S&P Capital IQ

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W. R. Berkley Corporation NYSE:WRB

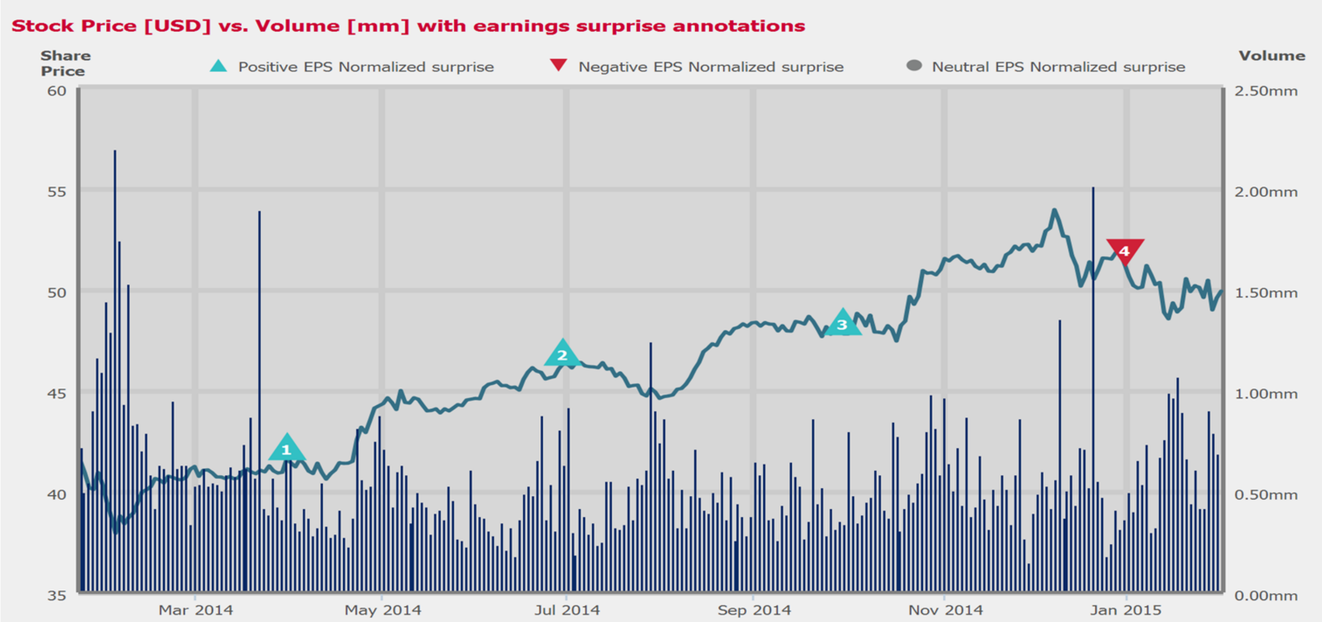
FQ1 2015 Earnings Call Transcripts

Monday, April 27, 2015 9:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.75	0.80	6.67	0.85	3.47	3.79
Revenue (mm)	1760.60	1744.68	(0.90 %)	1811.57	7276.60	7677.07

Currency: USD
Consensus as of Apr-27-2015 9:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.79	1.00	1 26.58 %
FQ2 2014	0.76	0.82	2 7.89 %
FQ3 2014	0.90	1.06	3 17.78 %
FQ4 2014	0.82	0.73	4 (10.98 %)

Call Participants

EXECUTIVES

Eugene G. Ballard
Executive Vice President of Finance

William Robert Berkley
Founder and Executive Chairman

William Robert Berkley
Chief Executive Officer, President and Director

ANALYSTS

Ian Gutterman
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Jay Adam Cohen
BofA Merrill Lynch, Research Division

Joshua David Shanker
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Kai Pan
Morgan Stanley, Research Division

Michael Steven Nannizzi
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Ryan James Tunis
Crédit Suisse AG, Research Division

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's First Quarter 2015 Earnings Conference Call. Today's conference is being recorded. The speaker's remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2014, 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. William R. Berkley. Please go ahead, sir.

William Robert Berkley
Founder and Executive Chairman

Thank you very much. Well, good afternoon. Welcome to what seems like an extended winter. It is the first quarter conference call, however, in spite of that. So we're going to start by letting Rob talk a bit about our operations, and then we'll go to Gene, who'll talk about the numbers, and then I will try and talk about some general information and a little bit about where I think things are going and then take questions. So Rob?

William Robert Berkley
Chief Executive Officer, President and Director

Thank you. Good afternoon. Market conditions during the first quarter were, generally speaking, a continuation of the trends that we've seen over the past few quarters. The insurance and reinsurance market continue to march to the beat of a very different drum. The reinsurance marketplace remains notably competitive, though the pace of deterioration, at least for the moment, seems to be slowing. As we've all observed and discussed, the challenges started in the property cat reinsurance market and has spread globally to most product lines within the reinsurance place -- marketplace. On the other hand, competition in the international insurance market continues to accelerate, as many market participants are looking beyond their borders for growth. Though not limited to Brazil, Canada and Australia, all stand out as being exceptionally competitive. Fortunately back here at home, the domestic insurance market continues to offer good underwriting opportunities. In particular, the GL, much of the professional and the workers' comp market continued to be more attractive than many other parts of the international marketplace. Having said this, domestic property, cat-exposed property, as well as commercial auto remain quite challenging.

Turning to the company's performance. The group had net written premium of approximately $1.57 billion for the quarter. This is up over 3% compared with the corresponding period last year. This result was in part achieved thanks to a strong renewal retention ratio, which was approaching 80%. Our domestic insurance led the growth, coming in at increase of 6%. Of the 6 points of growth, 3-plus was associated with rate. Our international insurance segment was up slightly more than 2%; however, there are a fair number of moving pieces, some stemming from FX, which Gene will be discussing shortly.

And finally, our reinsurance segment contracted 13%, which is very much in line with our expectations, given our view of the marketplace overall, as I referenced a few moments ago, as well as in earlier calls. The loss ratio for the quarter came in at 61.2%. Our domestic loss ratio was at 61.6%. This was negatively impacted by cat, but also weather-related losses. Cat, our PCS definition, which is what we use for our cat definition, captured much of the weather-related losses, but it does not capture slip and falls, frozen pipes or other structural damage such as issues that rooftops have due to excessive weight from snow and ice for an extended period of time. Our international and reinsurance segments both showed improvement in their loss ratio. In particular, I would draw your attention to the improvement in the international segment loss ratio, particularly compared with Q4 '14. The expense ratio also improved to 32.7%. This is an improvement of almost 1 point when compared with the same period last year. Both the domestic and international segments continue to show their improvement in their expense ratio, and the reinsurance segment was partially -- which was going the wrong way or was deteriorating a bit, in fact, was a result of higher commissions. If you look at internal expenses, in fact, it's improving. All in, the company achieved a combined ratio of 93.9% in spite of the challenging winter. It's worth mentioning this includes $12 million of net positive development. It's also worth mentioning this is the 33rd quarter in a row of net positive development.

Looking forward, we think that the -- when we look at the marketplace overall, we think certainly the domestic casualty market is amongst the more attractive parts of the market to be. And as a result of that, we think our platform is particularly well positioned to take advantage of these market conditions, given that approximately 2/3 of our business is focused on the U.S. casualty space.

William Robert Berkley
Founder and Executive Chairman

Thanks, Rob. Gene, do you want to take us through the numbers?

Eugene G. Ballard
Executive Vice President of Finance

Okay, thank you, Bill. Well, for the first quarter of 2015, we reported net income of $118 million or $0.89 per share. That compares with $170 million or $1.25 per share a year ago. The decline in earnings was due to lower income from investment funds and from realized investment gains, partially offset by modest improvement in the underwriting results. I'll briefly summarize each of those areas. As Rob said, net premiums were up 3.2% to $1.57 billion, with domestic up 6%. The domestic segment had growth in all of its major business lines. The growth was led by professional liability, which is especially strong, due in part to a recently started company. The international segment was up 14% in original currency terms. However, after adjustment for the strengthening of the dollar, that converts to a growth rate of 2.5% in the U.S. in U.S. dollar terms. And the reinsurance segment premiums declined 13%, as both the treaty and facultative markets continue to be very competitive.

Our overall underwriting profits were up 7% to $89 million. Our current accident year loss ratio before cat losses was at 61%, unchanged from a year ago. So although our price increases are continuing to be modestly higher than our estimated loss cost trends, for now, we're holding that loss ratio at the 61% level. The paid loss ratio, however, has continued to fall down to 51.4% in the quarter, compared to 54% in all of 2014, and an average of 58% over the past 5 years.

As Rob mentioned, cat losses were $14 million or 1 loss ratio point. That's the same as it was in the first quarter of 2014. And the cat losses were primarily due to winter storms and almost all in the domestic segment. Favorable reserve development was $12 million in the first quarter, that compares with $25 million a year ago. And again, the majority of that positive development in the quarter was in the domestic segment.

Overall expense ratio declined by 0.9 percentage point to 32.7%, with improvement of 1.3 points for the domestic segment, 1.0 points for the international segment, that was partially offset by an increase in the expense ratio for the reinsurance segment, as Rob mentioned, as a result primarily of the sliding scale commissions on profitable reinsurance business. That gives us an overall combined ratio of 93.9% for the quarter. That's unchanged from a year ago, with the domestic combined ratio improving by 0.6 point to 92.8%, international improving by 2 points -- over 2 points to 97.0% and the reinsurance segment up 0.5 point to 98.0%.

Turning to investments. Despite the current bond market, our core investment income was $118 million in the first quarter, up $3 million from a year ago. And the average annualized yield on the core portfolio was unchanged from 3.2%. Investment funds reported an aggregate income of $6 million, compared with a profit of $54 million a year ago. That 2015 result included a previously announced loss of $22 million for energy funds. The loss was more than offset by earnings of $28 million from other investment funds, with especially strong results from the reinsurance -- excuse me, from the real estate sector.

Realized investment gains were $19 million in the first quarter, which is the 24th consecutive quarter that we reported a net realized investment gain. A year ago, we reported significant realized gains of $53 million, which were primarily the result of a sale of one of our significant commercial property investments. At March 31, 2015, the average rating and duration of the fixed income portfolio were AA- and 3.2 years, both of those unchanged from the beginning of the year. Aggregate unrealized investment gains before taxes were up $25 million to $495 million at March 31. And unrealized currency translation losses increased $48 million due to the strengthening of the U.S. dollar against -- primarily against the British pound and the Canadian and Australian dollars. Interest expense was up $4 million due to the issuance of $350 million of subordinated debentures in August of 2014. A portion of the proceeds from that offering were set aside to repay $200 million of senior notes that mature next month. The effective income tax rate declined almost 2 points to 29.8% in the first quarter. That's mainly a result of the lower investment fund income and the lower investment gains, which are generally taxed at the full 35% tax rate.

We repurchased 1.8 million shares of our own stock in the quarter for an aggregate cost of $91 million. All that gives us an ROE of 10.3% for the quarter and an increase in book value per share of $0.44 to $36.65 at March 31, 2015.

William Robert Berkley
Founder and Executive Chairman

Thanks, Gene. Well, overall, I think we have an excellent quarter. Is it perfect? No. There were some things we'd like different. But I want to remind everybody, we manage the business to optimize the economic output of our enterprise. And that means we can't, in this environment with lower interest rates, have quite the same predictable investment stream that we had in the past. So several years ago, we shifted our investment portfolio, which gives us a less smooth investment income. That comes about in various ways. You see it by our capital gains, where we've tried to give people guidance as they, sort of as a general rule, think in terms of $25 million a quarter or so. But there are also a number of other things that cause our investment income to be lumpy. So we own a building. Well, it's a 0 equity value at the moment, because all our cash is out, and we're refurbishing a bit of it. That's all in expense. It costs us $3 million in reported earnings, little more than that for the quarter. But in fact, that hasn't been a diminution of the value of the building, but for accounting purposes, it is. We have a number of things like that. We don't buy companies, because starting them is a better economic process. It doesn't show as well on earnings, especially in the short run, but in the long run, it gives you a better cash return. We run the business as we run it from an economic point of view, as if we own the whole thing. We try and focus on how do we get the best economic return. We're pretty optimistic that we have a number of things coming along that will catch up with that investment income return, so we think the year will end up being quite a bit better than our 10.3% for the quarter. Whether we can get to 15% or not, hard to predict. Timing is everything.

The operating results. We're in the right place in the market, but it still is more competitive than we had expected. We still have opportunities to grow. We see niches that appear and then disappear. As long as we can act quickly, we'll be able to seize those opportunities. Our structure lets us do that. But clearly, at the moment, things are not getting better. They're not deteriorating a lot other than in the reinsurance business, but most of the rest of the world, our things are all right to getting flat, but we're not prepared to say things will continue to get better as the year goes on. We think things will be all right, and keep in mind, that earned premium that was written in the prior 12 months is going to continue going in at improving rates, so our reported results should be fine and improving for this year. Where we go 12 months from now? It's hard to predict, but we don't see any dramatic decline in profitability. In fact, we think things will continue to improve. With that, I'd be happy to answer questions, Amanda.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Ryan Tunis with Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

So I guess my first question, I think it's probably for Bill. But in the press release, highlighting, I think, in domestic that you think you can modestly improve margins for the balance of the year. I guess I'm just curious, do you see most of the improvement there coming from the expense ratio? Is there any more improvement left potentially on the loss ratio with price? It looks like still above 3%. Just curious on that.

William Robert Berkley
Founder and Executive Chairman

Well, the answer is there are several things happening all at once. It's not -- like anything, complicated stories don't have simple answers. First of all, we think we'll continue to have a modest improvement in the expense ratio. Second of all, inflation clearly has not risen as we anticipated it would and as many people expected, so our loss cost growth is less than we thought it was. And there's no sign at the moment that, that inflation, which is just around the corner, the corner keeps getting further away. And finally, we've been able to get price increases still in the neighborhood of 3%, which is, in fact, a bigger spread than we anticipated over loss cost. So you put those things all together, and that's just simple mathematics. It's improvement in margin and improvement in expense ratio.

Ryan James Tunis
Crédit Suisse AG, Research Division

Understood. And I guess my second one is more for Rob. And it's drilling down, I guess, a little bit into the international business, clearly improved this quarter. Wondering if what's driving that relative to the fourth quarter? Is that price? Is it mix? Were there lighter than planned, maybe large loss activities? And also just curious on any update in terms of the provisioning you guys did in the fourth quarter on the European professional liability book? Were there any incremental provisions put up there? Did you learn anything new from the experience you've seen in the last few months? Any help there, appreciated.

William Robert Berkley
Chief Executive Officer, President and Director

Okay, let me take those one at a time. So basically, to make a long story short, presumably as you had expected, the change between the first quarter and the fourth quarter is the loss activity quieted down dramatically. And as we had suggested when we had the fourth quarter call, while there are no guarantees, we thought we had certainly looked under most stones and felt as though we were well on our way to getting our arms around it. Now, obviously, we continue to make sure that we have gotten our arms around it fully and it's possible that there could be a bit more noise coming through during the first quarter that we'll be talking about when we have -- rather, in the second quarter, when we have the discussion about that. But again, it was just reduced loss activity. Sorry, what was the second question? You were breaking up a bit.

Ryan James Tunis
Crédit Suisse AG, Research Division

Yes, I think the second question, I'm sorry, was just -- was there any type of incremental provisioning, I guess, from what you did in the fourth quarter? Or did you learn anything new? It sounds like you do feel better about...

William Robert Berkley
Chief Executive Officer, President and Director

I think the answer is, as we suggested, we feel as though we've identified the cornerstone issues and that we're getting our arms around it, and we think we're well on our way to where we need to be.

Ryan James Tunis
Crédit Suisse AG, Research Division

Got it. And I guess this is my last one, just on some of the energy investments and the extent to which you guys have visibility that some of those losses are behind us heading here into the second quarter.

William Robert Berkley
Founder and Executive Chairman

We think there may be some investment losses still, but it's not anything like the magnitude of the $22 million. Probably at this point, our best guess is $5 million from the energy funds losses, but we're not 100% certain at the moment.

Operator

Our next question comes from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Gene, do you have the arbitrage number there? You might have said it, but I was writing down too fast. Do you have that number?

Eugene G. Ballard
Executive Vice President of Finance

Arbitrage number for the quarter was $9 million.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so that was a pretty large one. But generally speaking, and I think I've asked this before, and you said there was volatility. It seems like in the net investment income line from fixed income returns, it's a bit more volatile than I would've thought. Are you -- sometimes it's higher, sometimes it's lower. What are you actually doing quarter-to-quarter that makes it that way? Or am I just perceiving something that's really more stable in your view?

Eugene G. Ballard
Executive Vice President of Finance

Just to be clear, in the release, we just give the core portfolio, so that is not just fixed income.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes, that's true. Absolutely. And -- but I do note that if you go back historically and look through it, it does seem like some quarters, you have higher -- I guess, I would expect kind of quarter-to-quarter, that the fixed income returns would be about the same quarter-to-quarter. You can see in 3Q, you had about $120 million; in 4Q, you had $108 million. I guess this quarter, we take out the $9 million, brings it to about $110 million. Maybe I'm looking at that 3Q '14 anomaly and just wondering if there is something clever you guys are doing on the fixed income side at this point?

William Robert Berkley
Founder and Executive Chairman

We're not that clever.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, I don't think that's true.

William Robert Berkley
Founder and Executive Chairman

Well, we couldn't be that clever because you're not recommending our stock, Josh.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, that might be, but that might be me, though.

William Robert Berkley
Founder and Executive Chairman

If we were really that clever, you would be. So the answer is there are constant, you make swaps to pick up dividends. You do all kinds of things, and there's no question in that quarter, we were able to pick up some return by doing a couple of things. So that was a particularly good return. But I think that if you look at our base level of return, it continues, and arbitrage does go up and down a little more than other parts.

Joshua David Shanker
Deutsche Bank AG, Research Division

And along those lines, what do you think -- do you have any thoughts on debt strategy here? I don't know if you have a long-term view on interest rates, but would you be interested in doing any refi at this point?

William Robert Berkley
Founder and Executive Chairman

Well, we just did some, and we're going, next month, pay off $200 million at that point. As we always do, we look at our balance sheet and look at what opportunities are, what we can do and try to figure out what opportunities may present itself. So it's something we look at all the time.

Operator

Our next question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question on the reserve. Could you talk a little bit detail about the $12 million reserve release in the domestic segment and which line they're coming from, from which accident year?

William Robert Berkley
Founder and Executive Chairman

We don't do that on the conference call.

Kai Pan
Morgan Stanley, Research Division

Okay.

William Robert Berkley
Founder and Executive Chairman

You are welcome to call -- give Gene a call and chat with him.

Kai Pan
Morgan Stanley, Research Division

Okay, will do. If you just look at the amount of reserve release compared with the year ago period, is that because of just quarterly volatility or you expect...

William Robert Berkley
Founder and Executive Chairman

If you want to talk about the specifics of reserve releases, you really need to talk to Gene.

Kai Pan
Morgan Stanley, Research Division

Okay. Then switching gear to your -- the accident year -- the current year loss ratio ex cat, you mentioned on the call 61%, that sort of roughly flat year-over-year, although the pricing, like gains, have been above your loss cost trend. I just wonder, is it more conservative reserving philosophy or something else there?

Eugene G. Ballard
Executive Vice President of Finance

Yes, we'll be cautious and see how the year folds out. We tend to look at the first quarter cautiously. And if we see it developing more favorably, then we expect we'll recognize it as time passes.

William Robert Berkley
Founder and Executive Chairman

I think, as I said in my comments, I also was a little more pessimistic about rising inflation that seems to have turned out. So if that ends up being the case, we may find that we were more cautious than we needed to be. Rob, you want to...?

William Robert Berkley
Chief Executive Officer, President and Director

Yes, I guess just following on that, as we've discussed in the past, our view is that when we come up with our initial picks, we are probably more likely than not going to err on the side of caution and certainly, a component of that would be the assumption around inflation over the duration of that potential liability. So the initial loss pick, again, there are no guarantees, but our historic experience and our expectation will prove to be more on the side of caution than optimism.

Kai Pan
Morgan Stanley, Research Division

Great. And then the last question on the investment side. Bill, what's your thought about the first Fed rate hike? And people expecting probably later this year, and how would you position the investment portfolio basically going forward?

William Robert Berkley
Founder and Executive Chairman

I think, generally, our view has -- because we were originally anticipating more inflation and increasing rates by the end of the year, I think we're less certain of that view at the moment, and we're more cautious. I think that where we look today is more like flat to very slightly increasing rates and very, very little increase in inflation. So we're looking further out. I think that the balance, which to us was inflation, and slightly higher rates more likely by the end of the year, is now probably even to slightly -- I would guess even would be the best thing. And we just -- we don't see that happening. We think that China is, in fact, slowing down. We do think that they're really not cutting Europe. Europe is not getting -- going at any accelerated pace, and the U.S. can't carry the world.

Kai Pan
Morgan Stanley, Research Division

So you don't see just kind of major changes to your current portfolio allocation?

William Robert Berkley
Founder and Executive Chairman

No, we're -- I mean, we're continuing to invest more of our liquidity. We've got commitments to invest more in real estate, and we'll probably sell some of the real estate that's been developed already, but we're continuing to invest in that. So if anything, there'll be some increase in our real estate allocation, but not really a consequential one. If we invested $500 million more in real estate, that's just 2.5% of our portfolio.

Operator

Our next question comes from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to start on the workers' comp side, looking at California, just relative to your assessment of loss cost trends there within your own book and then the relative stickiness of those loan[ph]-based savings. I was just curious of your opinion on the justification of the rating bureaus' rate decrease in this. How that compares to the experience of your book and whether you agree with that rationale?

William Robert Berkley
Chief Executive Officer, President and Director

Pausing, not that I don't understand your question, I understand it very well. I'm trying to decide whether it's in the best interest of our shareholders for us to be talking about something of that nature. I think here is the best way I can answer it without answering it. I think that we feel as though that the California market provides -- again, not across the board, I'm painting with a broad brush, but generally speaking, a reasonable opportunity to make a reasonable return. What the rating bureau does out there, I'm not familiar with their get data sets or their formulas or intimately familiar with their actuarial analysis. But certainly, our view is that the California market today is much healthier than it was a few years ago. Having said that, our view is that there's certainly opportunity for it to become a bit healthier.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Thanks for dancing around that issue. I appreciate it.

William Robert Berkley
Founder and Executive Chairman

Well, the reality is, it'll be common sense for us not to want to tell people our perception of an area that we compete in actively. So we're trying to do the best we can without probably helping our competitors.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Appreciate the disclosure there on that topic. I guess no good deed goes undone. So on the supplemental disclosure around Schedule P, sticking with workers' comp, if I look at that other bucket, it looks like the pay during core [ph] trended at 12 months' maturity, though the initial pick there has ticked up a little bit relative to past years and on the IBR allocation side, we see a little tick down that basically mirrors it. And so I'm just curious if there's anything there specific that's driving it worse? Maybe some of the changes in inflation assumptions might be responsible.

William Robert Berkley
Founder and Executive Chairman

Anything of that nature, you'll have to talk to Gene off the phone.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. So a couple of questions from me. The first is the accident year loss ratio, not showing any improvement versus a year ago. Is part of that some of the non-catastrophe weather, the burst pipes, the roof damage, that wasn't a cat, but clearly was somewhat onerous in the quarter?

Eugene G. Ballard
Executive Vice President of Finance

Yes, that's a part of it.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

You couldn't quantify that though, Gene?

Eugene G. Ballard
Executive Vice President of Finance

It's probably close to the magnitude of the cats themselves.

William Robert Berkley
Chief Executive Officer, President and Director

Jay, this is Rob. I would think that a reasonable estimate to use would be if you look at the cat number, multiply it by 2, and that's going to give you a weather-related number-ish.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And in the year-ago quarter, it would not have been as dramatic. Is that fair?

William Robert Berkley
Founder and Executive Chairman

Right.

William Robert Berkley
Chief Executive Officer, President and Director

I don't know the number, Gene, is that right?

Eugene G. Ballard
Executive Vice President of Finance

Correct.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay, that's helpful. And then secondly, did you have, no numbers, but any adverse development in either reinsurance or international?

Eugene G. Ballard
Executive Vice President of Finance

No. It's favorable, but very modest.

Operator

Our next question comes from Mike Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Most of mine were answered. I had one question about FX. How should we think about the impact in international for the rest of the year? Should we think about that sort of 12 point -- 11, 12 point difference?

William Robert Berkley
Founder and Executive Chairman

I had a comment in my quote about it, and they all argued that nobody cared. So thank you, Michael. I appreciate it. So I think that it will have no impact at all, if anything. If you actually look at the end of the quarter to now, it's gone the other way.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I mean, that wouldn't be the first time that after I asked a question, the management team burst out laughing, but...

William Robert Berkley
Founder and Executive Chairman

Yes, but this time, I am laughing with you.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Good, I'm glad. And then one other one was, in the U.S., growth there is now -- was about 5%, 6%, I guess, below 10% for the first time in a little bit. Any thoughts on kind of what would have happen there? Is there -- are you just seeing less attractive opportunities? Or was there maybe a one-timer that impacted that? Or how should we think about kind of your penchant for growth in the U.S. at this point?

William Robert Berkley
Chief Executive Officer, President and Director

Mike, this is Rob. I think there are a couple of drivers there, but to get to the root of your question, our expectation would be that the growth rate is going to sort of float between plus 5% and maybe low double-digit, if you will, sort of 10%, 11%. And that can ebb and flow depending on the quarter. There was no sort of one-off, if you will, that reduced the growth rate. Certainly, a component of it is that the rate increases have slowed a bit compared to what they were over the past few years. So that's a couple of hundred basis points of growth right there. In addition to that, there are certainly some sectors that have been driving the growth over the past many quarters that are not enjoying the same opportunity, energy being an example of that. But overall, I think to expect the business, as far as the domestic insurance business, to grow at a rate of somewhere between 5% and 10% wouldn't be a bad assumption at this stage, knowing what we know today.

Operator

Our next question comes from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Bill or Rob, I was just curious to get your views. There's obviously been a lot of acquisitions going on in the industry right now. I know a lot of it's on the either reinsurance side, but it does seem that it's partially motivated by desire to get into the insurance space. And I think there is maybe 1 or 2 insurers that are rumored to be up for sale. How do you view that? Or are you -- I guess, first, do you expect this to continue, that we're going to see a continued wave, sort of like the late '90s? Or are these sort of one-off situations? And secondly, is Berkley just an interested observer or could there be anything that at the right place and the right strategic merit, that you might be interested in doing something on the acquisition front?

William Robert Berkley

Founder and Executive Chairman

We manage this company in a way that we think is in the best interest of the shareholders, always, always have, always will. For us, that means if the right opportunity comes along, we will seize it. We think there are several things that are different now. Number one, we think a number of people deceive themselves that thinking scale of capital is an important competitive advantage. We think quite to the contrary. We think the world is full of capital, and if you have skilled underwriting talent, you'll be able to get all the capital you want. Therefore, getting more capital, as some people think is the object of putting 2 pieces together, is a bad decision. We think it doesn't help your shareholders. In fact, it ultimately dilutes their return. So we should start by saying just acquiring something to get bigger to add to your capital account is certainly nothing that we would consider. We always have the interest of finding ways to add expertise, finding people, finding something that gives us a competitive advantage. And we're always in the market for that. And if people want to talk to us, we're always willing to talk to them. But it really has to do something that we think is terrific for our shareholders, so I think consolidation will continue, because there are a lot of people who found getting in the reinsurance business was easy and was an easy way to make money and it's going to be a lot tougher way of making money as people, who have pools of capital that's not theirs, get together with expertise. So I think consolidations will continue, smaller and intermediate size players will get acquired and there'll probably be opportunities. And many things that have been done, we've looked at, we've talked about, and for some reason or other, haven't participated in.

Ian Gutterman
Balyasny Asset Management L.P.

Do you see any new business opportunity as there's distractions from competitors sort of involved in deals, that maybe there's the ability to get some underwriters from those shops that are uncertain about their future? Or is just the brokers are hesitant to renew? Does that create a business opportunity?

William Robert Berkley
Founder and Executive Chairman

There are always opportunities. We are a known quantity. We understand how to organize and set up new ventures built around teams of people. And a week doesn't go by that some team of people or another doesn't knock on our door, and we talk to them. But we have a view that they have to provide something that is worthwhile and the opportunity to generate the kinds of returns we think our shareholders need to achieve.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then just lastly, you mentioned things are getting a little more competitive. When we see deals that, as you said, are just accumulating capital, they're not removing capital from the industry, does that cause concern for you, just as far as how the cycle plays out that -- I would've thought at this point in the cycle, if we have excess capacity, people would do deals to take capacity out of the industry, but that's not really happening.

William Robert Berkley
Founder and Executive Chairman

Well, in some cases, it is, in some cases, it isn't. I think that, at the moment, and this has changed all the time, the hindrance for capital going out of business is the fact that managements and boards don't want to let go of their positions, so capital can't move without their consent. I think that some of these things will, in fact, take place, and you will find some of these people effectively going out of the business. So I think that's going to evolve, and that will happen at some point in time in the next 12 or 18 months.

Operator

I'm showing no further questions. I would like to turn the call back to Mr. William R. Berkley for closing remarks.

William Robert Berkley
Founder and Executive Chairman

Okay. Well, thank you all very much. I know this is a time with lots of calls. We appreciate you being on the call, and thank you all very much. Have a great day.

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