S&P Capital IQ

CONTENTS

W. R. Berkley Corporation NYSE:WRB

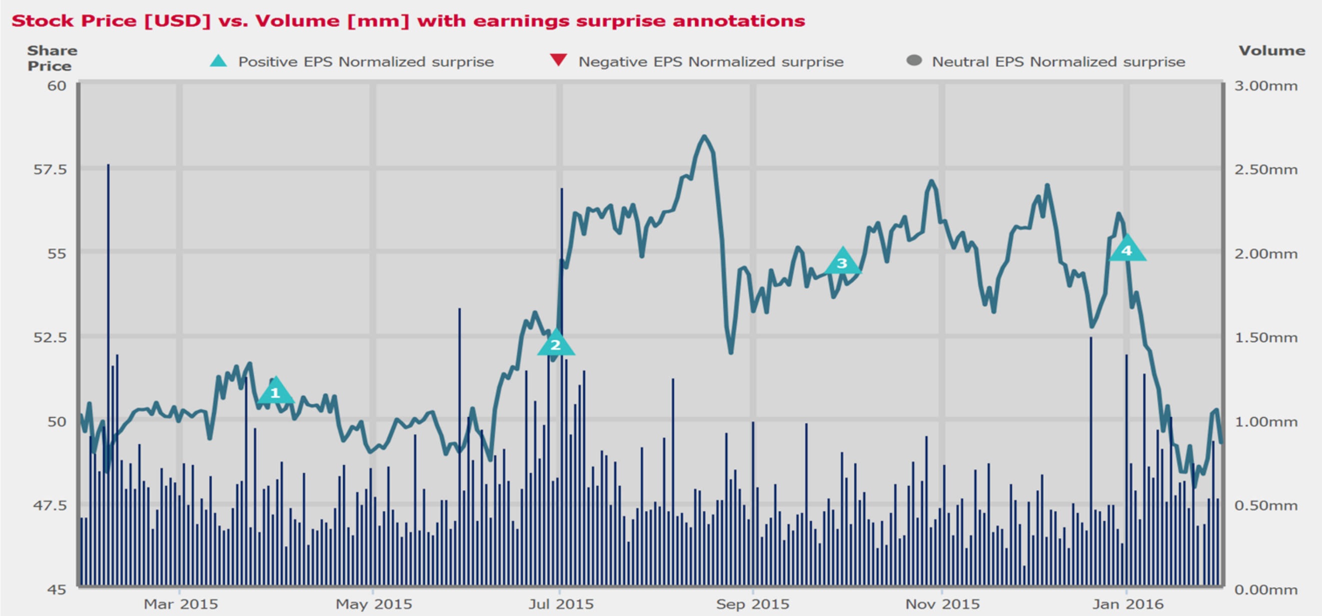
FQ1 2016 Earnings Call Transcripts

Tuesday, April 26, 2016 9:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.85	0.89	▲4.71	0.80	3.41	3.52
Revenue (mm)	1556.40	1527.34	▼(1.87 %)	1570.40	6490.75	6538.37

Currency: USD
Consensus as of Apr-26-2016 8:48 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.75	0.80	▲1 6.67 %
FQ2 2015	0.80	0.81	▲2 1.25 %
FQ3 2015	0.83	0.91	▲3 9.64 %
FQ4 2015	0.80	0.89	▲4 11.25 %

Call Participants

EXECUTIVES

Eugene G. Ballard
Executive Vice President of Finance

William Robert Berkley
Chief Executive Officer, President and Director

William Robert Berkley
Founder and Executive Chairman

ANALYSTS

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Kai Pan
Morgan Stanley, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Presentation

Operator

Good day, and welcome to the W.R. Berkley Corporation's First Quarter 2016 Earnings Conference Call. Today's conference is being recorded. The speakers' remarks may contain forward-looking statements.

Some of the forward-looking statements can be identified by the use of forward-looking words, including without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will in fact be achieved.

Please refer to our annual report on Form 10-K for the year ended December 31, 2015, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results.

W.R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

I would now like to turn the call over to Mr. Robert Berkley, President and Chief Executive Officer. Please go ahead, sir.

William Robert Berkley
Chief Executive Officer, President and Director

Okay. Thank you, Bridget. And good afternoon, everyone, and again, welcome to our first quarter call.

So on this end of the phone, I am joined by our Executive Chairman, Bill Berkley, as well as our Executive Vice President and Chief Financial Officer, Gene Ballard. The game plan for the call today is I'm going to start off by offering a few comments on the marketplace, a couple of sound bites on how I see, we see the quarter. Then Gene is going to be running through the numbers with you all, and then the 3 of us will be available to address any questions that you may have.

So with regards to the market, by and large, a natural continuation of what we saw in the second half of last year.

The insurance marketplace is -- continues to become incrementally more competitive, while the reinsurance marketplace seems to be becoming gradually a little less intensely competitive, though that is a very incremental change.

Having said this, while it may seem somewhat business as usual, there are a couple of events that are worth noting, that from our perspective could impact the marketplace in not an immaterial way. First of all, I think at this stage, everyone is reasonably familiar with the recent cat activity that not only went on during the first quarter, but was certainly setting up the second quarter for a material series of cat losses as well for the industry.

Second of all, it's something we touched on last quarter. There is a fair amount of dislocation in the marketplace that is stemming from the degree of reorganization as well as M&A activity.

And I think we've been talking about this again for a couple of quarters at this stage and we're starting to see it really materialize in a distraction for some and an opportunity for others.

And then finally, we are seeing a bit of change in the reinsurance marketplace, and if there was ever a part of the industry that deserved a break, it was probably the reinsurance market these days. And that is a few years ago, we started to see a change in buying habits of some of the large purchases of reinsurance.

Ultimately, they ended up increasing their retentions and reduced the amount of reinsurance they bought in a pretty dramatic way. Loss activity has come through, and as a result of that, it would seem as though they are yet again changing their habits and they are reentering the marketplace as customers.

So again, I don't think that, that is a silver bullet for the reinsurance market, but may be helpful in the balance between a supply and demand.

One other comment in the broad sense about the marketplace, and again, something I had mentioned last quarter, and it had to do with the balance, the relationship or perhaps the tension at this stage between distribution and carriers.

Something that we've been paying attention to and have been actually taking notice of for some time, there seems to be a growing level of tension between carriers and distribution, and ultimately, we are concerned that this is actually going to become more and more pressurized as the insurance marketplace becomes more competitive and pricing potentially gradually erodes.

Moving on to the company and its performance during the quarter. And I'm going to keep my comments brief, otherwise my colleague, Gene, gets quite cross with me. So from our perspective, a pretty solid quarter, a good way to start the year. The growth coming in at about 6 points. Of that, about 1 point was associated with rate. Certainly, growth, it's something that we pay a lot of attention to. We want to make sure we understand it. We want to make sure that it's well controlled. And I'll share with you a couple of high-level metrics that we look at to make sure we have our head around the situation.

So for starters, we have a look at our renewal retention ratio, which has consistently been around 80% and it remains at that level. And another metric that we look at is we try and make sure we understand the pricing or the rate that we're charging for new business and we compare that rate for our new business to what we would be getting on our renewal business. And to make a long story short, we are charging at incremental premium above or an incremental additional premium for new business when compared to the renewal business, hence, giving us a degree of comfort that the integrity of the book is remaining intact and we are not buying business or burning our way into the market in any way shape or form.

I know we talked a bit about how the market is becoming more challenging from our perspective. There are still a number of opportunities out there, and we think our structure lends itself for us to be able to be a bit more nimble, to use a bit of a scalpel or a laser as opposed to a cleaver. So Gene is going to be talking about where we're growing, but having -- and he may speak to it in somewhat of a broad sense, but I would recommend or remind you that the growth is really in a very granular level, where it's operating in a bi-operating unit in particular divisions. And for that matter, there are some parts of our business that have grown dramatically, and there is certainly plenty of our -- parts of our business that actually are shrinking.

With regards to the loss ratio, 60.4% in line with our expectations. Certainly, we did have some storm activity, but again, not anything as extraordinary or beyond what we would have expected for this time of the year. Cat activity certainly can exist in the first quarter and has historically for us, but it's not an overwhelming number. Part of it goes to perhaps a little bit of luck, but I think, by and large, us not having a larger or more outsized loss stemming from cat activity in the first quarter has more to do with our strategy around how we manage cat and how we think about volatility and make sure that we are getting paid appropriately for it.

Expense ratio to 33.1% may, on the surface, appear to some as though we took a bit of a step backwards compared to the first quarter of '15. Having said that, if you normalize that number, and again, Gene is going to be sharing some numbers with you shortly, I think it's actually very much in line and it is certainly an improvement from what we saw in the second half of '15.

Other reserves continue to develop to the positive. Again, I think we're up to something along the lines of quarter #37 of a net positive development at this stage. Having said that, it's really just a reflection of the approach that we take to setting reserves, and our view is that we want to err, if we are going to err, on the side of caution with the initial pick, and as those reserves season out and we have more information, we will tighten up those picks.

A couple of other comments on the investment front. Certainly, kudos to our colleagues that are managing the investment portfolio. Our yields at the end of the quarter compared to the end of the -- rather, I'm sorry, our duration at the end of the quarter compared to the end of the year had shortened up a bit, from 3.3 to 3.1, while they were able to maintain the same level of yield as well as the same quality.

And then finally, a couple of comments, and you may have picked this up in our K that we filed recently. We started 6 new operations during '15, and we've announced 1 new operation that perhaps for some was particularly noteworthy this year and that is our organizing and planning to enter a particular niche within the personal line space.

When we first made the announcement, we got a few questions around why would you be going into the personal line space. And ultimately, our view is that this piece of the personal line space is no different than, quite frankly, our -- much of our overall strategic plan, and that is to focus on specialty products, specialty lines, where ultimately, it's knowledge and expertise, which is how one differentiates themselves, and ultimately, focusing on a customer base and a distribution where they are willing to pay for the service and expertise.

So I'm going to pause there and then I'm going to hand it over to Gene. And again, our Chairman and myself will be available to join Gene for any Q&A, once he's done. Thank you.

Eugene G. Ballard
Executive Vice President of Finance

Thanks, Rob. Well, as Rob said, we started the year with another solid quarter, with operating income up 8% to $115 million and operating income per share up over 11% to $0.89.

The improvement over a year ago was attributable to a 12% increase in underwriting profit, a 5% increase in investment income and a 3% decrease in the average number of shares outstanding.

Before I go through the numbers, I want to mention that you'll see on Page 5 of the earnings release that we have combined the domestic and international businesses into 1 financial reporting segment. Background of that is that when we established those segments a few years ago, the domestic segment wrote essentially all of its business in the U.S. and the international segment wrote nearly all of its business outside of the U.S. But since then, our profile is very different. It's very different today.

Now our largest international company, which is our Lloyd's Syndicate, for them, the majority of the risks are actually located in the U.S. and for 11 of our U.S. profit centers that are now ensuring risk outside the U.S. in 2016, and we expect that to grow significantly in future years.

So the distinction between the 2 segments was becoming less meaningful, and we decided to put them together. We've posted a schedule on our website that presents the 5-year historical underwriting results for the new insurance segment.

Okay. Going back to the release then. Overall, our net premiums written increased by 5.6% to almost $1.7 billion. For the Insurance segment, premiums increased 4.5% to almost $1.5 billion. The growth was led by a 21% increase in workers' compensation business, with significant increases from both our monoline work comp companies as well as our specialty businesses.

Professional liability lines were up 8.5%, and property and other short-tail lines were up 1.5%.

On the other hand, commercial auto, for commercial auto, premiums were down 7% as we continue to emphasize higher rates, and other liability business was down 5%.

For the reinsurance segments, premiums increased 16% to $175 million, with strong growth in the U.S. treaty business, and that's primarily due to growth in structured property reinsurance.

I had mentioned these before, these are -- this is structured business that has very limited cat exposure and carries a lower-than-average loss ratio that is partially offset by higher profit commissions.

Our overall underwriting profits increased 12% to $100 million, and the combined ratio improved by 0.4 point to 93.5%. Our current accident year loss ratio before cat activity was 60.2%, down almost 1 point from a year ago. Catastrophe-related losses were $16 million. That represent 1 loss ratio point and is right in line with the cat loss ratios for the first -- for both first quarters of both 2014 and 2015.

Loss reserve developed favorably by $12 million, with nearly all of the improvement in the Insurance segment, and as Rob said, that's now our 37th consecutive quarter with positive development.

That gives us a calendar year loss ratio of 60.4%, down 0.8 point from a year ago. Our overall expense ratio for the first quarter was 33.1% compared to 32.7% in the first quarter of 2015. The Insurance segment expense ratio was 32.5%. That's up 0.1 point from the first quarter of '15, but slightly below the run rate for the last 3 quarters of '15. And the 2016 first quarter expense ratio includes 0.3 point that are directly related to the 6 business initiatives that Rob referred to. So if you normalize the expense ratio for those investments, the ratio for the first quarter actually declined compared to the prior year by 0.2 point.

The reinsurance segment expense ratio increased almost 2.5 percentage points to 32 -- 38.2%. That increase was due primarily to the growth in the structured property business that I mentioned earlier as well as to slightly lower overall earned premium volume for the segment.

Investment income was up $6 million or 5% to $130 million. 3 main components to that. First, income from fixed income securities was up $1 million to $109 million, with an annualized yield of 3.3%, which is unchanged from the first quarter and the full year of 2015. Earnings from investment funds were up $10 million to $17 million, due primarily to improved results for energy funds that gave the investment funds an annualized yield of 5.5% for the quarter, which is in line with our target for investment funds. And the third item, income from all other investments declined by $6 million, due to above-average returns for the merger arbitrage account in the first quarter of '15.

At March 31, 2016, unrealized investment gains were $258 million. That's up $77 million from the beginning of the year. The average rating was unchanged. It is AA-, and as Rob mentioned, we shorten the portfolio from 3.3 years at December 2015 to 3.1 years at March 31, '16.

The overall tax rate was 31.1%, which is unchanged from the overall tax rate for the full year of 2015. That gives us net income of $115 million and overall return on equity of 10.4% and for comparison purposes, a pretax return on equity of 15.2%.

Also during the quarter, we repurchased 734,000 shares of our own common stock for $37 million. And for the first 3 months of the year, our book value per share increased $1.44, which is an increase of 15.4% on an annualized basis. Thank you.

William Robert Berkley
Chief Executive Officer, President and Director
Thank you, Gene. Okay. Bridget, if we could open it up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Rob, one question. On the reinsurance business, what drove the sort of lift in premium there? Just the first time we have seen double-digit increases in reinsurance for some time now. So I'm just curious, is that something that you expect will continue and is reflective of opportunities you see in the market?

William Robert Berkley
Chief Executive Officer, President and Director

Well, I think that it's unclear as to what exactly tomorrow will bring, Mike. As far as the growth or the spike in -- that you saw in the quarter as far as the reinsurance, that really came from just a couple of unique opportunities, as Gene had suggested earlier, on the property front, where we entered some structured deals that we think are particularly attractive. But ultimately, it's unclear as to what the opportunity will be from the reinsurance marketplace as I had suggested earlier as we'll have to see what the impact is of some of these historically very large buyers having exited in the past and they are entering in. So no, I don't think that you should necessarily assume this is the new run rate. We are an opportunistic participant. If we think that we can make a reasonable return, we're prepared to participate. But this was, I think, somewhat of a one-off unique opportunity.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then can you give us -- and then a little bit more on the merger, or maybe Gene. Just trying to square everything up here, can you tell us what you earned there? In that?

Eugene G. Ballard
Executive Vice President of Finance

Yes. It was positive earnings. It was about $3 million for the quarter.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

About $3 million for the quarter. Okay. Got it. And then any impact from market movements in the -- now you guys, you are -- current quarter marks on your private equity, is that right? So like you're -- any marks are reflective....

William Robert Berkley
Founder and Executive Chairman

They're really -- our private equity is carried in 2 ways. There are some private equity investments where we are the vast majority owner. We own the vast majority of it, we carried in the equity basis of accounting therefore the only increase we show was our proportionate share of the earnings of the enterprise. Those private equity investments, which is very small, where we're just an investor, we mark-to-market. So HealthEquity would be an example where we don't mark-to-market either way. We carry it at cost, which is sort of, give or take, $25 million. And whatever our pro rata share of the earnings are is what we gain from them.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I see. Okay. And then so when you -- you called out that statement up front where you talked about $100 million or more of annual gains. So in that, are you sort of including some proportion or some piece of the HealthEquity unrealized gains or unaccounted for gains?

William Robert Berkley
Founder and Executive Chairman

I'm not -- Michael, we own a large amount of investment -- real estate for investment purposes. We own HealthEquity as well as a number of other private equity investments. And I try to give because analysts like to have models, I try to give them a number that they could plug-in. I didn't rely upon any one thing or another. And what I said is, if you put in $25 million a quarter or $100 million for the year, that would be sort of a reasonable number to assume. And while the lawyers and accountants weren't happy, we'd be giving a number, I felt, to give some idea about it. So it isn't based on HealthEquity, it isn't based on us selling a building or whatever. It's sort of based on in the ordinary course, that's what I think will happen. It could easily be significantly more. And obviously, in some event, it might not happen as we expect, although for a while, we've been able to do that.

Operator

Our next question is from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Just to follow on Mike's question on the $100 million year, about the realized gains. I just wonder like how much is that -- your current, like, value, market value versus your carrying value. I just wonder how long that could $100 million year last.

William Robert Berkley
Founder and Executive Chairman

A long time.

Kai Pan
Morgan Stanley, Research Division

Okay. All right. That's good. And then on the hiring of the new team, I just wonder what do you see. Do you see more opportunity in that front, basically hiring one team?

William Robert Berkley
Chief Executive Officer, President and Director

Which new team? We did 6 last year, and we've done one this year. So which one were you referring to? And...

Kai Pan
Morgan Stanley, Research Division

No, not a specific team. Yes, I just wondered are there more other opportunities that are out there. I just wonder...

William Robert Berkley
Chief Executive Officer, President and Director

I think the answer is, in some ways, the period that we're going through now is somewhat reminiscent of 2008, 2009, 2010 for different reasons. And that is there is a lot of dislocation in the market, there are a lot of people who are at large organizations, that for one reason or another, are very inwardly focused, and that creates opportunity for organizations like ours to try and continue to find opportunities and to build and enhance the value of our franchise for our shareholders, both organically through expanding our existing businesses as well as starting new operations. I think, ultimately, we are optimistic that we will be able to find other opportunities, but I think you'll probably hear about them, if and when we find them and start them, when we do press releases about them.

Kai Pan
Morgan Stanley, Research Division

Okay. So would that have a sort of any near-term impact, meaningful impact on your expense ratio?

William Robert Berkley
Chief Executive Officer, President and Director

I think that certainly it will have some impact, but do I think it's going to be earth-shattering? No. I don't. As Gene suggested earlier, at this stage, the expense ratio that we reported in the quarter was impacted to the tune of, I guess, 20 basis points, I think it was in the quarter. So some of the things that we're looking at, some of the things that we've announced you can get up and running very quickly, and the earned premium will start showing up relatively quickly. There are other things that it takes time to build and it takes time for the earned premium to show up. So will there be an impact? Yes. Will it be overwhelming? No. I think we're quite confident that it's manageable.

Kai Pan
Morgan Stanley, Research Division

So the expense ratio will stay or going down from the second half '15 levels? Or will probably stay the same in the near future?

William Robert Berkley
Chief Executive Officer, President and Director

I think since we don't know for sure what the opportunities will be tomorrow or what the opportunities are that, quite frankly, are even some of the things that we're working on that we can't talk about, it would be wrong for us to try and nail things down to basis points for you. Obviously, we are conscious of our expense ratio, we are conscious of being efficient. At the same time, our goal is to create long-term value for our shareholders, and if there is an opportunity for us to invest in short term, we take a step back with the expense ratio but we think we will deliver long-term value for the shareholders. We are prepared to do that in a controlled way.

Kai Pan
Morgan Stanley, Research Division

Okay. In terms of line, where you see like a big growth, say, in the workers' compensation, more than 20% year-over-year. And on the other lines like commercial auto, where people have seen some pricing increase, probably not still -- like you still find it probably really unattractive that you just contract the business. Could you talk about these 2 lines, in particular, where and why you see opportunity in one versus the other?

William Robert Berkley
Chief Executive Officer, President and Director

So I think it's very important that one not paint with too broad of brush. So let's use workers' compensation as an example. It varies very much by account size and it varies very much by region. So there are parts of the workers' compensation space that we find exceptionally attractive and we would like to take full advantage of those opportunities as long as they present themselves. There are parts of the auto space that have gotten meaningful rate increase and in spite of that, we do not think the rates are adequate. From our perspective, the marketplace overall, as far as commercial auto, offers niche opportunities where you can make a reasonable return, and that is what we're focusing on. So the fact of the matter is, when Gene talked about how that book has shrunk for us overall and he talked a little bit if you look at the meaningful rate we're getting there, and you put those 2 things together, from an exposure perspective, we're shrinking even more than it looks like because of the rate increases that we're getting. So that's sort of how we see it. As far as getting more granular with you as to specifically where we see the micro niche opportunities and where we're trying to grow, I think that is something that we'll probably stop short of as far as getting into that level of detail because we are not looking to increase the crowd around the watering hole any quicker than will happen naturally.

Kai Pan
Morgan Stanley, Research Division

Okay. That's fair. Last question. A big picture, Rob, you alluded to is the growing tension between distribution and carrier. Could you expand a bit on that?

William Robert Berkley
Chief Executive Officer, President and Director

I'll make a couple of comments and then I'm going to yield to my boss here, who always is -- well, he's a little less filtered than me, so it just seems to have an entertaining component to it. But our general observation is this, that the companies are trying to maintain or perhaps grow their margins. The distribution is trying to do the same thing. At the same time, if you look at the insurance marketplace, rates are plateaued and in all likelihood, are gradually going to decrease. And that creates tension and pressure. And ultimately, it would seem as though everyone is so focused on how they maintain their margins and how they keep the world happy every 90 days, that, that is getting in the way of distribution and carriers finding ways to work together, to bring more value to the customer. Because ultimately, as technology evolves and customer behavior evolves over time, the master that we both have to please, whose needs we both need to address, is ultimately the insurer. So that was the censored version, now you're going get the uncensored version.

William Robert Berkley
Founder and Executive Chairman

So he told me he was going to do that. I didn't think he really would. The long and the short of the situation is the big picture is technology is moving to disintermediate the current distribution system to some extent. The fact is that that's a long-term problem. And at the same time, as we're moving in that direction, the existing distribution system, instead of working with companies to try and find ways to deliver value to the customer, is more focused on how to improve their margins. And at the same time, insurance companies are faced with the need for more underwriting margin because their investment margins are declining. So you have a natural crisis. Everyone wants a bigger piece of a shrinking pie, and it's unfortunate that much of the distribution of, or at least the very largest agencies, have decided to not just make a continuing non-reduction in their commission rate, but have tried to find ways to generate additional marginal commissions, which come, frankly, directly at the expense of the final customer. They make it as though it seems to be an additional amount paid by the insurer. But if the insurer can afford to pay that additional amount, the amount really should go to the benefit of reduced cost to the insured. Somehow that seems to have escaped those large brokers. So ultimately, if we fail to serve the customer in an open and transparent way, this intermediation accelerates.

Kai Pan
Morgan Stanley, Research Division

Where you'll find a way -- I'm sorry. I just followed on a path to where you'll find an alternative distribution yourself?

William Robert Berkley
Founder and Executive Chairman

I don't think that that's what we're suggesting. We're just suggesting in the big picture, there is a challenge going forward and we all have to get on the same team to deliver value to the customer. No, we're not. We believe in the human participation in distribution to the customer. We continue to do that. And we don't see any change in that method. Obviously, just as in automobile insurance, there are various methods for getting direct, and I'm sure for some small policies, that will evolve, but we're not rushing in that direction. We think everyone will ultimately be sensible and know we have to serve the best interest of the customer.

Operator

And our next question is from Vinay Misquith with Sterne Agee.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

The first question is on growth, and you seem to be pretty excited about the opportunities you have. And then I look at the numbers, ended up about 4% in the primary insurance operations. Most of the growth is coming from workers' comp. Could you help me understand, I mean, are you pulling back on some lines and that's what's sort of negatively impacting the overall growth for the company?

William Robert Berkley
Chief Executive Officer, President and Director

Look, there are parts of the business that are growing, as I suggested earlier, and there are parts of the business that are shrinking. I think as we've shared with you in the past and others, we are in business to make money, not necessarily just to issue insurance policies for the sake of issuing insurance policies. We are in the market everyday trying to provide product and provide continuity to the marketplace in our offering. Having said that, ultimately, if there are parts of the market that move away from our pricing, then we are prepared to shrink. So yes, the answer is there are parts of our business that are shrinking right now. Auto would be an example of that. Again, that's just the reality of operating in a cyclical business when you're focused on profitability and return.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Sure. Fair enough. And then on the expense side. This quarter, the underwriting expenses were about $505 million in total for the company. So is that the run rate that we should be looking at for the future? Or do you think that's going to creep up if you make some new hires?

William Robert Berkley
Chief Executive Officer, President and Director

Well, I think that the expense ratio where it fits in the low '30s is not a bad expectation for people to have going forward. I don't think it would make sense for me to try and nail it down to the last dollar. Certainly, we see -- we saw a meaningful opportunity to expand our business last year with the 6 new operations that we referenced. And it takes time for those businesses to get up and running and that it even takes a little bit longer for that earned premium to show up and for them to get scale, hence why Gene made the comment about the impact on the expense ratio for businesses that are 2 years old or less. Again, in addition to that, we expect it's a meaningful investment that we will be making in the high net worth personal line space that does require infrastructure, it does require investment, and we think that is a worthwhile investment for the shareholders that will yield meaningful returns over time. As far as other investment opportunities that will present themselves or that we are currently examining, it's hard to know for sure how that will play out, but we think it is likely that it will be additional opportunities for us to expand our franchise and develop more value for shareholders. So do I think the expense ratio, long story short, can tick up between now and the end of the year? Yes. I think it's possible, it will, as we are investing in new opportunities. And ultimately, if we weren't pursuing some of these new opportunities, I think we would be doing the shareholders a disservice in the long run.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Okay. That's helpful. And the last point was on the realized gains. So it seems that you guys got about $25 million pre-tax of realized gains. So is that correct? And then was that offset in part by some OTTI? So curious about the source of the $25 million of gains and also the $18 million of OTTI.

William Robert Berkley
Chief Executive Officer, President and Director

So the gains were primarily in the fixed income arena.

William Robert Berkley
Founder and Executive Chairman

Non-domestic fixed income.

William Robert Berkley
Chief Executive Officer, President and Director

That's right.

William Robert Berkley
Founder and Executive Chairman

And the OTTI was a common stock that had been underwater for more than a year and we marked it down. Those are the rules. One of the problems of the OTTI is you get to mark them down but not mark them up. So if they're down for 12 months, you mark them down. Whether they go up the next day, it doesn't matter.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

So for the $25 million of realized gains, that's from the sale of fixed income securities, right? I mean, that wasn't part of...

William Robert Berkley
Founder and Executive Chairman

It's really more complicated than that. But it's not selling a core part of our portfolio. It is not from selling a core part of our portfolio.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Okay. So it's not part of the $100 million that you had said before? Okay.

William Robert Berkley
Chief Executive Officer, President and Director

No.

William Robert Berkley
Founder and Executive Chairman

No.

Operator

Our next question is from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just one follow-up from an earlier question first. On the issue of this tension between carriers and intermediaries. I guess their view is while they are searching for higher revenue and higher margin, they would suggest that they are providing value-added services for those revenue. I suspect you wouldn't fully agree with that, but I wouldn't mind your comment on it.

William Robert Berkley
Chief Executive Officer, President and Director

All right. I don't think we are necessarily commenting on the value that they bring. We're not questioning the value that they bring to their clients. We're merely suggesting that ultimately, when the day's all done, there is a bit of tension there. And in what seems to be looking like a softening insurance market, it is likely that, that tension may increase over time. And as my father reminds me and reminds others that ultimately, it's a partnership. There are moments in time when the carriers are the senior partner, and there are moments in time when the distribution is the senior partner. But ultimately, in the long run, for us, in order to survive, one needs to be conscious of their obligation to their partnership and their need to survive as well.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. The second question, on the personalized business, and I was certainly one of the people that took note of that investment. It sounds like you got the right person to run that business. And clearly, it's a good business to be and as proven by legacy Chubb over many years, but it's also kind of sticky. And I would suspect this is going to take really quite a while for you to get enough scale for this to meaningfully impact your earnings or even positively impact your earnings. Can we get a sense of the time, Rob, that you were thinking about with this venture?

William Robert Berkley
Chief Executive Officer, President and Director

Well, at this stage, Jay, we expect that the business will be operational sometime next year. Again, back to the point earlier, it does require time to set up the infrastructure, to the meted product. So that takes time as well to get the filings, et cetera. And what is it -- when is it that we will get to breakeven and to profitability? Clearly, our expectation that it will be measured in years, but we think that it is a manageable period of time. And again, we believe deeply in the opportunity. We believe deeply in the people's ability to create the opportunity into a reality and create value for the shareholders. So my sense is I'm not answering your question with the precision that you would like, and quite frankly, that's by design.

Operator

[Operator Instructions] Our next question is from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I actually had a follow-up as well on the high net worth, Rob. To me, I think the challenge of that business is being able to compete on the cost side, meaning to be able to build up a sufficient claims operation and distribution infrastructure and especially, given the high demands for a lot of those clients. Can you just talk about how, without being -- you obviously have the same scale with some of the bigger players, you think you can be competitive on the cost side of that?

William Robert Berkley
Chief Executive Officer, President and Director

Look, I think it's going to take some time for us to get the critical mass where we're able to be as efficient as some others. Having said that, we think, over a reasonable period of time, we will be able to get enough scale that we're able to make a reasonable return. And again, that will take some time. As far as the details and the minutia of how we will be structured and how we will try and be efficient, yet strike the balance between that, and also providing the customer service, I think you're asking me to go a little bit deeper into the strategy and the business plan than I think it would really makes sense for us to do on this call.

Ian Gutterman
Balyasny Asset Management L.P.

That's fair. But if I can maybe try one other way of asking that a little bit broader. Is there some kind of technology play that you guys think you have by being new, that you don't have a lot of legacy cost that other people would have?

William Robert Berkley
Chief Executive Officer, President and Director

I think, clearly, anytime someone is starting a new business in a mature space and will be competing primarily against mature players that have a legacy, there are pluses and minuses. The fact of the matter is that we are in the process of putting together a team of people that are very knowledgeable about the subject matter but are very bright and open-minded as to is there a better way to do what has been done in the past. So we are confident, again, that this will prove to be a very worthwhile venture for the shareholders. We think the team of people that we'll be managing the capital on behalf of the shareholders in this space are very seasoned and thoughtful. And we are thoroughly convinced that this is a great opportunity to -- for value to be created for the shareholders and increasing the franchise.

William Robert Berkley
Founder and Executive Chairman

So of -- in our history, we started with 45 companies. 44 of them are still running. And on the either profitable or right in the edge of the profitability, we have had a pretty good record of being able to assess what it takes to do this. And the person who has led most of that is Rob, and I can assure you that he is not the only one who's confident, so is everybody else who has been involved.

Ian Gutterman
Balyasny Asset Management L.P.

I don't know. It sounds very promising actually, so I was hoping to learn more. The other I wanted to ask about was I think in the last year or 2, you've grown your Florida homeowners reinsurance a good amount, basically, the cat exposure in your reinsurance book.

William Robert Berkley
Chief Executive Officer, President and Director

Yes. Well, hold on 1 second with that. I think that's a -- we need to create a little bit of a distinction there. So first of all, yes, we have grown our Florida homeowners book and this is through our reinsurance. Having said that, there are meaningful event caps and significant exclusions as far as coverage when it comes to natural catastrophes. So I think that while there is a modest amount of cat exposure that comes with it, I would encourage you to think of that less as a cat play. So I know that it shows up in the yellow books and in other filings where it could be misinterpreted, so hopefully, we've been able to rectify the understanding.

Ian Gutterman
Balyasny Asset Management L.P.

No. That's great. What I was going to ask is something a little bit in between, which is I mean, I believe a lot of it is quota share, which also would limit some of the exposure. But I was wondering in Florida, it seems there's an issue that's come up about in the last year or so, this assignment of benefits that's causing trouble for a lot of the primaries. I was wondering if that's something that you would have some risk for as a quota share to them, not as big as cat, obviously, but is that something that you're concerned about?

William Robert Berkley
Chief Executive Officer, President and Director

It's certainly not something that we're particularly preoccupied with. We are familiar with the situation, but we don't think it's an overwhelming concern for us and so our willingness to continue.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then just one numbers question for Gene. Do you have the pay loss ratio?

Eugene G. Ballard
Executive Vice President of Finance

Yes. I do. 1 second. Okay, 52% compared to 51% a year ago, so very favorable.

Operator

Thank you, and I'm not showing any further questions at this time. I'll now turn the call back over to Mr. Berkley for closing remarks.

William Robert Berkley
Chief Executive Officer, President and Director

Okay. Thank you, Bridget, and thank you all for calling in and joining us for the discussion today. From our perspective, as I had referenced earlier, this is a bit of a unique moment for our organization and perhaps others to take advantage of some of the dislocation that I think we're all acutely aware of that exists in the marketplace today. It's somewhat of a unique moment in some ways for different reasons. We've gotten to this place where there is massive dislocation, not dissimilar to sort of 2008, 2009, and we have been able to take advantage of that. In addition to that, I think our approach to risk-adjusted return and how we think about volatility and getting paid appropriately, in part, was demonstrated in our cat results in the quarter, and hopefully, that does not go unnoticed. So as we look out for the balance of '16, while, perhaps, there are parts of the market that are challenging and more challenging today than they were yesterday, we still see meaningful opportunity to grow our business in a sensible way and continue to enhance value for shareholders. So again, thank you very much for tuning in, and we will talk to you in 90 days. Bye.

Operator
Ladies and gentlemen, this does conclude the program, and you may all disconnect. Everyone, have a great day.