S&P Global
Market Intelligence

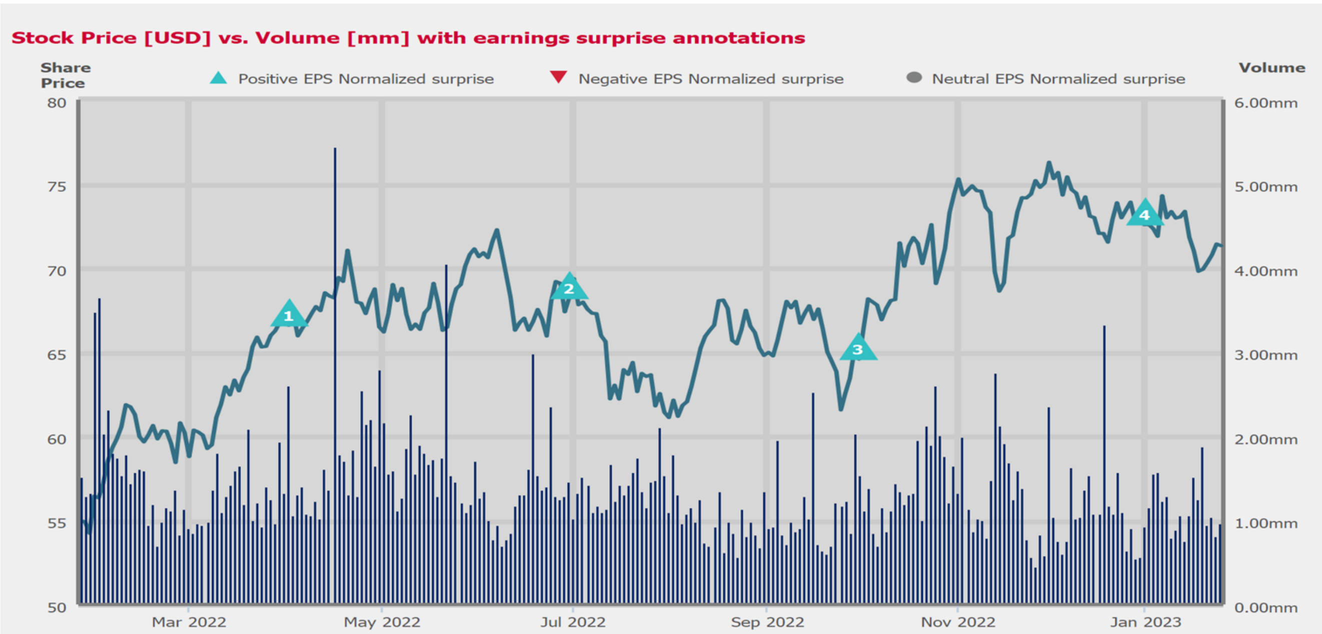
W. R. Berkley Corporation NYSE:WRB
FQ4 2022 Earnings Call Transcripts

Thursday, January 26, 2023 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.09	1.16	▲6.42	1.24	4.33	4.38	▲1.15	4.94
Revenue (mm)	2509.90	2513.22	▲0.13	2521.64	9539.14	9561.43	▲0.23	10518.83

Currency: USD
Consensus as of Jan-27-2023 2:06 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	0.94	1.10	▲1 17.02 %
FQ2 2022	0.86	1.12	▲2 30.23 %
FQ3 2022	0.85	1.01	▲3 18.82 %
FQ4 2022	1.09	1.16	▲4 6.42 %

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Call Participants

EXECUTIVES

Richard Mark Baio
Executive VP & CFO

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

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Goldman Sachs Group, Inc., Research Division

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Presentation

Operator

Good day, and welcome to the W. R. Berkley Corporation's Fourth Quarter and Full Year 2022 Earnings Conference Call. Just a reminder, today's call is being recorded. The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including without limitation, believes, 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, 2021, 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.

And now I'll turn the call over to Mr. Rob Berkley. Mr. Berkley, please go ahead.

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

Bo, thank you very much, and good afternoon, all, and a warm welcome to our fourth quarter call. On this end of the phone, cohosting with me is Bill Berkley, our Executive Chairman; as well as Rich Baio, our Executive Vice President and Chief Financial Officer. We're going to follow the typical agenda as we have done it in the past, and I'm going to hand it over to Rich momentarily. He's going to walk us all through some highlights of both the quarter and the year. Once he's through his comments, I'll pick it up from there, offer a few observations and thoughts of my own. And then we will be looking forward to opening up for Q&A and taking the discussion anywhere participants would like it to go.

One thing before I hand it over to Rich, and that is just maybe taking a moment to pause and reflect publicly on the year. And we'll be getting into the numbers and the results. But it does seem appropriate, at least from my perspective and our Chairman's perspective, to extend some recognition, thank you and congratulations to our colleagues. I have the good fortune of being the mouthpiece or the one that has the opportunity to talk about the results along with Rich and Bill Berkley.

But these results, these outcomes were achieved because we have thousands of people that are working diligently every day in a thoughtful and methodical manner. So to all my colleagues that happen to be tuning in, I hope you will accept the heartfelt thank you again. And congratulations on a good job, very well done. With that, Rich, if you would, please.

Richard Mark Baio
Executive VP & CFO

Of course, and thanks, Rob. Appreciate it. 2022 can be marked as a record year in many areas of the business. The company ended the year with a strong fourth quarter. Net income increased almost 30% to $382 million or $1.37 per share, with an annualized return on beginning of year equity of 23%. Operating income increased approximately 14% to $323 million or $1.16 per share, with an annualized return on beginning of year equity of 19.4%.

Our results reflected record underwriting income as well as net investment income. Severe named cat activity continued to challenge the industry as evidenced this quarter by Winter Storm Elliot and prior quarter events like Hurricane Ian amongst many others. Our disciplined underwriting approach and exposure management led to record pretax quarterly underwriting income of $292 million, representing an increase of approximately 12% over the prior year.

On a full year basis, underwriting income eclipsed the prior year by 21.3%, reaching more than $1 billion for the first time in the company's history. Pretax cat losses were $31 million or 1.2 loss ratio points in the quarter compared with $48 million or 2.2 loss ratio points a year ago. Net premiums written increased to more than $2.4 billion. The growth in the top line was adversely impacted by approximately 75 basis points due to the weakening U.S. dollar relative to many foreign currencies.

On a segment basis, insurance grew 7.2% in the quarter to more than $2.1 billion from rate improvement and exposure growth. All lines of business increased with the exception of professional liability. The Reinsurance & Monoline Excess segment increased to $281 million in the quarter with growth in all lines of business. On a full year basis, gross and net premiums written grew to record levels of $11.9 billion and $10 billion, respectively.

The current accident year loss ratio, excluding catastrophes, was impacted in the quarter by nonweather-related property losses, which drove the increase of approximately 1 loss ratio point to 59.3%. Prior year losses developed favorably by approximately $0.3 million, resulting in a calendar year loss ratio of 60.6%. The expense ratio was flat at 27.8% quarter-over-quarter. Record quarterly net premiums earned grew more than 14% in the quarter, continuing to benefit the expense ratio.

We do anticipate that our 2023 full year expense ratio should be comfortably below 30%, taking into consideration investments in technology, rising compensation costs and new start-up operating unit expenses. In summary, our current accident year combined ratio, excluding catastrophes for the quarter was 87.2%, and our calendar year combined ratio was 88.4%.

Net investment income for the quarter increased more than 40% to a record of approximately $231 million, led by income in the core portfolio, which increased approximately 75%. The combination of our short duration, high-quality fixed maturity portfolio, along with record level operating cash flow of approximately $2.6 billion in the full year, enabled us to invest at higher interest rates. Our book yield on the fixed maturity portfolio increased from 3% for the third quarter to 3.6% for the fourth quarter, which compares very favorably to 2.2% in the year-ago quarter.

Our new money rate exceeds the roll-off of our invested assets, and we expect net investment income to continue to grow. The investment funds performed well with a book yield of 5.6% despite the deterioration in the broader equity markets in the third quarter. And as you may remember, we report investment funds under 1-quarter lag. The credit quality of the portfolio remains very strong at a AA- with the duration on our fixed maturity portfolio, including cash and cash equivalents of 2.4 years.

Pretax net investment gains in the quarter of $75 million is primarily attributable to an improvement in unrealized gains on equity securities of $88 million relating to investments in the industrial, energy and financial services sectors. The company actively manages its foreign currency exposure. The U.S. dollar weakened in the quarter relative to many foreign currencies, which resulted in a pretax foreign currency loss of $34 million.

For the most part, this loss was offset by an increase in our currency translation adjustment, a component of stockholders' equity. And accordingly, the result was an immaterial net impact on book value. Stockholders' equity increased more than $400 million in the quarter or 6.3% to $6.7 billion. The unrealized loss position on fixed maturity securities improved in the quarter. Book value per share increased 8.1% and 6.1% in the quarter and full year before dividends and share repurchases. In addition, book value per share increased 1.7% on a full year basis after returning capital to shareholders of $329 million and our full year return on beginning of year equity was 20.8%.

With that, I'll turn it back to Rob.

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

Rich, thank you very much. That was great. So I have a little bit of a list here of topics that I made notes to myself on because I think there's a lot going on in the marketplace, a lot of moving pieces. And obviously, we, as a market participant, are navigating through that.

So maybe a place to start would be a macro observation. And I know we've touched on this in the past, but I think it's very important to keep top of mind. It's certainly something that we are, as an organization, are focused on. And that is the reality that, yes, this is still a cyclical industry, and the cyclical nature is driven, as we've discussed in the past, by 2 human emotions, fear and greed. And for those that want to drill down into that more, we can do that offline.

But the simple reality is that this is an industry that is splintered. And what I mean by that is, once upon a time, most P&C product lines marched throughout the cycle somewhat in lockstep. And what we are seeing more and more is major product lines, yes, still operating and behaving in a cyclical manner, but they are very different points in the cycle. And we are just seeing that in a more and more pronounced way.

And when people talk about where is the marketplace, I don't think that there is one answer anymore. It needs to be more granular. It needs to be where is the property market, where is the comp market, where is GL, et cetera, and one can even get more granular than that. So I want to spend a couple of minutes talking about through our lens how we're thinking about major product lines and where those product lines stand in the cycle. And what are some of the realities stemming from that.

So perhaps a place to start would be property. Clearly, it has gotten a lot of headlines over the past couple of years. I think many have been waiting for discipline to finally turn up, and it seems like it is arriving. We have seen it in a much more pronounced manner in the reinsurance marketplace. And we've seen it begin to sprout some green shoots of discipline in the insurance marketplace with undoubtedly more to come.

As far as the property insurance marketplace, we were a little bit disappointed by the lack of discipline that appeared in the fourth quarter. We are convinced we're going to see it more and more as we make our way through '23. But the simple fact is it wasn't there. And we've been scratching our head trying to figure out why. When everybody knows, reinsurance costs are going up, both cat and risk. And you would think that as soon as that becomes apparent, one needs to start to factor that into how you price your product.

The cost of that capacity is going up. And one also needs to remember that these reinsurance covers are not risk attracting, they are losses occurring. So as you're writing business in the fourth quarter, to the extent you're able to, you really need to be not just contemplating, but incorporating into your pricing, what that new reinsurance capacity is going to cost even if it doesn't take effect till [1/1] because that capacity is going to be supporting the risks for a part of a year that you wrote in the fourth quarter or even the third quarter and earlier.

The property market from our perspective is poised for material hardening. We, I think, are thought of by some as an out of property market. And quite frankly, while we have been and are having more of a liability bent, it would be a mistake to think that we do not have the skills and the appetite for property when we think it makes sense, when we believe it is a good risk-adjusted return. And there is a better-than-average chance from our perspective, the marketplace is moving in that direction. Clearly, it's getting there on the reinsurance front and more to come again in our opinion on the insurance front.

Maybe pivoting over to workers' compensation. I think there was either a poem or a song or something that went something along the lines of waiting for the world to change. So this is one that I clearly have missed the timing on. I had thought that the world would have figured it out by now as far as where things are going and what people need to be doing from a loss cost perspective, clearly, I was mistaken. From my perspective, based on what I see and I believe, my colleagues' perspective, is that comp is likely going to continue to bump along the bottom throughout '23, and we can look forward to '24 and beyond, hopefully, for some considerable firming, which, again, is something to look forward to.

But in the meantime, clearly requires thought and discipline. And quite frankly, from our perspective, it's a little bit unnerving that some rating bureaus seem to not be appropriately taking into account or adjusting for the frequency benefit that occurred during COVID. Additionally, we think one needs to be very thoughtful about severity trends as well and what that could mean in the future, especially on the medical front.

Auto is another product line that we think requires thought and judgment. From my perspective, I don't think that there's a product line today that is more susceptible than auto to social inflation, if you like. And the good news is there is rate to be had if you go after it. The challenging news is you better make sure you're getting it. Otherwise, it's very easy these days to fall behind loss costs.

I'm going to lump GL excess and umbrella into one pot, which is kind of inappropriate, but in the interest of time, I'm going to do it. I think those are amongst the brighter opportunities at this stage. Clearly, again, one needs to be mindful of social inflation, but the rate is there to be had. I would tell you of that universe that I'm referring to, the only one area that is -- I wouldn't say concerning, but is on the watch list is the large account excess business, the large sort of Fortune 5000 towers.

There's been a huge amount of rate that's been achieved in that marketplace, but one needs to be very mindful as to how quickly that could potentially erode. Other than that, I think there's a lot of opportunity there. Pivoting over to professional liability, I would suggest that it's very much 2 stories there. I would say, on one hand, you have D&O. And then on the other hand, you have, by and large, everything else. The D&O market a few years ago took off like a rocket ship with massive rate increases to say the least.

And at this stage, it is gradually coming down to earth. I would suggest that the parachute may have a couple of small holes in it, but it requires monitoring. That is clearly becoming a more competitive marketplace. Other than D&O, professional liability, we think, offers a great deal of opportunity, and we view that as a place for us to continue to lean into.

I would suggest smaller part of the marketplace, hospital professional liability is also an area that requires thought and caution. Finally, reinsurance, with all due respect to my friends and colleagues in the reinsurance space, I think perhaps the expression that even a broken clock is right twice a day. Well, this is one of those moments when the clock is right. And we will see with time how much discipline really is in the market and how long it remains or what the staying power is.

I know that there was a lot of attention put towards property cat and what [1/1] was going to hold. Clearly, it was a firming marketplace. We did participate in that. I would tell you that the U.S. market was at least at [1/1], considerably more attractive than what I would define as the international market or ex U.S. So what does this all mean for us as we sort of pivot to the [mirror] and talk about our quarter before we get into a few follow-up on Rich's comments.

I think what it means for us is there is still great opportunity. I think what it does also mean is that we need to continue to be focused, disciplined and prepared to pivot as opportunities present themselves and as they diminish and other opportunities present themselves. It's one of the great things about our organization and the breadth of our offering and our structure. We are a collection of specialty companies where we have teams of people with great expertise focused on their niche.

These teams of people understand cycle management, and they understand their loss costs and how to deploy and manage capital. So long story short, we think we're in a pretty good place. As always, you're going to see parts of the business growing, other parts of the business, perhaps shrinking as we capitalize on opportunities.

Pivoting to the quarter. Again, I'm not going to belabor this because I think, Rich, as always, did a great job. But a couple of observations on the top line, you talked about the FX impact. I would also suggest rate and rate adequacy continue to be and will always be our priority. As we see new opportunities presenting themselves, I flagged property earlier on.

Our presence within the E&S space, I think, is going to create meaningful opportunity for us certainly over -- somewhere between the next 12 to 36 months depending on cat activity, quite frankly. But again, we will see with time. As far as rate goes, as you would have seen from the release, we got just shy of 7 points of rate and we think that, that comfortably helps us keep up with trend and more likely than not, perhaps we're exceeding trend.

One of the things just on the topic of rate. And I apologize if you find this repetitive, but it's something that does come up from time to time is confusion that exists between renewal premium versus renewal rate increase. Our definition and our true north in our effort to make sure we understand loss cost and margin is the number of dollars that we are collecting per unit of exposure. It's not about the amount of premium that we happen to collect.

If I'm running a trucking company and I have 5 trucks. And at the renewal, it turns out that my number of trucks has gone from 5 to 10, and I end up collecting twice as much premium. That's not a rate increase. That means I got twice as much premium, but I got twice as much exposure. And in theory, I need to get more than that to keep up with trend.

So when we talk about rate increase, let there be no misunderstanding. We're not talking about increase in premium even though ultimately, it may have nurtured that. Our focus is on the amount of money we collect for unit of exposure. And we work very hard to make sure that when we are comparing unit of exposure to unit of exposure over corresponding period that we have unpacked that, so it is as close to apples-to-apples as one can establish.

Another comment that I did want to make is on renewal retention ratio. Obviously, different product lines, different parts of the business, we target different levels of renewal retention. When we look at our portfolio overall, we look for the renewal retention to sort of float somewhere between 77 and 80, maybe 81 depending on the mix. When we see that renewal retention ratio ticking up above that, from our perspective, it is an invitation to be pushing rate harder.

We want to be in the market at a granular level, testing it every day to be getting as much rate as we can to ensure that we are at a minimum at rate adequacy. That's a very important thing that is a priority for us as an organization. One last quick comment on the top line that we've talked about in the past, which, again, I think speaks to quality integrity. Our new business relativity for the year was above 100 or above 1, if you will, which means we are charging a bit more for new business than renewal again for the year.

Moving on to the losses. Rich covered that. I know there may be some folks maybe at a high level, okay, 60.6. For those of you that subscribe to the [but 4], you may be looking at the 59.3. What you may not realize and I'm about to share with you is that we've had some fire losses in the quarter, and it wasn't in any particular operating unit. It was pretty widespread. And that added somewhere between 1 point -- maybe 1.25 to the loss ratio. We saw it both in the insurance business amongst various operating units, and we saw it in the reinsurance business, too. So we are focused on that, trying to make sure that there's not something that we're missing here. And to the extent there is, we want to be tending to it quickly.

One last data point, which, again, I've qualified in the past, and I'm going to qualify now is not the whole story, but we believe it is a relevant data point is the paid loss ratio. A couple of historical data points that I'm going to give it to you for the -- these are going to be for the full year, that way, you don't need to worry about seasonality or anything along those lines. Paid loss ratio for 2017, 57%; '18, 57%; '19, 55%; '20, 52%, '21, 45%; '22, 45%. You can interpret that and extrapolate any way you want. I view it as a data point that doesn't tell the whole story, nevertheless, a valuable data point.

Rich talked about the expense ratio, 27.8%. Certainly, the whole team on this end we continue to try and make sure that we are getting good value for the money that is spent. Obviously, as it relates to compensation, we are trying to make sure that we have done a reasonable job on behalf of our colleagues keeping up with cost of living, and I think we've done a good job staying on top of that. And as Rich also mentioned, we have ongoing investments on the technology front, which we think are very important for the future. Could it tick up a little bit from here? Yes. Do I think that we are focused, as Rich said, in keeping it below 30 and remaining competitive? Absolutely.

And we are constantly making sure that our acquisition cost is thoughtful. Maybe just spending a couple of moments following on Rich's comments on the investment front as he flags duration sitting at 2.4 years, the book yield 3.6%. And I think as Rich flagged and I will flag again, the new money rate these days is north of 4.5%, we're flirting with 5%. So I will leave it to others to fill in the blanks as to what this means for our economic model.

But obviously, when you think about the spread between the book yield and the new money rate and what we're able to achieve and you extrapolate that for what it means for our economic model, I think it is very encouraging. One last quick comment on the investment front. While we are not in a rush and we are going to do it in a very thoughtful way, we certainly are considering beginning to push that duration out towards 2.6 years, maybe more towards 2.8 years over time. But again, we are not in a rush. We're going to do that in an opportunistic way as windows open and close.

So since I'm onto most of you folks that as soon as the Q&A is over, everyone starts hanging up, I'm going to just offer a couple of quick summary comments, and then we will move on to the Q&A. I think we had by any measure, a very strong year. And I think that when you look at how the business is positioned, while nobody knows exactly with certainty what tomorrow will bring, we have a lot of pieces laid out in good position for the coming years to be very attractive for the business.

I think that is both the case on the investment side as well as on the underwriting side. As I suggested a few moments ago, you can see where the book yield is and where the new money rate is and what that means. In addition to that, you can see the rate increases that are earning through and what that is going to mean for the business. I know that there are some that are wondering why is it that we have not dropped our loss picks more quickly. And it is certainly something that we look at and we visit and we revisit.
But you need to please understand that we are acutely aware to some of -- of some of the unknowns and how leveraged the model is, and we want to make sure that we do not take the cake out of the oven prematurely. So with that, I think people have probably had more than enough of me. Bo, why don't we please open it up for questions please. Thank you.

Question and Answer

Operator

[Operator Instructions] We'll take our first question this afternoon from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the cat reinsurance side. So it sounds like you guys did see some good opportunities at January 1. Can you just give us a sense of how much growth and how big of an opportunity that presented for Berkley?

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

Yes. I think that -- we saw it as an opportunity, but I don't think you should assume that it's reshaping our book of business as an organization. So I think that we are opportunistic. We put more than a toe in the water, but not more than a foot. And that's just because of our view of volatility. In addition to that, we're going to see what type of opportunities there are in the first quarter and the balance of the year, particularly with some shortfalls in certain market participants covers.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Did you guys also change your own outbound reinsurance? Do you have a higher retention this year? Were there any changes on your own program?

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

Yes, and you'll get more detail than you're probably looking for in the K. What I would tell you is that our retention did go up. But relative to the scale of the organization and the earnings power in the quarter, it's not particularly material.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then you have a lot of good market commentary on different business lines. You've in the past spoken about, right, 15-plus premium growth. That's obviously come down reflective, right, of some of the trends in the comp and in liability lines. How do you think when you put everything together, and I know that's hard, where do you think the top line growth could trend over the coming year?

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

Yes. So clearly, comp has its challenges. As far as the comment you made about liability, if you don't mind, Elyse, I'd like to get a little bit more nuanced. I think it was really just predominantly a piece of the D&O or the D&O market, the piece of the professional liability that being D&O that is becoming notably competitive. And then we're seeing more competition in the large account excess space. The rest of the GL and umbrella market we think is reasonably attractive even in the environment with severe social inflation, we think that it makes sense to us.

As far as your question about growth, we'll have to see how it unfolds. I would tell you that based on the limited data I have on January so far, early returns are encouraging. But my ability to speak at a detailed level beyond that, I just wouldn't want to mislead you. But we see a lot of opportunity, and we're watching the opportunity shift over time from one product line to another. So I think we have good balance to the shift, but we also are very nimble amongst the different parts of the business.

Operator

We go next now to David Motemaden at Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

My first question is I'm just wondering if there were any changes at all to how you're thinking about loss trend here in the quarter, both on short tail and long tail lines. I know last quarter, you said at around a similar rate, excluding comp that you're meaningfully above loss trend or I think it was 100 basis points above loss trend. And I thought the commentary this quarter was -- I think you said it comfortably helping you keep up with loss trend and perhaps exceeding trend. I guess I'm wondering was there a change in your blueprint.

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

I think that I probably need to choose my words more carefully. I think from our perspective, by and large, in the aggregate, we are exceeding loss trend at this stage. So if I left you with a different impression, that would have been my mistake.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. So no change to some of your view of short tail or long tail?

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

No, nothing material has occurred over the past 90 days that has changed our view.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then maybe a quick follow-up for Rich. Just -- could you -- I know for the total company, it was immaterial, but on the prior year reserve development, could you provide that by segment?

Richard Mark Baio
Executive VP & CFO

We typically provide that information in the 10-K as opposed to on the call.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Okay. Great. And then maybe if I just follow one more on -- add one more on. If I think about your commentary, Rob, was pretty interesting on the property side. And I guess I'm wondering, did your view of your own reinsurance costs and retention change your view of the level of primary pricing on the property side during the quarter? Is that -- I guess maybe talk about how that evolved over the course of the quarter.

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

Honestly, I think if anyone was paying attention, you didn't need to be brilliant to figure out that property rates were going to be going up for reinsurance and going up considerably. So I don't think anyone knew exactly down to the dollar or the percent what it was going to be, but you knew it was heading north.

And it was just surprising to me that we didn't see more firming during the fourth quarter, given everybody knew where the cost of capacity was. And I guess I could have followed that if people -- if these covers worked in a risks attaching manner. But since they operate in the losses occurring manner, you know that the capacity that you're borrowing from reinsurers, that cost is going up and it's going to be covering the business that you're writing in the fourth quarter.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

No, that makes sense. Yes.

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

So to me, the reason -- honestly, we thought there was going to be more firming in the fourth quarter. I think it's coming and certainly in the first half of this year. But it's almost like people need to wait for them to be hit over the head with the reinsurance costs really hitting their P&L as opposed to really taking a step back and thinking about how you match up the exposure with the expense.

Operator

Next, we'll go to Mark Hughes at Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

I mean Rob and Bill, I hope you're doing well also. On medical inflation, you had mentioned workers' comp, you need to keep an eye on it. I think you said that there was potential for susceptible to inflation. Are you seeing anything yet on the medical front?

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

I think that we are paying attention to medical care providers and the challenges that they are facing. By and large, most hospitals and health systems find themselves in a very difficult place if you look at, quite frankly, their financials, their economic models. It's not sustainable. So ultimately, they're going to have to figure out a way to improve their position.

And they're certainly not going to get a better result or a better outcome from the public sector or the government. So that leaves the private sector that they're going to be looking to get their pound of flesh from to improve their position. In addition to that, while there's been a lot of discussion and a lot of noise, I don't see anything in the immediate term that is, again for the private sector, going to change the realities of pharma inflation. So when we look out at where things are going, we think that there is a challenge ahead, and that is going to play a meaningful role in driving workers' comp claim costs. In addition to that, we think, as I suggested, rating bureaus they seem to not be backing out the COVID frequency effect.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

You think the same thing is happening in commercial auto, there's too much reliance on the last couple of years, and that's why it's gotten more competitive. That's why you tapered your business there.

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

I think there are a lot of challenges with commercial auto. I think certainly, one of them is people paying attention to frequency trend. But I think severity trend is for society, for the industry, is really the bigger issue. And when you look at the -- how emboldened the plaintiff bar is at this stage, I think the commercial transportation industry has a bit of a bull's eye on its chest, and we -- who ensure them need to take that into account. And when you drive up and down I-95 at this stage, you see more billboards for plaintiff attorneys than you do for fast food. So that's probably not a great sign.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And finally, anything on the auto premium that you noticed that might be some signal in the economy?

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

Yes. Obviously, it's a lagging indicator, but we continue to see auto premiums coming in at quite a healthy level, and we remain encouraged by that and what that means for our business and what that means at a more macro level, to your point, for the health and well-being of the country. That having been said, we, I'm sure, just like you are paying attention to what type of teeth the interest rate hikes have for the economy and by extension, our clients.

Operator

We'll take our next question now from Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I have is just a follow-up on workers' comp. I guess we've seen some reasonably large numbers in terms of potential decreases in NCCI. I'm just trying to understand how much pressure we should be thinking about there. I know your book is a little more nuanced than that, and there's a lot of excess and so forth. So I just wanted to understand from you all because it sounds like you still have a view of loss trend that certainly sounds like maybe from your comments is at least positive, let alone may be materially positive versus just big price downs that we're seeing kind of coming out of NCCI. So can you help me think through that? And what kind of impact that may have on the business going into 2023?

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

Sure. I mean from our perspective, we think the -- we're using a very broad brush here. And I think we need to be mindful of that. And we operate the business with a very, very fine brush. So there's a bit of a difference I think at a macro level, we need to be conscious of the fact that there have been rate decrease after rate decrease after rate decrease and a lot of that decision-making is based on information that people collect through the rearview mirror.

And to make a long story short, we just think that you can't wait to see the problems in the results. You need to anticipate that. And I think we're very focused on that. So I think a lot of state rating bureaus, NCCI, I think that they just need to be, we need to be as an industry careful that we are conscious of what is going on out the front windshield, not solely consumed by what's in the rearview mirror.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And then the second one was sort of a follow-up on some of the growth questions that you guys have received. I mean is there anything to read into the buyback you did this quarter? And seems like E&S property, maybe some of the property kind of coming out of standard lines and the foot in the water on reinsurance in real tangible ways that you can deploy capital. But is this an indication that maybe you're not seeing as much capital deployment opportunity as you would have liked, and we might actually get a little bit more back in buyback over the next year.

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

I think the answer is that we do see a lot of opportunity before us. And we are conscious of the capital needs in order to support that. I would suggest to you, I would not read too deeply in based on what I can see so far, granted it's just very early in Q1, and I don't have a lot of data but I would encourage you not to read too deeply into the fourth quarter as far as being an indicator for opportunity going forward.

And again, we have a view as to a variety of things, both how we see opportunity going forward. We also have a view as to what the capital that's required to support that. And finally, we have a view as to what we think the value of the business is. And we put that all together and we try and make decisions from there.

Operator

We'll next now to Ryan Tunis at Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

A couple for me. First one, just trying to parse out what's happened with the loss ratio this year, at least in my model, because I'm confused because in my model with this quarter baked in, the underlying loss ratio looks kind of flattish, '21 to '22. I mean I was hoping, Rob, maybe you could unpack like -- there's obviously noise, but how much did you -- did loss picks go down or whether it was just -- what give you kind of -- what was your view of what the core margin expansion would have been this year, if not for noise.

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

I would have hoped that we could have done a little bit better. But as I alluded to earlier, the fires created some non-cat noise, which we are trying to make sure that we understand and that, that is not a permanent part of our loss activity. So as I said just earlier, that was probably worth more than 1 point, not more than 1.5 points.

Ryan James Tunis

Autonomous Research US LP

Got it. And then yes, so a follow-up on the fires. We've never really seen that type of non-cat volatility here. And I guess my interpretation of that was your per risk reinsurance program that attaches pretty low, but a little more than a point is close to like $30 million. So...

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

It was a lot of -- fires, yes.

Ryan James Tunis
Autonomous Research US LP

So it was a frequency -- Okay. It was a frequency of...

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

It was a frequency of severity on a gross basis. And honestly, it wasn't concentrated in any one of our operations. And I'm not a big believer in good luck and bad luck, which is why we are digging.

Operator

We'll go now to Josh Shanker of Bank of America.

Joshua David Shanker
BofA Securities, Research Division

So look, [I only preface the thing] what you guys do is hard. It's a very competitive process with a lot of transparency. And it's quite attractive. You're not the only ones who want to write that business. I think about 4 quarters ago or maybe 5, you said that you felt that, broadly speaking, your book got to the rate accuracy you wanted, and you're now pivoting to the growth phase and exposures. On a backward-looking basis, did you grow as much as you wanted to with the opportunity set as you thought it was?

I look at the premium growth this quarter, the lowest quarter of the year, it's been better throughout the year. But it seems like it's kind of pacing with your pricing trends on renewals, and there is a new business baked into there as well. Have you been able to grow with the tenacity that you hoped a year or 15 months ago when you sort of announced that pivot?

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

Josh, to be perfectly frank, you remember what I say, better than I remember what I say. Nevertheless, I'm sure you're correct. And obviously, we all look out and we try and anticipate and we try and figure out what does that mean? I think in hindsight, you always say to yourself, well, I could have done this. We could have done that. Maybe we want to squeeze a little bit more juice out of the orange and hopefully, that's a learning opportunity to find new mistakes to make in the future as opposed to repeating old ones and no one's effort to optimize.

To make a long story short, I think in many pockets of the organization, we did really well and trying to make the most of it. I think there are some pockets of the organization where we did really well quite frankly, being disciplined and letting business go. As I suggested earlier in the call, we have different cycles going on -- same cycles but different products at different points in the cycle.

I think one of the pieces that we anticipated but not fully, call it, whatever, 15, 18 months ago, I think that we did not fully appreciate what was going to be happening with loss trend, particularly inflation. We were talking about social inflation, and I think we had our finger on that pulse. I think economic inflation, we saw it coming, but it proved to be even more than we had expected.

So I think those would be 2 things that when I made that prediction, those were realities we had to factor in even more along the way than I had when I had suggested it. But I think there are parts of our business, particularly our E&S businesses and others and many of our specialty businesses that I think have done a great job getting a lot of traction. On the other hand, I strongly applaud, for example, our colleagues that are focused on workers' compensation and the discipline that they have exercised.

Yes, when you look at one of the pages in our release, you see the comp line growing, but that's really driven by payroll. If you look at the number of accounts, that product line has really shrunk for us because of my colleague's discipline. So directionally, it played out the way for a lot of product lines I would have anticipated. Degree wise, there are places where I thought the [porridge] was going to be hotter and there are places where I thought it was going to be colder.

Joshua David Shanker
BofA Securities, Research Division

So okay, the prediction game is hard to do. You made the point earlier that you run with a lot of leverage. And I just want to dovetail that on what you were seeing before. And you got to be careful, but -- there's some people who -- if you're loss ratio deteriorates by 200 basis points, I imagine there would be a lot of unhappy people on this call. But if in doing that, you were able to grow your portfolio 15%, 20% more than you otherwise would have done so. That seems to me a pretty good trade in the long run. Am I right about that? Or is growth just transient?

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

I think that the point that I was trying to make is, when we think about our loss picks, we need to be very thoughtful and measured because when you make a loss pick, the assumption, there's a lot of sensitivity. So if you are overly optimistic, even if you're modestly optimistic that is very leveraged and that could be a problem. And that's why we, again, do not want to declare victory prematurely as we see things season out, we will start to recognize our accuracy or potentially some caution.

Joshua David Shanker
BofA Securities, Research Division

And given the good ROEs, is there any reason to relax a little bit on the discipline? That's going to sound bad, but letting a little bit more business even if it makes the loss ratio to deteriorate a bit because it will make sense for the long-term growth of the company.

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

Josh, what you're pointing to, I think, is one of the hardest things to do in this business and it's striking the balance, if you will, between optimization of rate versus exposure growth. And it's something that we look to do, not just at a macro level, at a very granular level and optimizing that. So I'm sure in hindsight, there will be parts of the business that we will look back on and say, I wish we had leaned into it a little bit more. But in the meantime, I think we're just trying to make the best judgment we can every day.

Operator

We'll go next now to Yaron Kinar at Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I don't want to put words in your mouth, Rob, but I think what I heard you say was in the right market, you may look to lean more into property, both in insurance and reinsurance, if the rates are adequate. If that is the case, can you maybe help us or indulge us with your thinking about this because on the one hand, I would think it should certainly improve the loss ratios and returns.

On the other hand, one of the things I think differentiates Berkley is a very, very stable loss ratio and underwriting margin. And I would think that underwriting margin probably would incur greater volatility in that scenario. How do you think about that trade-off and the opportunity set?

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

Yes. So we're very focused on risk-adjusted return. And we think volatility, as you point out, is an important part of thinking about risk. Do I think that we are going to dramatically shift the risk profile of the organization to become a heavy cat exposed writer? No.

But do I think that there is opportunities within the property market where rates are going to get to a point that they haven't been in some number of years, and the risk-return balance makes more sense than it has? Yes, I do. And to that end, are we going to be prepared to participate in a more meaningful way than we would if it was a less attractive market? Yes, sir, we will. But do I think you should think about we're going to dramatically shift our risk profile and how we think about volatility. No, sir. I don't think you should.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Okay. And then I think in response to a previous question, you talked about increasing your premium retention, just given the dynamics in the reinsurance market. Can you also maybe talk a little bit about any structural changes that you may have had in your reinsurance program, whether it's lower ceding commissions or higher retention rates or move to XOL, what other changes can you call out here?

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

Yes. I think ultimately, on a net basis, it's going to prove to be something very similar for the business and by extension for our shareholders. As I said, the retention moved up incrementally relative to the scale of the business and the earnings power of the business on a quarterly basis, forget about on an annual basis. So again, I think that you should not expect that in the event of a cat, we have a dramatically different risk profile. And that, again, is -- that's by design.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And maybe a follow-up to that. Are there lines of business where your appetite is somewhat curtailed by the fact that reinsurance appetite or structures have changed?

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

No. Fortunately for us, we have a lot of long-term relationships amongst reinsurance partners. And I think that they are conscious of the fact that we are an organization that is a collection of people of expertise and discipline. And I think people understand that we are gross line underwriters.

Operator

Next, we'll go to Brian Meredith at UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here for you. Couple of brokers you've been citing the lack of M&A and kind of transactional stuff going on this quarter versus the fourth quarter last year is a reason for strong organic growth. Are you all involved in that business? Could that perhaps have been part of kind of a difficult comp headwind for somebody like professional liability and other areas?

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

Yes. So to the point that you're raising, we kind of -- we do plan the transactional space. I perhaps mistakenly lump that in there with D&O. They oftentimes go hand-in-hand. And yes, I think that part of what we're seeing in the D&O market is a competitive environment, but even more so, it's just a reduction in demand.

During the heyday of D&O a couple of years ago or over the past couple of years. That was really in part not just driven by losses and discipline on the underwriting side, it was the IPOs and the specs were enormous. That level of activity. And on the transactional side, I think as we all have an appreciation, the level of M&A activity has slowed dramatically as well. So yes, there's a bit more competition there, but even more so, it's the reduction in demand than the addition of supply.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then I guess my second question is, are you seeing any, call it, increase and kind of competitive from the standard markets vis-a-vis the E&S markets? Or does it continue to flow that way towards the E&S and out of the standard markets?

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

We still see a pretty healthy flow of business coming into the E&S market, both on the casualty side on parts of the professional market and it's building momentum on the property side as well. I think I may have made the comment in the past, and it's still very accurate today. The standard markets, particularly the national carriers, if it is in their appetite, it is jaw-dropping how aggressive they are.

If it's outside of their appetite, then it's a great opportunity for the rest of us that are happy to run around to pick up the crumbs that fall off their table and price them as we see fit. But the standard market, their appetite, ebbs and flows and moves in different directions, we continue to see a reasonable flow of business but if it's still within their strike zone, look out, and step out of the way.

I would tell you, one area that we have seen, perhaps, moving back towards the standard market, which isn't a huge deal for us, but it's worth noting, is large account products liability. Why? I have no idea, but the standard market, particularly national carriers, seems to have a thirst for it. And I think we all know how that's going to end.

Operator

We'll go next now to Meyer Shields at KBW.

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

A couple of brief questions because I know it's late. One, am I reading too much to be worried by the fact that the expense ratio bogey is 30%. You've been well below that for a while.

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

I don't think it was 30%. I think what Rich and I perhaps failed to articulate was it's going to be comfortably below 30%. I don't know if we're going to be able to keep it below 28%, we'll have to see what happens with our earned premium, we'll have to see a variety of things, and we're making investments. But I think that our expense ratio will remain competitive and remains a focus, and we'll be comfortably under the 30%, as Rich said.

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

Okay. That's helpful. Second question, I guess, broadly, like I know on the insurance side, we've been talking about social inflation for a while. And I'm wondering with regard to the actual insurers, is there any push for them or by them to get higher limits to contend with social inflation?

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

Yes. I think the short answer is, yes, but. So if you are an insurer, you're sitting there saying, well, I'm concerned and my agent or broker is perhaps advising me to buy more capacity because of the environment. But at the same time, the cost of capacity may be going up. So it's a matter of what can I afford.

One of the things sometimes we're seeing people do think about an SIR or a large deductible as a way to try and figure out a way to move dollars around as to what they're buying. But I think that there is a broad awareness in society. I think distribution is advising. But I think, ultimately, it's really a matter of what people can afford.

And I think it's an important point because what you're touching on is something that society doesn't always really appreciate. And that is social inflation. And what that means for claims activity, it's not paid by the necessarily the insurance company long term. The insurance company just turns around and raises the rates. Ultimately, the bill is paid by society.

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

Okay. No, I completely agree with that just both with the observation and the perception of it. And final question, if I can. If we pinky square to read the 10-Qs and 10-Ks anyway, can we start getting reserve development by segments on the call?

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

Yes. I'll talk to somebody who makes these decisions. We probably have like a dozen lawyers that are deciding what we can and can't say. So the answer is, well, I appreciate the gesture of the pinky square, and it will be in the Q and to the extent that anyone dying to know what it is, assuming that there's no lawyer that pulls their hair out, Rich will have it available.

Operator

And we'll take our last question from Mike Zaremski at BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess just -- I think this was touched on in maybe Brian Meredith's question. But I guess in terms of the lack of discipline, that's your, I think, a term you used regarding the rate environment recently. I mean could some of that be -- just competitors simply feeling that investment income is a much bigger plus than it was before. So it just simply makes sense. And maybe I'm wrong, but even on the work comp side, there's an element of carriers being able to dictate rate a bit around the state bureau suggested rates. So just curious if you think that's a theme that we should be thinking about as we're thinking about pricing into '23.

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

Mike, I don't see us getting back anytime soon to -- if I'm understanding it correctly, call it, cash flow underwriting or something that's a stepping stone to that. I think the reality is that not everyone's investment income is taking off exactly the way ours is because a lot of people, quite frankly, had a much longer duration.

So from my perspective, do I think over time, if rates stay up at the levels they are or higher, do I think that can eventually have an impact? Yes, I guess it could. But I don't think that's what we're seeing today, if you want to talk about, for example, workers' compensation.

I mean if you really want to get granular about workers' compensation, the fact of the matter is the people that are doing the irresponsible things are the same people that did the irresponsible things the last time we were in a trough. Sometimes they're in the same place, sometimes they're in a new place. But it's the same people that I don't know if they don't understand or they don't care, but they're creating mayhem in the market. We've kind of seen some version of the movie before, and we'll just wait it out.

Michael David Zaremski
BMO Capital Markets Equity Research

Understood. As a follow-up also to a previous question on the impact from higher reinsurance rates. And I heard you say probably not too material given the overall size of the organization. Just want to make sure are there any nuances we should be thinking about? Like are casualty ceding rates changing and we should be thinking about that? Or is there still kind of more of the book in terms of your reinsurance purchasing that could come later in the year that we're still kind of TBD?

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

We buy many contracts, and they renew throughout the year. I think it's how you should look at that. I think for our reinsurance and retros, did we pay a bit more? Yes, we did. Do we have every intention of passing that increased cost along? Yes, we absolutely do. And as far as our insurance and our cat costs, it's the same story. There are some cases, clearly, where we're paying a bit more, and we have a choice, whether the company allows that to erode our margins or whether we pass that on. And it is our intention to pass that along in the cost of our product that we sell.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And lastly, thank you for the paid loss ratio comments. And just curious if you've been surprised at where the paid loss ratios have been settling out lately. Or as Berkley, since you guys have been sounding the alarm on social inflation for a while, maybe there's kind of a mix or just reshifting you guys have been doing to help keep those paid loss ratios from getting back to, I guess, pre-pandemic or longer-term levels?

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

Look, Mike, we don't have it down to a granular level that -- or basis points, but directionally, it has unfolded as we had anticipated. And we'll have to see what that means over time. But again, directionally, it is unfolding as we had anticipated.

Operator

And Mr. Berkley, we have no further questions. So back to you for any closing comments.

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

Okay. Bo, thank you very much. We appreciate everyone's participation this evening, and we will look forward to catching up with people in give or take 90 days. Have a good evening all. Thank you.

Operator
Thank you, Mr. Berkley, Again, ladies and gentlemen, thank you for joining W.R. Berkley's Fourth Quarter and Full Year Earnings Conference Call. We'd like to thank you all so much for joining us. We wish you all a great evening. Goodbye.