S&P Capital IQ

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W. R. Berkley Corporation NYSE:WRB

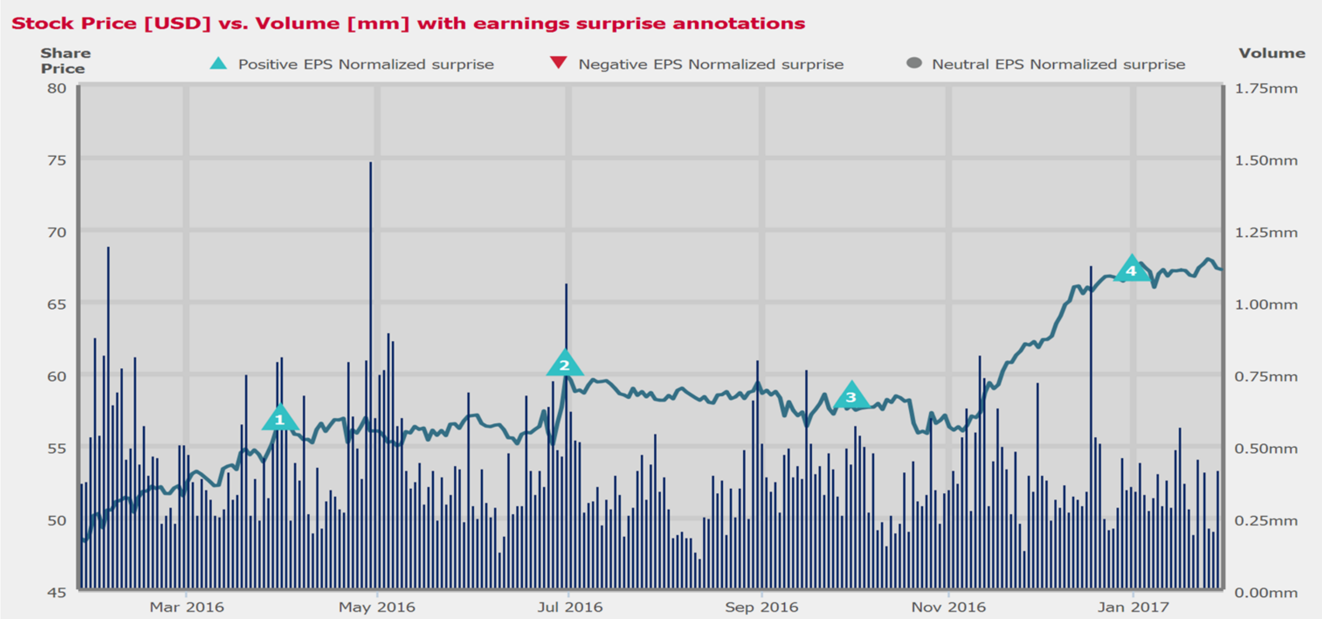
FQ1 2017 Earnings Call Transcripts

Monday, April 24, 2017 9:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.70	0.70	0.00	0.80	3.21	3.60
Revenue (mm)	1616.90	1570.04	(2.90 %)	1627.00	6514.75	6772.68

Currency: USD
Consensus as of Apr-24-2017 1:03 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	0.85	0.89	1 4.71 %
FQ2 2016	0.76	0.82	2 7.89 %
FQ3 2016	0.84	0.88	3 4.76 %
FQ4 2016	0.80	0.82	4 2.50 %

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

Amit Kumar
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Kai Pan
Morgan Stanley, Research Division

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Presentation

Operator

Good day, and welcome to the W.R. Berkley Corporation's First Quarter 2017 Earnings Conference Call. Today's conference call is being recorded.

The speaker's 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, 2016, 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. W. Robert Berkley Jr. Please go ahead, sir.

William Robert Berkley
Chief Executive Officer, President and Director

Thank you, Valerie, and good afternoon, and welcome to our first quarter call. Joining me on this end of the phone is William Berkley, our Chief -- excuse me, former Chief Executive Officer, Executive Chairman. I almost gave up my title there for a moment. Gene Ballard, our Executive Vice President; and Rich Baio, our Chief Financial Officer. So the agenda, consistent with what we've done over the past few calls, is I'm going to kick it off with some general highlights from the quarter, both as to what we see going on in the market as well as a couple of observations on our quarter. Then I'm going to relatively quickly hand it over to Rich to run you through our results for the quarter in a bit more detail.

So at a macro level, generally speaking, well, it some would suggest the bloom is off the rose to a certain extent with market conditions. While clearly, things may not be as rosy as they were about a year ago from our perspective, things are not withering on the vine at all. In fact, there are many opportunities. By example, workers' compensation from our perspective, for those that have appropriate skills and expertise, are able to navigate a more competitive market and still find opportunities that offer great margin. And quite frankly, from our perspective, pricing in the first quarter in many of the parts of the market that we participate remain better than we have budgeted or expected.

Professional, very broad space. Some lines within the space are very competitive such as parts of the D&O market as well as some of the medical classes in particular. Having said that, we continue to be able to find opportunities within the professional lines that we think are exceptionally attractive. And by extension, you can see some of the growth that we had in the quarter. And no, we're not going to be specific as to the lines that we think offer those great margins.

Much of the shorter-tail lines are very challenged from our perspective. Nothing new there. Property and marine, offshore energy, much of the A&H space, very challenged to say the least. And perhaps that in part is what's leading to some of the noise that you hear coming out of the London market and how that market is grappling with quite a few issues and some pain.

Speaking of pain, reinsurance market. It remains, from our perspective, a bit of a mess. Unfortunately, every time you see a bit of a spark of sanity, it seems like it gets stomped out or extinguished pretty quickly.

A few other macro topics. Certainly, one of the topics du jour, Ogden tables, the change that came out of the U.K. as it relates to the discount rate. Let me pause here to think about the right way to phrase this. This is a concerning situation. It's a concerning situation because when you see policymakers make this type of change where there will be a retroactive impact, it creates great challenges for all of us in trying to achieve what presumably is a shared goal, that goal being offering a consistent and predictable market for the good of society and all stakeholders. It struck us as a bit odd after the discount rate having been less than the same spot for approximately 1.5 decades through financial crisis and beyond for it then to be adjusted to the extent that it was not just prospectively but retroactively as well.

Another head scratcher as it relates to the Ogden tables would be when you look at the projections for the impact to the industry, seeing the number 6 billion, seeing the number 7 billion thrown around. But when you compare that to what the announcements have been by industry participants as it relates to the impact on their numbers, you're coming up with a small fraction relative to what the projected economic impact is projected to be for the industry.

A few other macro topics. Claims trends, something I think we've talked about in the last call or the call before that. We continue to be cognizant and very aware of what the impact of 8 years of Washington being somewhat controlled by individuals and a group that are historically friendly to the plaintiff bar. I think it's not perfectly clear what the impact would be. Having said that, we are seeing early signs that the trickle-down effect may be there, and we'll only know for sure with time.

Two other quick ones. Distribution, another topic I think we've touched on in the past. It is concerning to us how the tension between carriers and distribution continues to be on the rise. The fighting over pennies on the dollar of commission seems to be getting in the way of the macro challenge and macro opportunity of distribution and carriers working together to bring greater value to ultimately insurers or customers, if you like. The fact of the matter is that customers are demanding greater transparency. Customers want greater clarity as to what the value proposition is. And by and large, we as an industry, as opposed to focusing on those needs, are some wrestling amongst ourselves as opposed to trying to address what really needs to be addressed for the long term.

One other quick macro topic I'll highlight, and again, one I think we've touched on in the past, alternative capital. As we've suggested on prior calls, we think that this is here to stay. It will continue to evolve. There's no doubt that the relationship with capital and expertise will continue to evolve. And again, we are paying close attention to this and trying to assess what this means for our business and our developing strategies for how we think to take advantage of this evolution. But regardless of the source of capital and how it presents itself, I think, what will not change is the need for -- that capital will have for having expertise of managing.

A couple of quick comments on the quarter. And again, I'll keep it brief. So Rich is going to get you into the weeds. Top line impacted just fundamentally by underwriting discipline. It was particularly evident in the reinsurance segment, and Rich will give you some more detail on that. But as we suggested to you in the past, we're not in the business of issuing insurance policies or issuing reinsurance treaties. We are in the business of managing capital and making a good risk-adjusted return. When the opportunity is there, we will take what we believe is full advantage of it. When it isn't, we will not be deploying our shareholders' capital in a way that we view is less than responsible.

Loss ratio. We touched on Ogden earlier. We certainly felt that. In addition to that, while our cat number was relatively benign compared to perhaps some of the announcements that you've heard from others, we did have some what I would define as short-tail losses. Some of that was related to weather but didn't trigger our definition of cat, that being PCS. And some of it was not related to weather at all, so I would not overreact if I were you to the current accident year.

Expense ratio. Again, Rich is going to give you some details on this. Negatively impacted by some businesses that we have started recently. Some of those, you presumably are clearly aware of because of the press releases we have done. Some of them are businesses or new operations that we started within new businesses, so the clarity may not be there to the same extent. To make a long story short, the businesses that are 3 years old or less impacted our expense ratio to the tune -- or negatively, our expense ratio, to the tune of approximately 60-ish basis points or so. In a moment, Rich will correct me if I'm wrong, but that's my recollection.

In addition to that, as we've suggested in the past, I think Berkley One was the example that we used. But we do have some other businesses that are in the incubator, if you like, where they are not operational. Those expenses, we hold in the corporate expense line, and that negatively impacted corporate expense to the tune of a few million dollars.

I think something that we've touched on in the past with many of you, and I won't let the opportunity go by without highlighting it, much of our business has been and will continue to be built on organic growth. Many of our counterparts in the industry build the business in part through organic growth but heavily based on acquisition. When they make acquisitions, they pay a premium to book value, if you like, and that goodwill sits on their balance sheet indefinitely. In our case, the equivalent of goodwill, we effectively -- much of that we expense as we are starting these businesses from scratch. I highlight it because it is a difference and it does impact our earnings and ultimately our economic model over -- at least in the short run and as long as we continue to build businesses this way.

Finally, investment portfolio. Kudos to our colleagues in that part of the organization. Continue to enjoy capital gains coming through. I think as we suggested in the release, we're on target to meet or more likely than not perhaps exceed the target that we put forward, which as you may recall, is give or take about $100 million a year, call it $25 million a quarter. Rich is going to give you a little bit more color on the gain or gains that we had in the quarter. In addition to that, our funds performed particularly well, and Rich will you give a little more color on that front also.

Finally, just on that topic, duration shortened up a little bit. But he's kind of nodding his head at me, which kind of means I'm starting to tread on his turf.

So I will pause there, and I'm going to hand it over to Rich. Once Rich is done, you will have the 4 of us at your disposal to answer any questions that you may have. Rich?

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

Great. Thanks, Rob. Appreciate it. For the first quarter, we reported net income of $123 million or $0.96 per share compared with the prior year's net income of $120 million or $0.93 per share. Due to our focus on total return from an investment perspective and how we manage the business, we've decided to discontinue reporting operating earnings beginning with this quarter.

Net income grew approximately 3% due primarily to an increase in pretax net realized investment gains of $45 million and pretax net investment income of $19 million. Those increases were partially offset by lower underwriting income, which was due to a $30 million increase in prior accident year reserves for the change in the Ogden discount rate that Rob had mentioned. The effect of which was approximately $0.17 per share. We reported lower income from noninsurance businesses largely due to the sale of Aero Precision's operations in August 2016 as well as higher startup cost associated with new operations, including our previously announced high net worth business and higher interest expense due to the repositioning of our capital structure we undertook in the first half of 2016.

Overall, our net premiums written decreased by 1% to slightly less than $1.65 billion. The insurance segment grew about 1% to approximately $1.5 billion, while the reinsurance segment declined 17% to $153 million. The growth in the insurance segment was due to increases of 9% professional liability, 7% for workers' compensation and 4% for commercial automobile. On the other hand, short-tail lines and other liability decreased in the quarter due to competitive pressures.

For the reinsurance segment, the ongoing competition and inadequate rate environment has limited the company's ability to achieve acceptable risk-adjusted returns for certain business. And accordingly, net premiums written in both property and casualty has declined over the comparable period. We continue to maintain our disciplined approach to deploying capital on a risk-adjusted basis.

The accident year loss ratio before cat losses and excluding the change in the Ogden discount rate was 59.8% compared with 60.2% a year ago. The reduction in the Ogden discount rate gave rise to an increase of 1.9 loss ratio points in the quarter. Cat losses were $14.5 million or $1 million lower than the prior year's quarter. This represented 0.9 loss points in first quarter 2017 compared with 1 loss point in 2016. Loss reserves developed favorably by $2 million or 0.2 loss points compared with $12 million or 0.8

loss points for the same period a year ago. That gives us a calendar year loss ratio of 62.4%, including the impact of Ogden, an increase of 2 loss points from a year ago.

Our overall expense ratio for the first quarter 2017 was 33.3% compared to 33.1% in the first quarter of 2016. The insurance segment expense ratio increased 0.4 points to 32.9% due to the addition of new operation and new product offerings like transactional insurance and professional casualty line by existing companies. We've also expanded in Latin America and the Asia-Pacific region. The reinsurance segment expense ratio decreased 1.4 percentage points to 37% due primarily to lower acquisition cost.

In pure dollar terms, the underwriting expenses decreased by 5.9%, while net premiums earned decreased by 2.4% quarter-over-quarter. That brings our combined ratio to 95.7% for the first quarter 2017 compared with 93.5% for the same quarter a year ago. Most of the differential relates to the change in the Ogden discount rate.

Investment income increased approximately 14% or $19 million to $149 million, resulting from a couple main contributors. First, income from fixed income securities was up about $6 million to $108 million with an annualized yield of 3.2%. And second, income from the investment funds increased $10 million compared with the year-ago quarter, which is primarily attributable to investments in energy-related funds.

At March 31, 2017, after-tax unrealized investment gains were $418 million, relatively unchanged from the beginning of the year. The average rating was also unchanged at AA- and the average duration for fixed income maturity securities, including cash and cash equivalents, decreased from 3.1 years at year-end 2016 to 3 years at the end of the current quarter.

The effective tax rate was 32.4%, primarily due to higher net investment gains and the lower proportion of tax-exempt interest to pretax income in the quarter. That gives us net income of $123 million and an overall return on equity of 9.8% on an annualized basis, and for comparison purposes, a pretax return on equity of 14.5%. Book value per share increased $1.08 to $42.73 in the quarter, representing an annualized increase of 10.4%. Thanks. Rob?

William Robert Berkley
Chief Executive Officer, President and Director
Thank you, Rich. Okay, Valerie, if we could open it up for questions, that would be great.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Two questions I wanted to go through. When you're citing the development numbers, did those include or exclude the Ogden numbers? Maybe we can just repeat that again. I realize you said it already, but I'm trying to figure it out.

William Robert Berkley
Chief Executive Officer, President and Director

The net development of positive $2 million, that did include the impact of Ogden.

Joshua David Shanker
Deutsche Bank AG, Research Division

All right. And second, so I noticed that obviously, there's about a 4% increase in premium volume in commercial auto. My guess is that's a positive rate but probably some negative exposure. I'm wondering if you can talk about where the market is in commercial auto. If this is a baseball game, how many more years and how far do we need to get adequate?

William Robert Berkley
Chief Executive Officer, President and Director

Well, your comment towards the beginning there that yes, we are getting a fair amount of rates, certainly more than the growth. And by extension, the exposure is going the other way. From our perspective, it depends how -- quite frankly, how hard the market gets and how quickly that happens. So from our perspective, we continue to shrink the business and demand additional rate. There are others out there that are doing the same thing, but we don't think that they are going as far as is required, as doable. We're going to write business that we think is adequately priced. To the extent that is not there, we won't write the business.

Joshua David Shanker
Deutsche Bank AG, Research Division

And do you have a view on how much further the market needs to go before it becomes generally attractive?

William Robert Berkley
Chief Executive Officer, President and Director

Josh, I'm not going to get into specific rate needs, but I would suggest using a very broad brush. The market needs more rate than it is generally speaking obtaining today. But obviously, the commercial auto space is a pretty big space, so it -- one would need to use a finer brush than I'm using.

Operator

Our next question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So just following up on the reserve releases. If you take out the Ogden rate charge of $30 million, so your underlying reserve release is something like $32 million per quarter. Is that right?

William Robert Berkley

Chief Executive Officer, President and Director

That's correct.

Kai Pan
Morgan Stanley, Research Division

It's much bigger than the previous quarter. So I just wonder, could you give a little bit more detail on which line and which accident year they're coming from?

William Robert Berkley
Chief Executive Officer, President and Director

Yes, yes. And we'll have some of that disclosure, I guess, Rich, in the Q, but that's typically not the level of granularity that we're going to get into on the call at this stage. I would tell you that we look at our reserves every 90 days. We look at them at a very granular level. We have peer reviews done and we take it very seriously. Obviously, when we think about how we reserve our business, we take into account potential exposures for the unforeseen events, and that is something that is contemplated.

Kai Pan
Morgan Stanley, Research Division

Okay, great. Then second question on your net realized gains. So you're on track to exceed $100 million for this year. I just wonder how much unrealized gains on your book as well as those not on your book that potentially could be materialized or monetized over time. And in the current environment, where do you find investment opportunities?

William Robert Berkley
Founder and Executive Chairman

I think that -- this is Bill. I think that there are lots and lots of opportunities, and we follow accounting rules to reflect unrealized gains that show on our balance sheet and that don't. So HealthEquity, which now shows on our balance sheet, until we got under 20%, we had 400-plus million dollars of unrealized gains that didn't show on our balance sheet because those are the accounting rules. We own real estate that we carry at cost because that's how you do it. And we think that there's substantial unrecognized value in most, if not all, of our properties, which in value probably -- certainly is in the hundreds of millions of dollars. But you can't predict at any moment in time. If we could, we would because then we would have predictability and all of the analysts would love that predictability in a quarter-by-quarter basis. The answer is, though, we have lots of unrecognized gains that some that aren't at all reflected in our balance sheet, and it's likely they will be realized over the next few years. And hopefully, we find new investments to create more opportunities. We do that in our private equity business. We do that in all parts of our investment portfolio. And at least as of this moment, we don't see anything that's causing us to believe that's not going to continue.

Kai Pan
Morgan Stanley, Research Division

Bill, just a follow-up on that, do you still -- the current environment is more of investing environment or more harvesting environment?

William Robert Berkley
Founder and Executive Chairman

It's a continuous process. Today, maybe a harvesting environment. And tomorrow, maybe an investing opportunity. It just depends on the opportunities that are presented. But we don't know ahead of time. I sit and talk to someone about an opportunity, and maybe we'll be able to take advantage of it and maybe we won't. But you look at 100 things and 3 of them you invest in. And one of them is terrific, one of them is okay, and one of them may not be really so great. But it's a constant process. So I can't tell you that answer because it just -- it changes all the time.

Operator

Our next question comes from Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Two questions. One, I don't want to go back to, I guess, Kai's question and I appreciate that we get the color in the Q. But any a broader color on the much higher-than-anticipated reserve release would be helpful.

William Robert Berkley
Chief Executive Officer, President and Director

The answer is I think we'll give you some clarity in the Q. We look at our reserves on a quarterly basis, and we felt comfortable with the release that you saw. I'm not sure what else there is to share with you. It was no different than we've done any other quarter. I would tell you that certainly, when we think about setting our reserves and we think about IBNR, we do take into consideration what we would define as a risk margin for the unforeseen events. So again, I think you'll see more disclosure in the Q.

Amit Kumar
Macquarie Research

I guess what I was trying to ask is there wasn't anything unusual, nothing onetimer in nature, et cetera? I guess that was -- maybe I should have phrased the question differently.

William Robert Berkley
Chief Executive Officer, President and Director

I think -- not I think, I know the answer to the question is that we look at the numbers every 90 days, and we try and make a judgment about what is appropriate.

Amit Kumar
Macquarie Research

Okay, let's move on to something else then. The second question is going back to, I guess, [Mike's] question on the margins. When you look at -- Rob, when you look at pricing versus, I guess, loss cost inflation in some of your largest lines, how should of the trajectory from here in terms of the overall marketplace? Are we getting to the point where the inflection point is within sight? Or is it still challenging for the broader marketplace but relatively better for W. R. Berkley?

William Robert Berkley
Chief Executive Officer, President and Director

Well, to give you a little bit of a sense, so for starters, by and large in the casualty lines and the workers' comps line, trend is proving to be better than we had anticipated when we come up with our picks. Number two, we were, in many of these lines, getting more rate than we had expected and our renewal retention ratio was intact. So speaking -- using again a bit of a broad brush, we as a group in our insurance business got something just shy of 2% of rate in the quarter with our renewal retention ratio continuing to sort of hang out in the -- somewhere between 78% and 82% or so. So the book and the integrity of the book, we believe, remains strong. And we can see that in the renewal retention ratio combined with the rate. And by extension, we think the margin that we're achieving, given my comments on trend, remains give or take flattish. There are some lines of business that, quite frankly, we think the margins are improving, and there are other lines of business where clearly we're concerned about the margins. I think you could use the reinsurance segment as an example of that. We are concerned consequently, it's shrinking.

Operator

Our next question comes from Arash Soleimani of KBW.

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

I know this has been asked, but I just want to confirm. So the net number for development is $2 million favorable, right?

William Robert Berkley
Chief Executive Officer, President and Director

Correct.

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

And my other question. The comment you made about the last 8 years and the impact that could have, so is that -- shall we take away from that, that -- again, with a broad brush, are you sort of saying that favorable development should be expected to decline as a result of that?

William Robert Berkley
Chief Executive Officer, President and Director

Not necessarily. What I'm suggesting is something a bit more macro, and we have not reached any conclusions. It's just a general observation that you've had much of Washington being controlled by people that are friendly to the plaintiff bar and as a -- many of those people play a role in setting policy and appointing judges. And over the time, you can see that trickle through.

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

Okay, okay. And do you have any updated thoughts, I guess, now kind of again in the -- talking politics a little bit. But are you more favorable or less favorable in terms of what you expect for some sort of border adjustment tax to pass?

William Robert Berkley
Chief Executive Officer, President and Director

Well, I -- my two cents is that there's questions around border adjustment, so that doesn't mean there will be tax reform that impacts the industry. But fortunately for me and all of us on the call, we have our in-house expert joining us this evening.

William Robert Berkley
Founder and Executive Chairman

I think ultimately, our tax issue is really right in the crosshairs of the administration, where the administration has recognized there are many areas, most especially, I think, the insurance industry, where our tax loss have been twisted to favor nondomestic companies. It's clear for us in the insurance industry where companies write United States business and reinsurers offshore and do not pay their fair share of taxes. Many companies do it. And in fact, virtually all domestic reinsurers have moved offshore. We're one industry that we understand. But similar advantages have been created by many companies where they do business here and find ways to move their income offshore. We believe this administration wants to focus on those kinds of things, and therefore, we think we have a much improved opportunity to level the playing field.

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

All right. And are you able to disclose what the contribution of Berkley One was for the expense ratio this quarter?

William Robert Berkley
Chief Executive Officer, President and Director

Well, it doesn't come through in our expense ratio. It just comes through in corporate expense. As you may recall, businesses that are not operational, we hold those expenses at the parent company. And I think it was somewhere between $2 million and $3 million for the quarter.

Operator

Our next question comes from Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. I guess first, maybe the shorter one. Commercial auto. For the first time in 3 quarters those premiums began to move higher, is that business becoming more reasonably priced given the amount of rate increases you've had over the past couple of years?

William Robert Berkley
Chief Executive Officer, President and Director

Sorry, Jay. You broke up on the first part of the question. Would you mind repeating that? I just want to make sure I got the whole thing. Apologies.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes -- no, no, no. Commercial auto, Rob. It was the first time you've seen in 5 quarters where the premiums grew year-over-year. Is that business becoming more reasonable?

William Robert Berkley
Chief Executive Officer, President and Director

I think that we are finding parts of the commercial auto space attractive. I would tell you that the growth is really driven by rate increase. And as mentioned earlier, our exposure is down so the rate is up even more than perhaps comes through. Is it adequate? We're talking about a big part of the market in one breath. There are parts of the market where we are seeing the rates reach adequate. There are parts of the market where we just sit back and shake our head and wonder what it is that they seem to know or don't know that we don't get. So I would tell you, Jay, it's one of the advantages of being a specialty player. You can bob and you can weave and figure out where you want to participate and that can evolve. But I will tell you, if you want to talk about this in general commercial lines marketplace, there's still a ways to go. And we've been surprised, quite frankly, by some of the national carriers in particular that have backed away and now seem to be coming in out of nowhere to write some pretty good sized fleets, which have really left us scratching our heads. So again, I think that there is opportunity there, but one needs to be careful.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Second question. You mentioned in your earlier remarks about alternative capital and you're watching developments there. As you think about new capital coming into the business, alternative capital, are you thinking more about managing third-party capital or simply using it somehow to get rid of risk?

William Robert Berkley
Chief Executive Officer, President and Director

Well, I think that we are considering lots of different approaches to using potentially other capital than just what sits on our balance sheet. I don't believe we envision our organization not having a meaningful balance sheet in the future. At the same time, clearly, there are large pools of capital in the world that seem to have a different hurdle rate than what our view of a hurdle rate is and have also a desire to participate in the marketplace or the insurance marketplace to be more specific. And to the extent that we can bring value to those pools of capital through utilizing our expertise, we are open to that. Now whether that be done through something like reinsurance or whether we manage someone else's capital in a more permanent way, we are open to and considering lots of different avenues. We're conscious of the approach that several carriers have taken already, but I think our priority versus some others may be possibly a bit different. We look for things in more perhaps permanent manner than a temporary manner.

Operator

Our next question is from Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

First, a numbers question. Rich, do you have the pay loss ratio?

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

I do. It's 55.5%.

Ian Gutterman
Balyasny Asset Management L.P.

Great. Rob, if I can follow-up on the comments earlier about loss trends and judicial change and so forth. I guess related the judiciary changes, are you also seeing changes in jury behavior? I think that's at least on the commercial auto side. Anecdotally, it seems that's been part of the story as juries are more populist, if you will. Are we seeing that spread at all?

William Robert Berkley
Chief Executive Officer, President and Director

We have seen -- I think the industry has seen a gradual increase in severity coming out of courtrooms, certainly in the commercial auto space. It's hard to understand the trend specifically. Certainly, during the financial crisis, we actually were surprised by what happened with loss trends, and they proved to be a bit more benign than we would have expected in a certain lines. But clearly, more recently, I think the industry is experiencing an increasing severity trend coming out of jury awards. We'll have to see how that plays out over time. And in some ways, akin to the Ogden discussion or other situations, ultimately what ends up happening and I think oftentimes is forgotten is society overall pays the price because all the industry does is redistribute that expense back to society and it just rears its head ultimately in the premiums everyone else pays.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, of course, of course. Does it also suggest that excess writers -- especially maybe excess writers who used to play higher up are sort of creeping down? Are those the guys more likely to get caught on that kind of severity?

William Robert Berkley
Chief Executive Officer, President and Director

Not necessarily. Certainly, the attachment point is important, always has been for those that are excess writers. But I think ultimately, list selection is of paramount importance as well. But clearly, once upon a time, a million-dollar loss in the commercial auto space was very exceptional. It's not as much the exception anymore as it once was. In other words, the definition of severity, I think, continues to evolve.

Ian Gutterman
Balyasny Asset Management L.P.

Exactly, exactly. And then if I could just -- one more quick one. There was a footnote in the press release about moving a couple of lines of business. I think it was from insurance to reinsurance. Just curious what those were or maybe it's not that big of a deal. I was just curious.

William Robert Berkley

Chief Executive Officer, President and Director

I don't think that's a big deal, but Rich, you want to just comment on it?

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

Sure. We have participation in Lloyd's syndicate that is in the reinsurance business for property and casualty, so we move that over. And then we also had an assumed reinsurance business in the workers' comp space that we also moved over from the insurance segment to reinsurance segment. Relatively small businesses.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. It didn't look like it other than obviously the premiums that didn't look like it affected the ratios that much. Is that correct?

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

Correct.

William Robert Berkley
Chief Executive Officer, President and Director

Yes. Again, it was really more of a housekeeping thing for us. For purposes of clarity, we thought we should have all the reinsurance where it is and not be preoccupied with internal reporting and more the nature of the business.

Operator

Our next question comes from Ryan Tunis of Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

Just, I guess, on NPW growth in insurance, listening to Rob talk, it sounds like a mixed bag from a growth standpoint. But we saw growth, I guess, continue to decelerate there. Any indication of how much some of the new business objectives like the Berkley One contributed to the 1% growth rate?

William Robert Berkley
Chief Executive Officer, President and Director

Sure. Well, Berkley One, it's not operational. They've written 0 premium, and we don't expect they'll be operational probably until the fourth quarter. So they are great contributors to the organization, just not in the premium line yet. And as -- we have a few other operations that would fall in that category where they are sort of irons in the fire. In addition to that, we have some businesses, again, that as commented about the impact on the expense ratio that are operational, but at this stage, are dilutive to the overall and are just beginning to get momentum. I understand that perhaps the underlying question is how the heck do you figure out what your growth is going to be -- or our growth is going to be going forward. And I guess my response is tell me what market conditions are going to be and I can tell you what the growth rate is likely to be. So again, we have -- the reason for my comment about not leaping to any conclusions as to this being the new norm for insurance growth, one is because it's hard to know what market conditions are going to be. But two, we have a fair number of things in the hopper that are going to be coming online sort of gradually over the next 12 months or so, certainly over the next 12 to 24 and into 36 months, could be very meaningful contributors to the top line and we would expect to bottom line as well yet.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay, that's helpful. And then my follow-up, I guess, was just sort of philosophical around the decision to get rid of the operating income definition. So yes, I mean, I understand the positives with the realized gains that don't get counted. But I guess historically, we've thought about Berkley as having more steady results than a lot of peers because of the amount of casualty business you guys write. I guess just curious how you weighed those offsets and thinking about going to the net income model.

William Robert Berkley
Chief Executive Officer, President and Director

So a couple of things. One, I think that it's worth noting that we were trying to send a message, as you referenced, that we think about running the business from a risk-adjusted return perspective. We think about total return, and we think about how we're building value -- book value for shareholders. As far as the comment around consistency of results, it is certainly our expectation, and hopefully it's yours as well, that our underwriting results will continue to be predictable and consistent. As you suggested, that had been the view historically. At the same time, as we've discussed, and you're as aware as we are, we have taken some steps as it relates to the investment portfolio to, with some respect, really, again, being focused on the total return and not just being preoccupied with the operating income number and traditional investment income because again, when we talk to shareholders, the message that we've received from them is that is what is a priority. So the change in how we report is merely us sending a message to you and others that this is how we are thinking about it. This is how our board is thinking about it. And in part, this is how we've been asked to think about it or we are in agreement with our shareholders. Having said all of that, we don't think that we've created quite the enigma or puzzle for anyone to -- and we certainly are not trying to be anything but transparent. So if you look at the fourth bullet point under the highlights, it's pretty straightforward math to back into an operating income number. So again, it's not that we are trying to be difficult or anything but transparent. At the same time, we are trying to share with you and others how we think about the business.

Ryan James Tunis
Crédit Suisse AG, Research Division

That's helpful. I guess since we do have to think about that line just a little bit more, I guess, I guess, Rob's comment about being ahead of pace to the $100 million, should we take that to just be a fact or the fact that you did $52 million this quarter and we would have expected $25 million? Or was that a broader comment about visibility into the harvesting pipeline?

William Robert Berkley
Chief Executive Officer, President and Director

I think that the way that you should think about it is just as my boss has suggested to you in the past, give or take, you should expect something in the neighborhood of $100 million a year. That run rate sort of divided by 4 is going to get you to $25 million a quarter, and the reality is it's going to be lumpy. And there may be some years, as we have had in the past, where we exceeded that and some years where we've come up short. I appreciate given one of the objectives that you have that, that doesn't help you from a modeling perspective, and we are sensitive to that. But ultimately, our charge is to create value for shareholders. And yes, just one last thing. Obviously, as we suggested in the release, while not to count any chicks before they hatch, at the same time, certainly, things are pointed in the direction, again as we suggested, that we will likely to exceed the targeted number.

Operator

Our next question comes from Arash Soleimani from KBW.

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

Just had a couple of follow-ups. So I know the $30 million Ogden charge. So is it reasonable to expect going forward then that the current estimated loss ratio should be higher in reinsurance?

William Robert Berkley

Chief Executive Officer, President and Director

Not necessarily. I think we try to fully anticipate what the impact of Ogden would be. And ultimately, we have addressed that with the charge or the development more specifically that we've talked in that part of the business. So I would suggest that you not leap to that conclusion at all.

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

Okay. And then on the...

William Robert Berkley
Chief Executive Officer, President and Director

Actually, one other comment that I should add to that is, in fact, it may be possibly one of the green shoots, and there aren't many in the reinsurance space. It may serve actually as a catalyst for improved market conditions in -- as well as the insurance market.

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

That makes sense. And so again, if we exclude the cat in the $2 million favorable, that comes up to a core loss ratio of about 61.6 versus 60.2 last year. I know you said some of that is from weather losses or short-tail losses that didn't meet the threshold for a cat. Can you just quantify how much of those contributed to the loss ratio this quarter? I'm just trying to get a...

William Robert Berkley
Chief Executive Officer, President and Director

Honestly, I don't have the dollars in front of me. If you wouldn't mind giving Rich a call at your convenience, he can -- or Karen, either one of them, they can get you that detail.

Operator

Our next question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Just on buybacks. There's no buybacks for the quarter. I just wonder what's behind that decision. Is that you compare with your investment opportunities? Or is your stock price less attractive?

William Robert Berkley
Chief Executive Officer, President and Director

I think as we suggested in the past, when we have -- to the extent that we have excess capital, we have 3 obvious alternatives. One is to repurchase shares. Two is to repurchase debt. Three is to pay a special dividend. We are very conscious of our capital structure. We are very conscious of how many optimal amount of capital as far as the specifics around which trigger we choose to pull. That's something that we discussed after we've done it. So again, I don't think that there is a threshold or a specific detail that we publicly disclose because quite frankly, we don't think that's in the best interest of our shareholders.

Operator

Our next question comes from Bob Farnam of Boenning and Scattergood.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

One quick question on the workers' comp rates. It sounds like pricing is better than expected. I just wanted know if that -- is that -- do you see that as broad-based? Or is that just a few specific classes that are doing really well and all the rest are still going down the tubes?

William Robert Berkley
Chief Executive Officer, President and Director

Bob, you need to use a fine brush in the comp world no different than the rest of the market. There are certain parts of the comp market, certain territories, certain microcosms, if you will, within the broader market where we think that they're very attractive. And we have some very skilled colleagues that understand their market well. They have some very good tools and they use a scalpel, not a cleaver. So I think they are knowledgeable about where their margin is and how much rate they need or how much headroom they have to give up in order to achieve targeted returns. So I would caution one not to leap to the conclusion that it's happy days in the comp market across the nation. It's quite -- it's not the case at all. But for those that know what they're doing, it's still a pretty good opportunity.

Operator

I'm showing no further questions at this time. I would now like to turn the conference back over to Mr. W. Robert Berkley Jr. for any closing remarks.

William Robert Berkley
Chief Executive Officer, President and Director

Okay, Valerie, thank you very much for your assistance this evening. And certainly, thank you to all that dialed in. We think that in spite of the noise stemming from things such as Ogden and a couple of other events that we referenced impacting the accident year, some non-cat, weather-related and other short-tail lines, we think it was a pretty decent quarter. We think we have a lot of things again in the fire or the incubator that, quite frankly, position us well for the next couple of years And we remain quite optimistic. We think we understand our business. We think this is one of those moments when being in the specialty business and being able to bob and weave and run between the legs of a giant is when you're able to actually deliver better long-term returns for shareholders. So again, thank you all for calling in, and we look forward to speaking with you in, give or take, 90 days.

Operator
Thank you. Ladies and gentlemen, that concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.