S&P Global
Market Intelligence

W. R. Berkley Corporation NYSE:WRB

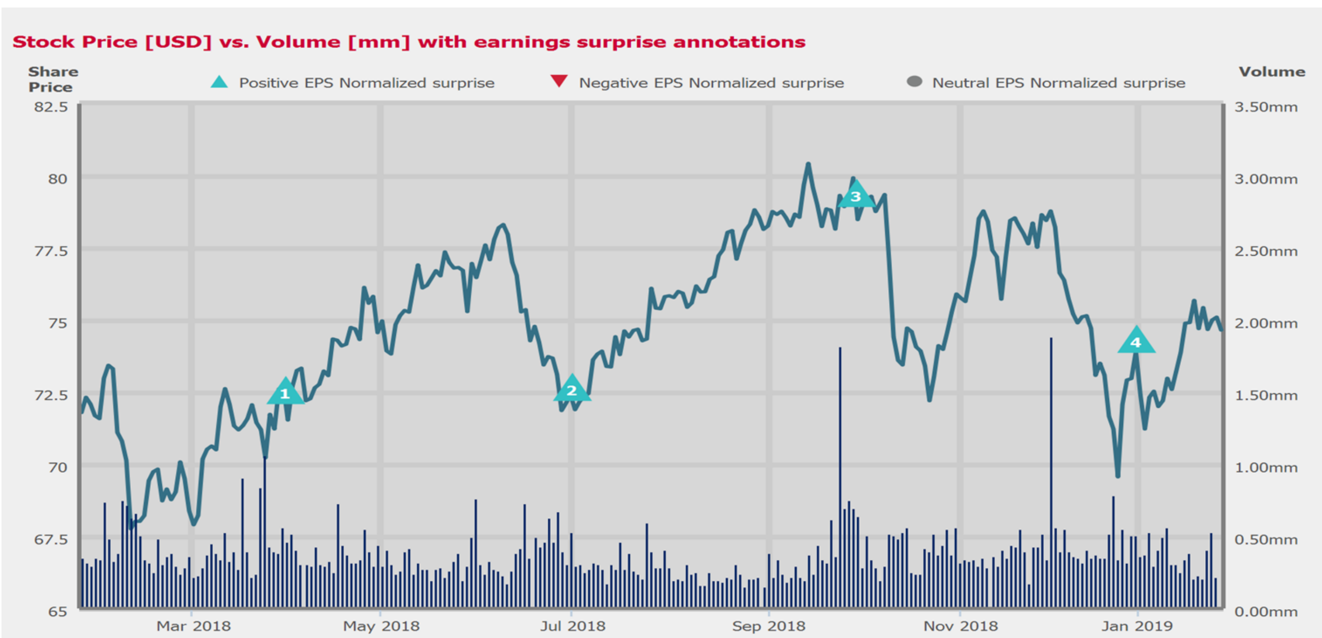
FQ4 2018 Earnings Call Transcripts

Tuesday, January 29, 2019 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.78	0.94	▲20.51	0.94	3.93	4.03	
Revenue (mm)	1616.65	1619.56	▲0.18	1623.95	6368.60	6371.50	

Currency: USD
Consensus as of Jan-22-2019 11:54 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.89	1.00	▲1 12.36 %
FQ2 2018	0.83	0.98	▲2 18.07 %
FQ3 2018	0.82	1.12	▲3 36.59 %
FQ4 2018	0.78	0.94	▲4 20.51 %

Table of Contents

Call Participants

EXECUTIVES

Richard Mark Baio
Senior VP, CFO & Treasurer

William Robert Berkley
President, CEO & Director

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Brian Robert Meredith
UBS Investment Bank, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Kai Pan
Morgan Stanley, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Ryan James Tunis
Autonomous Research LLP

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Fourth Quarter 2018 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, beliefs, 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, 2017, 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. Rob Berkley. Please go ahead, sir.

William Robert Berkley
President, CEO & Director

Thank you, Haley, and good afternoon all. Thank you for joining us this afternoon on our fourth quarter call. On this end of the phone, in addition to myself, you have Bill Berkley, our Executive Chairman; and Rich Baio, our group Chief Financial Officer. We're going to follow a similar agenda to what we've done in the past, where I'm going to kick it off with a relatively brief set of comments, a couple of macro thoughts on the marketplace and a few observations on our quarter. And in short order then hand it over to Rich, who will get into more detail around the quarter and give you some numbers.

Following Rich's comments, we will then -- you will then have all 3 of us to answer any questions, thoughts or -- that you may have.

So reflecting back on the quarter. Clearly, cat activity grabs the headlines. The frequency of severity cannot be ignored. And certainly it begs some questions. One question being will this frequency of severity continue? Will this lead to a true turn in the market? If so, how much? How quickly? For how long? And obviously, there is the other question as to what will the impact be on alternative capital? From our perspective, clearly important questions and they deserve an appropriate amount of thought and consideration. But in our view, the P&C marketplace has an even more of a broader or deeper crossroad than just what's going on in the property cat market. Questions such as what does financial inflation mean for the marketplace? Where are interest rates going? What is happening with social inflation? And, in particular, where's frequency trend headed? All these questions ultimately they will get answers with the passage of time. But clearly these answers are highly leveraged for the industry's economic model. These are all issues that quite frankly we think our model is particularly well positioned to address regardless of what the answers may be, and this was demonstrated yet again in the fourth quarter of '18 in spite of the heavy cat activity and the volatility in the capital markets that the organization continue to perform quite well in light of that.

A couple of specific comments on the marketplace overall. Certainly, from our perspective, there is the opportunity for rate. We are, what I would define as, cautiously optimistic. The GL lines, I think, it needs some rate given the general view around certain types of inflation, and I think you will see that become more available over the coming quarters. Property is getting a meaningful amount of rate and it needs it. Auto continues to get rate. Comp is probably the one line -- meaningful line from a scale perspective where rates are coming off. But as we've commented in the past, please keep in mind inflation trend is somewhat offset because of the payrolls and how payrolls moving up are taken into account in the pricing.

Professional is probably the piece that give us the greatest reason to pause, particularly in the D&O line as we have talked about in the past. But again, it is our expectation that you are going to see a meaningful change in that marketplace over the passing or the next several quarters, I should say.

As it relates to our quarter, we think it was a relatively good story in light of the challenges that the broader market presented. The cat activity was significant again that the marketplace faced. And while we were not completely insulated from it, we feel as though our approach to managing volatility we are rewarded. We are again focused, yes, on opportunities to grow. Having said that, in many parts of our business, rate is the priority over growth and that is demonstrated by our growth rate, yes, being approaching 3% overall. And I should mention, it's the first time in I don't know how long that our reinsurance segment grew, though, modestly. Hopefully this is a new trend. But it's worth mentioning on the rate front, ex comp we achieved a rate increase of 4%. Combined ratio of the 95.9%. Again, Rich is going to get into the details of the 63% loss ratio and the 32.9% on the expense front. Not bad given, again, the cat activity. And on the expense front, it shows the continued efforts on our part to try and find efficiencies where they are available.

On the investment front, again, Rich will give you a bit of detail on this, but we continue to be rewarded for the discipline both on the asset quality as well as the duration, and those are certainly contributing to the improvements in the investment results. And of course, finally the investment funds continue if you look at over the year to bode very well for our shareholders as we focus on total return.

So I'm going to pause there and let Rich get a little bit more into the numbers, and then again you'll have us all available for questions.

Richard Mark Baio
Senior VP, CFO & Treasurer

Thank you, Rob. We reported net income of $132 million or $1.03 per share compared with the year ago quarter of $155 million or $1.21 per share. The current quarterly earnings benefited from higher net investment income and lower taxes as well as higher pretax underwriting income, excluding cat losses. Offsetting these favorable changes is increased cat losses and lower net investment gains as a result of the new accounting rules for equity securities that were introduced earlier in 2018.

Pretax cat losses in the quarter were $45.5 million, primarily resulting from Hurricane Michael, the 2 California wildfires and Typhoon Trami. Cat losses contributed 2.8 loss ratio points in the quarter compared with 1.1 loss ratio point a year ago. The effect on pretax underwriting process quarter-over-quarter was $28 million or a reduction in our earnings of $0.19 per share after tax.

Prior year loss reserves developed favorably by $12 million or 0.8 loss points compared with $7 million or 0.4 loss points for the same period last year. Accordingly, our current accident year loss ratio excluding cat for the current quarter was 61% compared with 60.7% the year ago. Pretax underwriting profit on a current accident year basis excluding cat was $100 million compared with last year's quarter of $92 million, representing an increase of approximately 9.5% quarter-over-quarter.

We've managed our risk selection and exposures based on areas in the market where we can achieve attractive risk-adjusted returns. And accordingly, total net premiums written increased 2.8% to approximately $1.52 billion in the fourth quarter of 2018. The insurance segment grew by 3% to $1.4 billion. The growth was led by an 8% increase in other liability followed by 6.5% in short-tail lines and about 2.5% in commercial automobile. The reinsurance segment grew approximately 1% to $128 million. The global reinsurance market is experiencing some areas of improvement, which was evidenced in the growth of our casualty reinsurance business in the fourth quarter. As previously referenced on our call, we expect our expense ratio to improve as net premiums written earned through the income statement, several new businesses reached scale and process improvements create efficiencies. To this end, our expense ratio was 32.9% in the quarter, and we would expect an ongoing decline over the next 12 to 18 months.

As always, we may not experience a smooth linear decline depending on circumstances we're investing in the business. For instance, the formation of a new operating unit or investment in innovative ideas to improve our business. This brings our reported combined ratio for the fourth quarter 2018 to 95.9%, and our accident year combined ratio excluding cat to 93.9%. For the full year, our reported combined ratio is 95.3% and our accident year combined ratio excluding cat is 94.2%.

Investment income increased 7% or $11 million to $160 million. The core portfolio increased approximately $9 million, led by fixed maturity securities with an investment yield of 3.6%. A higher base of invested assets and rising interest rates have benefited the income statement. Investment funds declined slightly, primarily due to energy funds. Our funds report on a quarterly lag as you may remember and due to the reduction in oil prices in fourth quarter 2018, our first quarter 2019 investment income will reflect the effects of such decline. We also have maintained an average rating of AA minus and slightly reduced the average duration to 2.8 years for fixed maturity securities, including cash and cash equivalents.

During the fourth quarter, the securities markets experienced much volatility. Our exposure to equity securities has been limited relative to our total invested asset base. Accordingly, our conservative total return investment strategy has continued to perform as expected. We reported pretax net realized and unrealized gains of $14 million in the quarter, similar to the prior 3 quarters in '18 we have 2 components reflected in pretax gains. The first is pretax realized gains from the sale of investments of $60 million. Second is the change in unrealized gains on equity securities of $40 million, resulting from the adoption of the new accounting pronouncement for equity securities. Beginning with first quarter 2019, we will see comparable treatment quarter-over-quarter in our financial statements.

If the change in unrealized gains on equity securities is not reflected in our income statement, the adjusted annualized pretax return on equity for the quarter would have been 3% higher. The effective tax rate was 16.2% for the quarter compared with 22.4% for the same period last year. You may recall, last year reflected an adjustment for the reduction in U.S. federal income tax rate from 35% to 21% under the Tax Reform Act. The current quarter reflect adjustments for prior period tax return and the impact resulting from the lower tax rates. Stockholders equity was unchanged from the prior consecutive quarter, increased slightly from the beginning of the year. Despite rising interest rates and turbulent securities markets, we've grown book value and returned $280 million to shareholders for the full year through special and ordinary dividends and share repurchases.

Our early decision to maintain a short duration on our fixed maturity portfolio has positioned us well to benefit from rising interest rates through the income statements, while minimizing the adverse impact on the balance sheet.

We also returned capital to investors of $97 million in the current quarter. The $0.50 special dividend in the fourth quarter brought our total for the year up to $1.50 per share. We also purchased approximately 257,000 shares of common stock in the quarter, for an average price of $69.96. Our return on equity for the quarter on an annualized basis was 9.8% on net income. And for the full year, return on equity was 11.8%. Thank you, Rob.

William Robert Berkley
President, CEO & Director
Thank you, Rich. Haley, could we now turn to the Q&A portion, if we could open it up for questions, please?

Question and Answer

Operator

[Operator Instructions] And our first question comes from Amit Kumar of Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Maybe 2 quick questions. The first question I have is going back to the discussion on pricing, and I know it's a broader question. It seems that the pricing commentary is a bit similar to what we talked about in Q3. And I was wondering if pricing is similar, if loss cost trends are somewhat similar, how do we achieve margin expansion in 2019 versus 2018?

William Robert Berkley
President, CEO & Director

Well, I think the biggest piece, which is again not always so visible for you and others outside of the organization is to have a clear appreciation for the changes that we are making as far as the portfolio goes -- the underwriting portfolio. So there are product lines perhaps that we're de-emphasizing in some cases, for example, like aviation product lines that we've gotten out of, where if all you do is look at what we're doing from a rate perspective and assume that the portfolio doesn't change, I don't fully agree with your conclusion. I think things are getting incrementally better. But I think the more meaningful uplift that will come into focus over time in our reported numbers is going to be the shift that we are making in the underwriting portfolio itself.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's a fair comment. The second question I have is a discussion -- I guess, a broader discussion on comp. And I know we spent some time talking about comp on the last call. It seems to me, as an external person, that maybe the conversations have shifted a bit. I think the tone has gotten a bit better relatively versus Q3. Can you just sort of talk about from your vantage point, how do you feel about that line? And if things are getting better, does that put less pressure on the industry to raise pricing?

William Robert Berkley
President, CEO & Director

I think that the comp line has benefited dramatically from a variety of things over the past several years, including, well, in particular, frequency trend. And when we look at the business, yes, rates are coming off due to the actions that state rating bureaus have been taking. But we still think that there are many, many pockets where even in spite of the actions state rating bureaus are taking, there is still attractive margin. So I do not think the bottom is falling out at all. I think for organizations like ours that have particularly strong expertise on the underwriting claims and other areas within the comp line, as we do in everything we do, we are well positioned to know how to zig and zag and squeeze more juice out of the orange than perhaps those that don't have the same level of expertise. So am I positive? Yes, I am positive because we think it's been very profitable and it will continue to be profitable. But I don't know what goes on, on other calls or other dialogues that you participate in. But we try and not just look in the rearview mirror, but look out the front windshield and beyond just the end of the hood of the car. And just like we started talking about inflation a little while ago when we started talking about social inflation, in particular a while ago, and we've been talking about the issues with auto and other lines. What we're trying to signal to you and to others is that comp has been great and it's still great. But if you roll the movie forward 2 years from now, it's going to, in all likelihood, be more challenging, just like at the same time we're suggesting to you that the auto, in general -- commercial auto, in general, if you roll the movie forward 12, 18 months from now is probably going to be pretty attractive. And using D&O and parts of the professional liability market, it is more likely than not that over the next 3 years and not more than that, you're going to start to see a meaningful response or reaction to what has been an extended period of significant competition and the eroding of market conditions.

Operator

Our next question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

My first question on the expense ratio. You expect gradual progress in 2019. I just wonder could you discuss a little bit more detail what is found in these operating efficiencies going forward? And will the improvements in 2019 similar to the pace we see in 2018 about 40 basis points?

William Robert Berkley
President, CEO & Director

So as Rich suggested, I think the improvement that you'll see over time is going to be due to a combination of higher earned premium, as some of our younger businesses continue to scale as well as opportunities that we are finding to capitalize on efficiencies within the operation. I think, while I appreciate and understand the question I think as Rich suggested, we would be reluctant to start trying to get into basis points of savings. But what I would suggest to you is that we don't think that 32.9% is as good as it gets. We think that there is opportunity, again, as Rich suggested, and we've talked about in prior calls to significantly improve upon that, and that is a priority and a focus for us. But it's not just about spending less, it's about doing things better and that is our focus.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. My second question is on the reinsurance business, you pride yourself as a sort of being low volatility in the overall results. If I have to be little bit picky, if you look at the reinsurance result it actually have some volatility and last 3 years not making underwriting income in this particular segments, just wonder sorry, if you look at what's the strategic value of having a reinsurance within the overall Berkley's portfolio?

William Robert Berkley
President, CEO & Director

Okay. I think there were-- there was probably couple of questions, and maybe an observation or a comment that you offered as well. And let me try and take it in reverse order, if you don't mind. First off, as far as the reinsurance business goes, while it is true that it is not the largest part of our organization, from our perspective it is a -- one of our core activities, and we do see value in having it part of the organization. It just so happens that we've gone through a period of time where, quite frankly, the reinsurance marketplace has perhaps lost in general its discipline and its sense of good judgment. And to many of our colleagues credit, they were not willing to follow that business down the drain. As it relates more specifically to the results, I think there are a couple of pieces there. One, we have somewhat of an inflated expense ratio, which does not do us any favors, and a lot of that stems from us contracting the top line. I think the other piece and we have touched on this in the past that we have moved away from is we had done some structure deals where we've concluded that the available margin didn't make sense some time ago and we have moved away from those. As far as the property, look, there is certainly some volatility. But as you can see on one of the pages in the release, I think our property top line in the fourth quarter was down close to 20% as opposed to the casualty, which is moving up. And unless you see a meaningful change in the property market, I think you will see the growth coming from the casualty front. So just circling back to your -- perhaps your last question. No, I/We do not envision a time in the foreseeable future when we're out of the reinsurance business. It is an important part of what we do, and that is our position. Did I answer your question?

Kai Pan
Morgan Stanley, Research Division

Yes, that's very clear. Thank you so much. If I may squeeze into last one. In the past, you either gave out on capital management special dividends or buyback stocks and you seldom do both. In this quarter, you had both, a little bit buybacks. I just wonder if that just opportunistic because the market was down in fourth quarter?

William Robert Berkley
President, CEO & Director

I think as you've heard, I've commented in the past year, we are conscious of our capital position. We spent a good deal of time trying to make sure that we have an appropriate level of capital not just to run the business, but to be able to capitalize on opportunities that we see on the horizon. As far as special dividends and share repurchase, obviously those are 2 tools that we have available to return capital to shareholders. Yes, of course, when it comes to share repurchase, we are conscious of what we believe, putting aside stated book value is, but what we believe is true book value or intrinsic value of the business. And we take into account where the stock is trading at. But ultimately when the day is all done, we have a conversation as to capital requirements and then to the extent we have excess capital, what is the most efficient way to return that to our owners. So the answer is -- to your question, I'm not going to answer it specifically because we don't necessarily get into the details or the specific philosophy around how we choose to return value to shareholders.

Operator

Our next question comes from Mike Zaremski of Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

In terms of your comments on the EPS release about seeing higher investment yields, I'm just curious, is that a -- are you seeing materially higher investment yields? Because we can see on our screen at least the major benchmarks, interest rates have come back in the last couple months, back to 2018 levels. And, I guess, related on investment income given the choppiness in the markets during 4Q, including oil prices, should we expect investment income pressures on the alternatives in 1Q?

William Robert Berkley
President, CEO & Director

Well, I think as far as the investment pressures, there is obviously, a lot of different components in the alternative space. You certainly can extrapolate, as Rich was suggesting, as to what the impact will be on the energy component. But I would caution you not to assume that, that is exactly -- that is not the whole story, that is a piece of the story. And as far as the core portfolio and the yield on that, we've been getting a benefit as interest rates have been moving up a little bit compared to where they were in the past. And more specifically, again, as you noticed in our duration, our colleagues have been very disciplined on the investment side. And on the short end, they're getting paid for the cash and cash equivalent more than they were not that long ago, that's probably the biggest piece of the puzzle. But as I'm sure you can appreciate, there are a lot of moving pieces, but I would suggest that's probably what deserves most of your attention.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, great. And lastly, in regards to your full year catastrophe load in 2018, which was just under 2 points, would you be willing to comment whether directionally that was -- this last year was below, above or kind of average year relative to your applications in 2017 before the year started?

William Robert Berkley
President, CEO & Director

I want to make sure -- certainly, well, I'm happy to try and answer the question, but can you ask it once more? I just want to make sure...

Michael David Zaremski
Crédit Suisse AG, Research Division

Just trying to get a sense if your cat load this year was kind of consider -- you consider a normal year?

William Robert Berkley
President, CEO & Director

No. So the answer is that there was more frequency of severity, I think, than we or for that matter the industry would expect. Having said that, the way we go about managing our portfolio, it still allows us to be, relatively speaking, underweighted when it comes to cat activity or cat losses compared to our peers. Again, it just goes back to what I was trying to articulate earlier around how we think about risk-adjusted return. And we've been through a period of time where we don't think you get paid appropriately for that volatility. So it was more than we typically would expect given some of the changes that we have made and how we manage the portfolio. Quite frankly, if things happened as they did in '18 and '19, that number would be somewhat less.

Operator

Our next question comes from Meyer Shields of KBW.

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

So Rob, you mentioned the prospect of commercial auto being fairly attractive in a couple of years. I was hoping you can give us your thoughts on what the current marketplace looks like with regard to rates versus loss trends versus underlying profitability?

William Robert Berkley
President, CEO & Director

So I think that commercial auto very much lost its way some number of years ago. I think one can speculate in a variety of different ways and suggest a variety of different reasons from distracted driving to a change in the legal environment. And while people have sort of pored through the data, I'm not sure if anyone has a perfect answer to that. And I think it also proved particularly on the auto liability front that there was perhaps a little bit more tail to the business than some people had appreciated at moments in time in the past. I think that over the past few years, the industry has been playing a game of catch up. I think some people identify the issues earlier than others and perhaps got a little bit of a head start. And I think some folks not only have perhaps identified it earlier, but we're willing to take a more forceful position and may have gotten farther down the path than others as well because of that. I think the marketplace, generally speaking, understands that it needs rate and continues to push for rate. I would not suggest that there is any low-hanging fruit out there. However, I would suggest that it is very clear that the market is more well priced today than it was yesterday, but there is still room for improvement. It's very difficult to get more granular than that because there are different pockets within the commercial auto space, so it varies by exposure, it varies by territory. And again, back to the earlier point, the fact is that different carriers are at different places as far as rate adequacy.

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

Okay, that's very helpful. Is it fair to ascribe the sequential slowdown in commercial auto net written premium growth just to the fact that 4Q of '17 was a difficult comp?

William Robert Berkley
President, CEO & Director

I'm sorry, you broke up at the tail end of that. Is it -- could you repeat it, please?

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

Yes. When we look at quarterly net written premium growth for commercial auto is a lot slower in the fourth quarter than it was in the earlier quarters. But the comparison in the prior year was a lot higher, and I was wondering whether that's the explanation or there is something else impacting commercial auto net written premium growth?

William Robert Berkley
President, CEO & Director

Yes. I would not read too much into that. From my perspective, obviously, depending on how market conditions evolve from here. But if they continue to evolve in a positive direction, I think you will see our participation in the auto market grow and grow significantly over time. Having said that, we're going to have to see whether market conditions continue to improve or if they do a U-turn, no pun intended.

Operator

Our next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions for you here, Rob. First one, just curious, your comments about the D&O market and why you think it's going to improve here going forward? I understand the frequency has been up for a while, but severity has been benign. Do you see a change in that happening here going forward?

William Robert Berkley
President, CEO & Director

Yes. I mean, my general comment about frequency and severity. I think frequency is up on the D&O front, I think severity is up on the D&O front, particularly on the public side, and some select other professional lines. And I think that the marketplace is going to be dealing with, coping with significant claims activity today and even more tomorrow. And again, D&O would be one example. I would throw out lawyers as large law firms and some midsized law firms as another example of where there is a lot of pain out there that is starting to come to the surface, but it has not been digested. And there has been incremental pain here and there for the marketplace. I think it is starting to accelerate. So I don't think that when you think about D&O, for example, it is in my opinion clearly a line that one needs to be very careful right now, rates, terms conditions, things need to improve considerably before one could open up the spigot. Having said that, as you can see our professional line is flattish and that's because there are other parts of the professional space that we like a lot.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my next question, I'm just curious, Berkley One, I noticed in the quarter that you guys entered Florida. As you think about that product rolling out, are you hedging it pretty substantially to reduce the volatility? And I know it's in a very, very early stages. But I just thought it was interesting that you're heading to Florida?

William Robert Berkley
President, CEO & Director

I think the -- look, there is a general observation or there is a reality, right, Brian, that high net worth. Rich people from a nat cat perspective live in stupid places. And Florida would be an example of that. And people with money, particularly in the Northeast, oftentimes will have homes in the Southeast to escape the kind of weather that the rest of us are going to be facing up here in the Northeast during the next couple of days? No different than the people in the Midwest. A lot of them tend to make their way down to Arizona during this time of year. So we thought that it was important to be able to ensure we could accommodate the needs of these clients. But perhaps to the root of your question, and this has been pretty consistent from Day 1. We do not envision Berkley One dramatically shifting or changing the risk profile of the group overall from a cat perspective, and we are able to manage that in many ways, including through the use of reinsurance.

Operator

[Operator Instructions] Our next question comes from Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just on the reinsurance side. I guess, you're starting to see some growth now in the casualty reinsurance business, and you certainly got a sense that market has stabilized. But I'm a little surprised to see that grow, it didn't feel like the market got so much better where you would, kind of, start to accelerate our growth?

William Robert Berkley
President, CEO & Director

Yes, I mean, I think, let's put growth in perspective. I think as Rich or maybe I, I don't even remember what I said, but Rich probably said it. The reinsurance business grew 1%. So I wouldn't read too deeply into it. It probably was just noteworthy to us internally because it's been shrinking for such an extended period of time in such a significant way. So again, we don't view that the reinsurance market has a green light, I think that it has improved and it will continue to improve. We're starting to see more discipline, particularly, around ceding commissions. I would tell you that, for example, the U.K. is some number of paces ahead of the U.S. market and that's probably a reflection of the London market having drifted farther off course than many other markets around the world. And as a result of that, the pendulum is swinging pretty severely back in the opposite direction, and that creates an opportunity for reinsurance in the marketplace. So hopeful that we will see the benefits in other markets, but it's really the U.K. market that is at least for the moment the most noteworthy.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And there were no one large time deals that distorted that number in the quarter?

William Robert Berkley
President, CEO & Director

No, sir.

Operator

Our next question comes from Ryan Tunis of Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

First question just kind of on underwriting margins. It sounds like workers' comp continues to be a good story, and then maybe commercial auto GL a little tougher now. I'm just curious if you could -- maybe give us some idea of. Did workers' comp help your accident year loss ratio in primary insurance this year or was it flat? And on the other hand like how much did commercial auto, I guess -- hurt your loss ratio this year, I mean, just trying to sort through that dynamic on those lines?

William Robert Berkley
President, CEO & Director

So I would suggest to you and usually we don't get them to this level of granularity, but you can always call Karen and see if you can torture it out of her. But from my perspective, I think when it comes to margins, we are looking for our margins across the board in the short run to improve on an accident year basis. I think it is possible on an accident or policy year basis as we make our way towards the end of '19, you'll see the comp line start to erode and that's just a result of rates coming down. Though again, we are very comfortable. We're keeping up with inflation, and some would suggest we'll actually outpace inflation. We're having a chat internally how it's possible that wage inflation is outpacing financial inflation, which again, is a driver of the pricing. So looking at the business going forward, I think comp is probably neutral and over time, sort of when you get out to '20 and beyond, putting aside development, is probably going to be incrementally going the wrong way. But I think you should assume that you're going to have GL, auto, property, all moving in a positive direction. And, quite frankly, I think professional and as we touched on D&O, you roll the movie forward to later at '19 and '20, I think you're going to more likely than not see a pretty significant shift to the good.

Ryan James Tunis
Autonomous Research LLP

Okay, understood. And then shifting gears to your investment portfolio, I guess, one thing that stood out maybe this year were almost $500 million on realized investment gains from sales. I know that some of you guys have talked about it in the past, you've said you'd do $100 million a year, but you've done such a good job of harvesting that. Is the outlook the same for 2019?

Richard Mark Baio
Senior VP, CFO & Treasurer

I would suggest to you that the number that's been suggested, give-or-take $25 million a quarter is the right number to be using gains or continue to be an important part of what we do and the approach on the investment front. Having said that, obviously, we were a big shareholder in an entity called HealthEquity, and we harvested those gains. And that worked out reasonably well, but our holdings are something, but closer to nothing than something at this stage if you were compare to where they were. And again, we don't give a lot of visibility because we don't necessarily have a perfect visibility as to where -- when the gains will come through and how much they will be. But I think the placeholder of the $25 million a quarter is a good one to hold on to. Appreciate that doesn't make it easy to model. But I think that's the right assumption to use.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would like to turn the call back over to Rob Berkley for any closing remarks.

William Robert Berkley
President, CEO & Director

Okay. All right. Thank you very much, and thank you to all who dialed in. As suggested, I think the business performed, relatively speaking, very well in the fourth quarter. That wasn't good luck. That wasn't a coincidence, it's because the philosophy that we have and how we manage the business both on the underwriting front as well as the investment front. Looking forward, we think the organization is particularly well positioned. We are optimistic that in many of the key parts of the market we participate in, there is opportunity for rate and further margin expansion. And we think that we have the expertise and the knowledge and the market position to benefit from that. Thank you, again, for your participation. Have a good evening.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program., and you may all disconnect. Everyone, have a great day.