectation had to temper down. I just wonder what's your outlook for interest rate? And how do you position your portfolio accordingly?

William Robert Berkley
Founder and Executive Chairman

It was very diplomatic to say it was tempered. I would say, our hope for interest rates going up were dashed. I think that we're searching for asset-focused investments that give us a yield or a more predictable gain that the return is in the 5%, 6%, 7% area that whether it accumulates and is realized at the end of a period of time or it comes ratably, it doesn't matter to us, but it does gives us lumpier results. It's hard to find things, especially where we historically have invested, because there is so much liquidity in the system. And liquidity in the system that's brought about both by the policies of the various central banks, but no one should forget that the number of older people who are saving money for retirement is increasing also. So the aggregate savings are increasing on their own independently of this. So from our point of view, we don't see interest rates moving up certainly for 18 months or more, and it's hard to search for things that are going to give us a good return, and we don't want to take the risk for when it happens to extend the duration of our portfolio, because then you've to position at exactly at the wrong moment to have a longer duration. So we intend to keep the duration of our portfolio between 3 and 3.5 years, which is sort of less than the duration of our liabilities and the search for other opportunities that give us what we would think a good attractive long-term yield. So we don't see interest rates going up for certainly more than 1 year, or probably 18 months, and even then, we don't see them going up very dramatically. We don't even think global interest rates reflect the softening economy in China, and there's very little differentiation for quality. You buy a 5-year Spanish government bond, it will yield the same as U.S. Treasury. Or maybe that does show quality. Okay.

Operator

And our next question comes from Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I think most of mine have been answered. If I could ask Gene just one last question. Do you have any color on the reserve for leases within the U.S. segment, either by line of business or by accident years? Just trying to get a little flavor for those.

Eugene G. Ballard

Executive Vice President of Finance

No, we'll go into a little more detail in that in the Q, but I don't have anything more to add to that right now.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. Anything that you see as different than what we would have seen last year?

Eugene G. Ballard
Executive Vice President of Finance

No.

Ian Gutterman
Balyasny Asset Management L.P.

Or pretty similar? Okay, pretty similar. That's what I was trying to get at.

Operator

And our next question comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

First of all, I wanted to point out the egg on my face with the new disclosures on workers' comp. Congratulations on that. They were excellent. The second issue, Rob -- things that Rob mentioned, one is the possibility of retaining more risk in terms of a reinsurance purchasing...

William Robert Berkley
Founder and Executive Chairman

I don't think that's what he said.

Joshua David Shanker
Deutsche Bank AG, Research Division

That's not what he said? Okay. That confused me. I thought that you said he might consider retaining more and if he didn't, I was trying to understand the math behind it.

William Robert Berkley
Founder and Executive Chairman

He just didn't say retaining more risk. He said change our reinsurance retention.

Joshua David Shanker
Deutsche Bank AG, Research Division

I think he did say retain more, but maybe I'm wrong. So then skip that if that's not what he said because I did not understand that. That would be a question.

William Robert Berkley
Chief Executive Officer, President and Director

Josh, I think the point is that right now, we see somewhere in the neighborhood of $750-ish million of premium into the traditional reinsurance market, so to speak. And we, like others, are looking at that, and we continue to look at that to make sure that what we're doing makes sense.

William Robert Berkley
Founder and Executive Chairman

Okay. So the reason I think you said retain more risk, and I was trying to be explicit, we're trying to examine the premiums we cede and understand are there ways to change our reinsurance program that may or may not mean changing the risk profile. We have...

Joshua David Shanker
Deutsche Bank AG, Research Division

So we're seeing more premium without retaining more risk?

William Robert Berkley
Chief Executive Officer, President and Director

I didn't say that, Josh. I think the answer to your question is that we buy a fair amount of reinsurance now and we continue to examine that and think about whether what we're doing makes sense prospectively.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay, okay, fair enough. And the other question relates to the 100 or more basis points of winter weather non-cat losses. Would that be compared to 1Q '13 or a typical winter? Because I think 1Q '13 was particularly benign in terms of winter weather.

William Robert Berkley
Founder and Executive Chairman

I think the answer would be both.

Joshua David Shanker
Deutsche Bank AG, Research Division

Both. Okay. I'm not sure how to do that, but I'll work on that answer.

William Robert Berkley
Founder and Executive Chairman

I don't think it really matters. You'll do it however you want to do it. So, could we go on to the next person, please, Nicole?

Operator

[Operator Instructions] And I'm showing no further questions at this time.

William Robert Berkley
Founder and Executive Chairman

Okay. Thank you all very much. We appreciate it. And as I said, we're very pleased with the quarter. We expect the year to continue to show better returns. Thanks.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Have a great day, everyone.