S&P Capital IQ

CONTENTS

W. R. Berkley Corporation NYSE:WRB

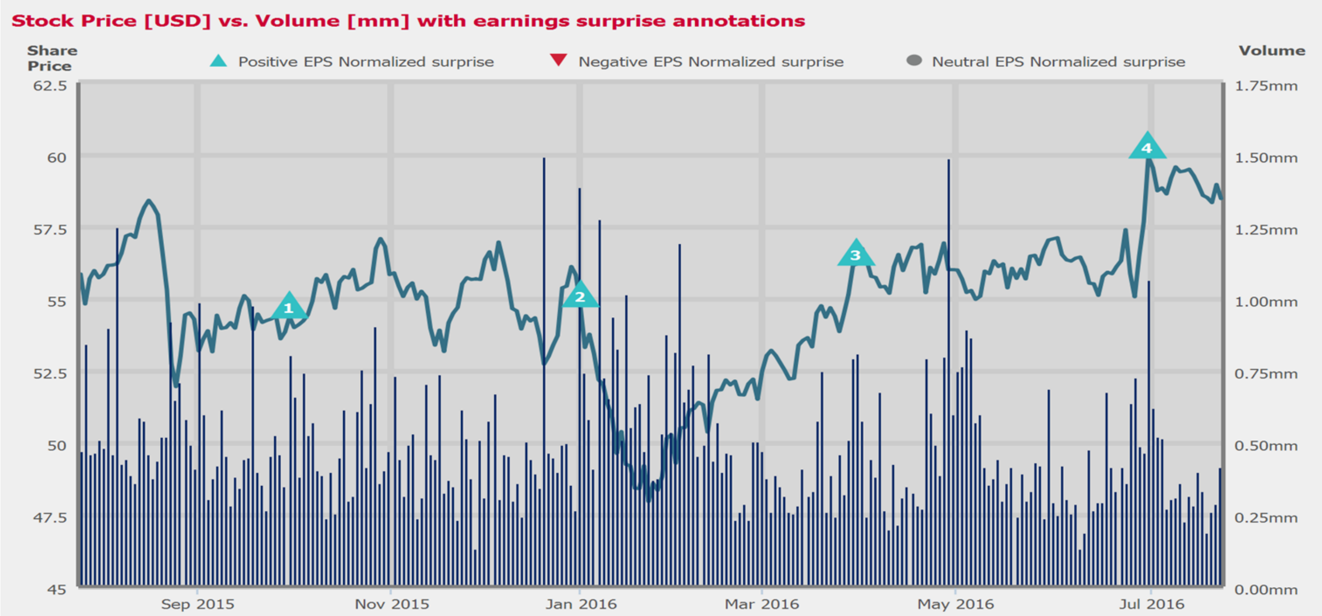
FQ3 2016 Earnings Call Transcripts

Tuesday, October 25, 2016 9:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.84	0.88	▲4.76	0.88	3.43	3.43
Revenue (mm)	1603.36	1585.94	▼(1.09 %)	1624.05	6312.27	6706.68

Currency: USD
Consensus as of Oct-19-2016 10:52 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.83	0.91	▲1 9.64 %
FQ4 2015	0.80	0.89	▲2 11.25 %
FQ1 2016	0.85	0.89	▲3 4.71 %
FQ2 2016	0.76	0.82	▲4 7.89 %

Call Participants

EXECUTIVES

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

William Robert Berkley
Founder and Executive Chairman

William Robert Berkley
Chief Executive Officer, President and Director

ANALYSTS

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Kai Pan
Morgan Stanley, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Ryan James Tunis
Crédit Suisse AG, Research Division

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Third Quarter 2016 Earnings Conference Call. Today's conference. call is being recorded. The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including without limitation, believes, expects or estimates.

We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2015, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results.

W. R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise. I would now like to turn the call over to Mr. Rob Berkley Jr. Please go ahead, sir.

William Robert Berkley
Chief Executive Officer, President and Director

Thank you, Karen. And good afternoon, everyone, and welcome to our third quarter call. As in the past, on this end of the phone, I'm joined by Bill Berkley, our Executive Chairman; as well as Gene Ballard, are Executive Vice President; and Rich Baio, our Senior Vice President and Chief Financial Officer.

The agenda for today is I'm going to start out with some general comments about the market and how we see things. Then I'm going to offer a few soundbites about our quarter and then be handing it over to Rich to get into some more details around our quarter and the company's performance specifically.

So as far as the market goes, generally speaking, a continuation of what we've seen over the past few quarters. The marketplace overall is becoming incrementally more competitive. Reinsurance remains somewhat consistent as it seems to bounce along the bottom in search of a catalyst for change. One of the interesting things about the reinsurance market if you -- putting aside property cat and actually peel back a few layers of the situation there, the loss ratios, by and large, are not particularly problematic. What's really driving is the ceding commissions that are creating a challenge for their economic model from our perspective.

As it relates to the insurance marketplace, again, a continuation of what we've seen over the past few quarters. The property market remains notably competitive. The workers' comp market is becoming incrementally more competitive, again, I would suggest it's peaking, if you will. Professional, again, is a mixed bag as it has been in the few quarters depending on the product. And finally, casualty continues to be the bright spot from our perspective.

While the marketplace overall continues to be, I guess, almost ho-hum or as I suggested earlier, a continuation of what we've seen for the past few quarters, from our perspective, actually the market is primed for significant change. There has been a fair chatter about this over the past couple of years and we think that this is becoming closer and closer a reality. And there are 3 areas in particular that I'd like to touch on today. One has to do with the shifting in asset growth and how historically, we as a society, have seen much of our assets in a tangible form.

And as we've seen the development of cyber insurance come around and we're just viewing that as its beginning to scratch the surface, the fact is that intellectual assets are going to become a growing class, and we as an industry, need to find ways to grapple with that and help society figure out how they will manage that exposure. And again, I think that there's a great deal of room in that area for growth and a lot of opportunity.

Second, something that we've talked about in the past and that is the recognition and the shifted behavior of customers and how they want to be -- how they want to transact and how they like to be served in the future. And if personal lines of the consumer space is any type of leading indicator for the SME space, clearly, the industry is ripe for quite a bit of disruption. From our perspective, the solution is going to be both distribution and carriers working hand-in-hand, trying to find ways to bring additional value in other ways or new ways to customers. Otherwise, again, there will be great change and those that do not adapt are going to be left behind.

And finally, again, a topic that has been discussed in the past, but is continuing to become more and more of a reality, and that is the evolution as it relates to the relationship between capital and expertise. We've seen this developing early on in the reinsurance space. It is our expectation that this is going to be spilling over more and more to the insurance space. And ultimately, we think this creates a real opportunity for organizations like ours as capital becomes more and more of a commodity and it's expertise and intellectual capital that is increasingly the differentiator.

Change is an interesting thing. In some ways over a period of a year or 2, it doesn't feel like much changes at all over a 5-, 7- or 10-year period. It can be shocking actually how much has -- can change. We, as an industry, have been somewhat insulated from certain types of change for many generations and I think that is about to change over the next 5, 7 years or so.

With regards to our quarter, and again, Rich is going to get into the details. The growth came in at something just above 2%. That was somewhat offset or negatively impacted by FX. Putting that aside, there are parts of our business at any moment in time that are growing. There are other parts that are shrinking. That's the beauty of the diversity in the group. In addition to that, I would tell you that there may be parts of our business that may be -- appears as though they are shrinking from a premium perspective but we are growing in a unit of exposure perspective due to us feeling that there's appropriate margin available in the business. I would use workers' compensation as an example of that.

On the other hand, the auto line would be an example of a place that we're probably shrinking even more than it appears on the surface because of the rate increases that we're getting. So in fact our units of exposure are on the decline. Loss ratio coming in at 60.9%, was generally speaking, in line with our expectations though it was somewhat negatively impacted by some non-cat short-tail losses. And of course, the expense ratio at 33% was a modest improvement from the same period last year. And this number tends to ebb and flow depending on where we are in starting new businesses.

As we have mentioned to you in the past when we start new businesses before they are operational, we hold those expenses at the holding company. Once the businesses are writing business and operational, then their expenses will appear in the expense ratio, along with, of course, their revenue.

On the investment front, it was a good quarter for a couple of different reasons and hopefully more good news to come. It certainly would appear to be the case. Investment returns on the portfolio came in at 3.3%, which was an improvement of about 10 basis points from the same period last year. And this was achieved while the duration was maintained at 3 years. So kudos to my colleagues in the investment portfolio and how they're managing the traditional portfolio.

Another comment that I would like to highlight on the topic of investments has to do with the alternative portfolio. As we talked about, I don't know if it was last quarter or perhaps over the past couple of quarters, as interest rates came down and available yields came under pressure with the traditional alternatives, we started to look with a relatively modest percentage of that portfolio to alternative opportunities, specifically in real estate as well as private equity. As we allocated investable assets in those directions, we found ourselves in a position where we gave up the investment income that would come into our operating numbers. And when we realized gains, they would come into net income but not into operating. It's been a little bit of a concern because we're not sure that we've gotten full credit for this along the way and people realized that from our perspective, what we've done in real estate and what we've done in private equity is really dovetails with our overall approach to managing the business, focused on total return.

What we do on the risk-bearing side of the business or on the underwriting side if you would like as well as the investment side, both of those are grounded in a concept of risk-adjusted return. It's also worth mentioning that some of the expenses associated with the alternative investments come into operating income though the gains do not. So I just thought that it would be worth clarifying that. Rich is going to be talking about some of the gains that we took in the quarter as well as some of the gains that we're going to see coming through in the fourth quarter as well.

So I'm going to pause there and I'll hand it over to Rich.

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Thanks, Rob, appreciate it. For the third quarter, we reported net income of $221 million or $1.72 per share compared with the prior year's net income of $153 million or $1.18 per share. The growth in net income was due to an increase in realized gains of $122 million, primarily from the sale of our investment in Aero Precision Industries and to an increase in investment income of $12 million. Those increases were partially offset by lower income from Aero Precision's operations due to its sale in August; higher startup cost associated with new operation, including our previously announced high net worth business and our other yet to be announced companies; higher interest expense related to recent debt offerings; and to a decline in insurance service profits and foreign currency gains.

Our operating income for the third quarter was $114 million or $0.88 per share compared with the prior year's operating earnings of $119 million or $0.92 per share. Overall, our net premiums written increased by 2.3% to more than $1.6 billion. The insurance segment represented the entirety of the increase, while the reinsurance segment was largely unchanged. The growth in the insurance segment was led by a 13% increase in our other liability business. In addition, professional liability was up approximately 9%, while workers' compensation, commercial automobile, property and other short-tail lines declined a few percent on average quarter-over-quarter.

For the reinsurance segment, the increase in properties net premiums written, largely offset the decline in casualty, resulting in total reinsurance net premiums written of approximately $158 million. As Rob referenced in his comments, the reinsurance market continues to be competitive and we have maintained our disciplined approach to deploying capital on a risk-adjusted basis.

Similar to recent prior quarters, our property reinsurance business has grown in large part due to structured reinsurance transactions, which have very limited cat exposure and carry a lower-than-average loss ratio, while being partially offset by higher profit commissions. As we have discussed on prior calls, these transactions have features that cap our loss exposure and adjust commissions for experience. Our overall pretax underwriting profits remained unchanged at approximately $97 million quarter-over-quarter. The accident year loss ratio before cat losses is 60.9% compared with 61% a year ago and comparable to full year 2015. Our cat losses for the current quarter were $12 million or 0.8 loss points compared with $8 million or 0.5 loss points in the prior year. Loss reserves developed favorably by $13 million, representing our 39th consecutive quarter with positive development. That gives us a calendar year loss ratio of 60.9%, an increase of 0.4 loss points from a year ago.

Our overall expense ratio for the third quarter was 33%. That's compared to 33.2% in the third quarter of 2015. In pure dollar terms, the underwriting expenses increased 2.8% while net premiums earned increased 3.6% quarter-over-quarter. The insurance segment expense ratio was 32.4%, representing a decline of 0.2% from the third quarter of 2015 and slightly below the full year of 2015.

Similar to the overall expense ratio, the decline in expense ratio for the insurance segment is attributed to a higher increase in earned premium relative to underwriting expenses. The reinsurance segment expense ratio decreased 0.5% to 38.5%. That decrease was due primarily to higher earned premium relative to underwriting expenses. Our net premiums earned increased 1.5% on relatively flat underwriting expenses. That brings our combined ratio to 93.9% for third quarter 2016 compared with 93.7% for the same quarter a year ago.

Investment income increased approximately $12 million or 9.3% to $146 million, resulting from a few main contributors. First, income from fixed income securities was up $10 million to $109 million with an annualized yield of 3.3%, which rose slightly from the third quarter 2015 of 3.2%. The most significant contributor to the growth in fixed income is a larger investment base. If you were to look quarter-over-quarter, our investment base increased by more than $1 billion.

Second, income from the merger arbitrage account and investment funds increased $4 million and $2 million, respectively, compared with the year-ago quarter. And finally, earnings from loans receivable declined $3 million, resulting from the maturity and payoff of certain loans in the portfolio.

At September 30, 2016, after-tax unrealized investment gains were $315 million, representing an increase of $134 million from the beginning of the year or approximately 75%. The average rating was unchanged at AA-, and we shortened the portfolio from 3.3 years at December 2015 to 3 years at September 30, 2016. The overall tax rate was 33.5%, which increased primarily due to the significant net investment gains in the quarter, much of which arose from the sale of Aero Precision Industries, which just as a reminder, was not previously reflected in stockholder's equity.

On an operating earnings basis, the effective tax rate for the quarter was 30.2% and year-to-date of 30.7%, which is comparable to the 9 months ended September 2015. That gives us net income of $221 million and overall return on equity of 19.2% on an annualized basis. And for comparison purposes, a pretax return on equity of 28.8%.

Also during the quarter, our book value per share increased $0.51 to $40.48, which is an increase of 5.1% on an annualized basis. In addition, we returned capital to shareholders of approximately $140 million through share repurchases of approximately 1.1 million shares or $62.4 million as well as declared a special dividend at $0.50 per share above our ordinary dividend of $0.13 per share. Our operating cash flows were strong with $394 million for the third quarter of '16 and approximately $725 million on a year-to-date basis for 2016.

One final comment regarding our investment in HealthEquity. We sold approximately 2.2 million shares in October and realized a pretax gain in the fourth quarter of approximately $65 million. You may recall we've accounted for this investment under the equity method. Following the completion of this sale, we expect to begin reporting our investment in HealthEquity at fair value. Based upon the sale of these shares and the market price at September 30, 2016, we would expect book value to increase by approximately $2 per share in the fourth quarter. Thanks, Rob.

William Robert Berkley
Chief Executive Officer, President and Director
Thank you, Rich. Karen, that completes our formal remarks, so if you could please open it up for questions?

Question and Answer

Operator

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So I just had -- one question I had, just to confirm it was $13 million of favorable development for the -- across both segments, is that correct?

William Robert Berkley
Chief Executive Officer, President and Director

Yes.

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Yes.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then -- so when I look at the underlying combined, it was -- the underlying loss ratio that would take you to about 61%, about flat with last year and then up a bit sequentially. How should we be thinking about, like, is there anything that's different sort of from a book of business perspective that would have caused a little bit of the lift up here just compared to the prior couple of quarters? Obviously, we tend to look at things on a year-over-year basis, but it did pick up here from actually the last 3 quarters. So just a little bit of maybe color clarity on that would be great.

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Yes, Mike, we experienced what I would define as some meaningful as I suggested short-tail losses that are not our normal. An example of that would be a couple of good sized, by our scale, property losses, not overwhelming, but good sized. But perhaps even more noteworthy, we had some exposure to SpaceX, which was the satellite that didn't get very airborne.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. All right. That's helpful. And then do you have any indication on potential Matthew exposure in 4Q?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Honestly, it's -- we're reluctant to even put too much of a range on it from our perspective just because of the potential flood component and how that will work out and how insurance departments will choose to interpret certain things. But from our perspective, we view this as a -- something that would affect earnings, certainly not something by any stretch of the imagination that could ever affect capital. And I guess, the other piece is obviously the business interruption as well. But again, we think it will be a manageable number, but I don't think it would make sense to put one out right now.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then, on the high net worth business, you sort of talked a little bit about the startup expenses there. Any further granularity on that and sort of what the outlay was? And what sort of a headwind to the expense ratio that created in the quarter?

William Robert Berkley
Chief Executive Officer, President and Director

Well, that's actually in the holding company expense. That's not in the expense ratio. So as we were suggesting earlier, until a business is operational, our definition of operational is they are writing business. We hold those expenses at the holding company. Once they start writing business, you'll see that coming through obviously both in the expense ratio as well as in loss ratio, et cetera.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. And then, last real quick one on the $2 per share increase in 4Q book value. So that's basically facilitated by the fact that you sold some of the shares, and that gets mark-to-market and then pretty much everything gets mark-to-market. But was that $2 inclusive? I'm -- I assume it is inclusive of the $65 million pretax gain on the shares that are sold?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Yes, it is.

Operator

And our next question comes from the line of Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So first question on the reinsurance. You have mentioned it a bit in the prepared remarks. Two things, one is on the growth on the property reinsurance. Talk a little bit more about that. And secondly, if you look at the whole segment at a 99.7% combined ratio the first 9 months you mentioned, sort of is that underwriting result satisfactory? And you mentioned the ceding commission particularly high. I just wondered, is that because the scale of the business that you're having? I just wonder, like what kind of like a target or profitability you would like to see on the reinsurance segment?

William Robert Berkley
Chief Executive Officer, President and Director

Okay, so there -- I think there were a couple of questions there. Let me try and take them one at a time. And if I miss one, please bring that to our attention. So as far as the growth that we saw, as you can see in the release, it was really in the property lines. And as Rich had mentioned earlier, some of that comes from structured transactions where perhaps the available margin is limited. But given that the loss ratio is effectively capped, our downside is limited and consequently, that allows us to take a different approach on the capital allocation than we would with traditional business. In addition to that, I think a couple of quarters or so ago, we had announced how we had started an operation to write global property fac non-U.S., if you will, and that's been contributing to some of the growth as well. As far as the results go, no, we do not think that the results for the quarter are our target. I think that the difference between our results and some other people's results are, first of all, we do not write a meaningful amount of cat and that's by design. And if you looked at the significant amount of the profitability that the reinsurance market today is experiencing, it's through -- as a result of a benign cat environment. People release the cat load and then all of a sudden, a -- not such a pretty picture. It looks more rosy than it probably is if you peel a few layers back of the situation. Having said that, when we look at it on the casualty front, for example and overall, our loss ratios, the loss ratios quite frankly, are they ideal? No. Are they acceptable? Generally speaking, yes. The problem is the ceding commission/if you lump that in with the acquisition cost, that bring -- that makes the model less attractive than what we would like it to be. And that's certainly something that my colleagues are aware of, they're sensitive to and are focused on.

Kai Pan
Morgan Stanley, Research Division

It's only like about 10% of your portfolio. I was wondering is that -- it's the scale you want?

William Robert Berkley
Chief Executive Officer, President and Director

For us, whether it be the insurance business or whether it be the reinsurance business, we're in business to make money, to make good risk-adjusted returns. We're not in business to issue insurance policies or treaties, if you will, in the reinsurance space or certs for that matter. So our view is that if there are opportunities to make good risk-adjusted returns, we're happy for the business to grow. If it would seem as though that's not the case, then we will shrink the business. I would suggest to you, though, when you think about returns, combined ratio is not necessarily a perfect indicator, particularly when you talk about structured transactions when a capital allocation is not consistent with what a traditional capital charge might be.

Kai Pan
Morgan Stanley, Research Division

Okay, that's good. And then second question on the alternative investment portfolio, you're going to realize $400 million of, like, gains on the HealthEquity, like a holding. Actually you sort of like this becoming to report at fair value on this one, also the sold out the -- the sale of the Aero Precision Industries, are there other sort of major holdings in the alternative portfolio that is not currently mark-to-market and how big is it?

William Robert Berkley
Chief Executive Officer, President and Director

Yes. Meaningful. I think if you're asking for a number, I don't think that's something that we could give. But this is an ongoing process, where we are constantly receiving while we're simultaneously harvesting. But also as we've discussed in the past, it can be lumpy at times. So as our Chairman has suggested, on average, you should expect give or take $25 million a quarter. Now there will moments in time when its meaningfully more than that, there may be periods of time that we go through where there won't be gains that are realized. But our Chairman and our colleagues are focused on creating value.

Kai Pan
Morgan Stanley, Research Division

So given the sort of realized gains, do you find additional investment opportunities? Or do you think it's more for shareholder returns?

William Robert Berkley
Chief Executive Officer, President and Director

I'm sorry. Could you repeat the question, I beg your pardon?

Kai Pan
Morgan Stanley, Research Division

Yes, given the sort of realized gains -- you're harvesting gains on the prior gains, do you sort of reinvest in other opportunities on the investment side? Or could it be used for capital returns?

William Robert Berkley
Chief Executive Officer, President and Director

The answer is that we will be looking for new opportunities. If the opportunities exist, we will take advantage of those to the extent that the organization has excess capital. We will return the capital to shareholders in as efficient a way as possible one way or another. Our goal is not to have excess capital. Having said that, if there are good opportunities to put money to work, we will do so.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. Lastly, is a -- like a broader picture question. You mentioned in your prepared remarks about the significant change of pace in the industry going forward. And how do you think about your sort of decentralized structure? What's the pros and cons in dealing with these structural changes? Are going to start new companies facing it or your underlying business can decide where is a top down approach or is a bottom-up approach?

William Robert Berkley
Chief Executive Officer, President and Director

I think fundamentally, the world is moving in a direction where they are looking for value and their definition of value is evolving over time. A cornerstone for value yesterday, today, and in all likelihood, tomorrow, is expertise. The way we are structured is it lends itself to attracting, embracing and leveraging expertise and in a manner that customers can find true value. So I think our structure, while it has had to evolve over time, it will continue to evolve, fundamentally, our structure will lend itself quite well to the evolving environment.

Operator

Our next question comes from the line of Arash Soleimani from KBW.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Just wanted to confirm on the non-investment income, the core portfolio did you say the year-over-year jump there was mostly attributable to the asset base increasing by $1 billion?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

So our fixed income portfolio increased by about $1 billion of investable assets and that is a large contributor to the increase in our investment income quarter-over-quarter. Yes.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And the comment you made earlier in your prepared remarks about distribution and carriers kind of needing to work together. So I mean, is the point there something that we should read into regarding some kind of almost direct distribution that's going to become more common on the commercial front?

William Robert Berkley
Chief Executive Officer, President and Director

I think the point of the comment was nothing more than an observation about the environment around us. The fact is there's not that much new to talk about us, so to speak, every 90 days. The world isn't changing sort of in how we operate day-to-day every 90 days. But the environment that we operate in, this industry, is evolving and it is going to evolve more and more over time and we are conscious of it. We are trying to make appropriate plans for that, and that's really where it starts and ends. But it was not meant to be a leading comment that you're going to see some announcement from us tomorrow taking the business in a radically different direction. Rather it's a recognition that the world is changing, the industry needs to change and we are part of that.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And lastly, you mentioned again, as you have, I guess, for a few quarters, that commercial auto is declining faster than meets the eye. But you had also mentioned, I think, that commercial auto is looking a bit better and could have some bright spots in it. Just wanted to, I guess, weigh those 2 comments.

William Robert Berkley
Chief Executive Officer, President and Director

I think that better can be -- that's a comment that can be made in a relative manner. So I think the fact is that commercial auto found itself as a product line in a very deep hole. And the idea that a certain -- this one-off percent rate increase is going to fix that, I think is a pipe dream. And we can all read in places like the Wall Street Journal about truckers whingeing over rate increases, but the fact is, most folks that are writing their insurance haven't been making any money. In fact, they haven't been getting paid appropriately for the risk whatsoever. So do I think that the situation is improving? Yes. Do I think that it is still challenged? Without a doubt. But it is heading hopefully -- well, it is heading in a better direction. And again, that's why we are getting meaningful rate increases, but you see the line still shrinking as far as premium because our account or exposure is going down dramatically in spite of the rate increases we are getting.

Operator

And our next question comes from the line of Ryan Tunis from Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I guess, my first one is around Aero Precision and just thinking about whatever potential lost earnings are -- have -- that we've lost from that sale. And it looks like in my model, I show wholly-owned earnings having come down to like a $7 million quarterly run rate to about a $1.3 million quarterly run rate. And I'm wondering if that's the right run rate to use going forward given the sale of Aero Precision? Or if it was lower or higher than for whatever reason just this quarter?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

I think one thing you need to keep in mind here is that the business can be lumpy. Some of the business that's been still with us is the purchasing and selling of aircraft as well -- small aircraft. And to that end, we could have earnings come through in one quarter that come out to much more than other quarters. And as a result of that, it's hard for us to really give you a specific number to include in your model to project for that.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay. So may have been seasonally a little bit light. And then my other question, I guess, is just on kind of squaring Rob's comments about the environment becoming a little more competitive, opportunities for growth being a little bit more difficult and also the longer-term objective of trying to bring down to expense ratio. I mean, I'm just curious if -- should we look at, I guess, the lower single-digit NPW growth as making the objective of bringing down the expense ratio more difficult kind of in the near to medium term?

William Robert Berkley
Chief Executive Officer, President and Director

No. I don't -- I would not leap to that conclusion at all. I think that, first of all, I don't think that we, as an organization, are of the view that our growth rate for the foreseeable future will remain at this level. I think it can change from quarter to quarter. In addition to that, beyond what we've talked about as far as high net worth that we have announced, we have some other things that we have been working on that we have not announced, which I think over time will make a considerable contribution. I don't know what the market conditions will be tomorrow. So it's hard for me to predict exactly what the growth rate will be, but I'm not prepared to make the leap that it sounds like you're suggesting that it will be low single-digit growth going forward. It may or may not. But again, we have certain things that we haven't announced which we think could offset some of the market conditions. Number two, from our perspective, while there are parts of the market, the reinsurance market, probably being the best example, that are particularly challenging, there are still lots of opportunities. So one of the benefits of our structure and our 52 different operating units -- most of these businesses compared to industry scale, have a lot of runway, have a lot of opportunity. So again, I would not count out the growth. As far as the specifics around the expense, certainly, growth helps to offset that but I don't think that's the only solution as far as expenses go. We do have some initiatives as to how we can become more efficient. Sometimes, that will require us to take one step back in order to take two steps forward. I guess, lastly, just on the topic of expense because it's one that we all do pay attention to, the expense ratio for a specialty company of sort of a 32% to a 33% may not be ideal, but it's really not that -- it's really what I would define as quite competitive. True, if we were a national carrier with a multibillion-dollar personal lines platform and we could have that bringing down our average expense ratio. That would be helpful. But if you look at the fact that we are in the specialty commercial lines business, that expense ratio we think is quite competitive. And as it relates to the reinsurance and it ties back into the comment earlier, the internal expenses, if you will, are by and large, flat. And actually flat was what they were some number of years ago. It really has to do with acquisition costs and ceding commission that is putting pressure on that model. So lots of moving pieces. I understand why you may raise the question. May prove to be as you suggest, but I'm not -- at least in my mind and I believe, others on this end, we haven't reached that -- any conclusion as far as growth going forward and what that means for expenses.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Hey Rob, I got 2 questions. I guess, first for Rich. The $2 per share in book value, is that -- that $2 is only coming from the investment side. You're not including operating or underlying earnings in that number, are you?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

You're correct, Jay. That's right. It's only the gain from the sale of the 2.2 million shares net of tax and then the pickup for the unrealized gain that will come through in the fourth quarter net of tax.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's helpful. And then I guess, for Rob, as you think about all these potential changes over the next 5, 7 years, do you feel you have the right type of people in the organization? Will you have to hire additional expertise to really take advantage of some of these changes?

William Robert Berkley
Chief Executive Officer, President and Director

Well, I do think that we have the right type of people because going back to the comment earlier about expertise, certainly, there will be changes but the cornerstone of how value is truly brought to customers we think is an intellectual capital and expertise and knowledge around exposure and helping customers manage through that risk transfer experience. So do I think that we have the right people? Without a doubt. Having said that, will we have to continue to invest in people and build our team going forward as the environment changes? Clearly.

Operator

[Operator Instructions] Our next question comes from the line of Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

A couple just housekeeping ones, then a broader question. Just a follow-up on the HealthEquity. Just to be clear, so the reason you're kind of exchanging is because your sale brought you down below 20% and that triggered the change. Is that right?

William Robert Berkley
Chief Executive Officer, President and Director

Correct.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And is there -- are you signaling anything by this sale that your intention is to reduce the stake at some measured pace over time? Or is this kind of a onetime thing and we shouldn't expect anything further over the next year or 2?

William Robert Berkley
Chief Executive Officer, President and Director

I think you should assume that there is no signal one way or the other.

Ian Gutterman
Balyasny Asset Management L.P.

Perfect. That's what I was wondering. Okay. And then, do you have the pay loss ratio for the quarter handy?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

I do. It's 53.4% for the quarter.

Ian Gutterman
Balyasny Asset Management L.P.

Great. And then my big picture question is, I'm sure you saw some of the earnings releases from last week. And I know, Bill, obviously, you've been very vigilant over the years talking about watching loss inflation. And given the results from some of your competitors and just broader headlines out there and just where this election may be headed, are you starting to get more nervous? Either Bill or Rob or both, about the process for loss inflation? And specifically, I guess, I'm thinking more severity than frequency. It feels like maybe we're starting to see the beginnings of favorable juries like we did in the late '90s.

William Robert Berkley
Chief Executive Officer, President and Director

Well, I have a thought or 2 on that, but I'm going to yield to our Chairman here to update you on his views.

William Robert Berkley
Founder and Executive Chairman

I think that clearly, we have a country divided by extremes and views that are in conflict. And I think there's lots of stresses and pressures. But there's also beginning to be a recognition that there's no free lunch, that someone's going to have to pay for everything that comes about. I think the last time we had runaway juries, there was a general sense that this was free money and it all came from heaven. I think there's now a reality reinforced by the issues of increased premiums from the Affordable Care Act that someone pays somehow or another for everything. So I'm not particularly worried about runaway juries. I am concerned about inflation because ultimately, the only solution to repayment of deficits for governments is inflation. And inflation in the short run will put pressure on insurance pricing. Although with property casualty, insurance companies have done better in times of inflation than in noninflationary times. So overall, I'm okay with where we're going and I -- in the short run, there may be some pressures as we change over to probably a more inflationary time. But in the intermediate term, I think that's probably good for business.

Operator

And that concludes our question-and-answer session for today. I would like to turn the conference back over to Rob Berkley for any closing comments.

William Robert Berkley
Chief Executive Officer, President and Director

Karen, thank you very much. And thank you, everyone, for calling in. From our perspective, as suggested earlier, the marketplace is in the early stages of a transition and we think that it's important that people not misinterpret that. Yes, there are parts of the market that are becoming more competitive. Having said that, there are a tremendous number of opportunities for an organization like ours. Clearly, there is a transition that is occurring in how the industry operates, both how it will serve its customers in the future as well as how the relationship between capital and expertise exists and how it evolves from what it was in the past. We think that our structure, our philosophy, focused on people, their intellectual capital and expertise. We think our model of a decentralized structure and being closer to the marketplace is going to lend itself very well to these changing times. So again, from our perspective, we think that we are well situated to capitalize on the changes that are coming the marketplace's way and we would expect that, that will enure to the benefit of our shareholders over time. Thank you all, and we'll talk to you next quarter.

Operator
Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone, have a good day.