S&P Capital IQ

CONTENTS

W. R. Berkley Corporation NYSE:WRB

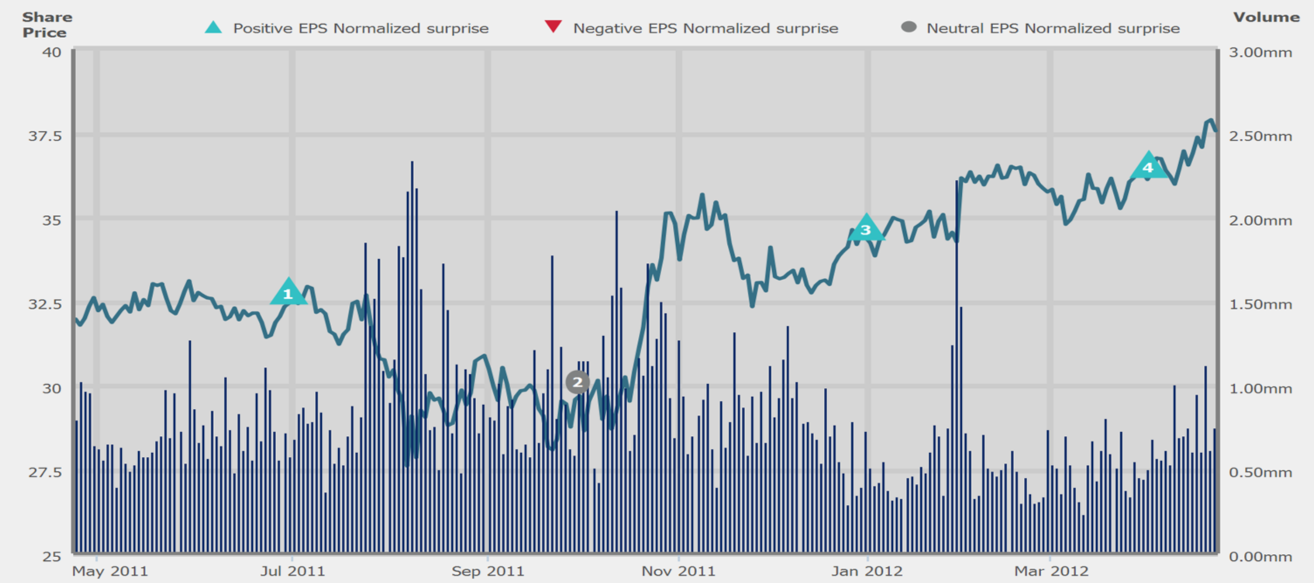
FQ2 2012 Earnings Call Transcripts

Wednesday, July 25, 2012 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.61	0.65	6.56	0.58	2.58	2.68
Revenue (mm)	1338.54	1415.75	5.77	1371.94	5411.19	5878.18

Currency: USD
Consensus as of Jul-25-2012 1:29 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	0.42	0.47	11.90 %
FQ3 2011	0.44	0.44	0.00 %
FQ4 2011	0.50	0.58	16.00 %
FQ1 2012	0.67	0.73	8.96 %

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

Amit Kumar
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Stifel, Nicolaus & Company, Incorporated, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Second Quarter 2012 Earnings Conference Call. 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 of 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, 2011, 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. Good morning. First, everyone should understand, we do not write crop insurance business. We got out that business in 1986 and haven't seen it since. Number two, I must be the only person that was happy with our quarterly earnings based on the stock price. We're pretty pleased with how things are going. We're pretty pleased with where the business is and the direction we see things. I'll talk more about the general industry and our position. First, Rob is going to talk about the operating segments, and then Gene will talk about the numbers then, and I'll try to pull it all together and take questions. Rob?

William Robert Berkley
Chief Executive Officer, President and Director

Okay. Good morning. Market conditions in the second quarter were a continuation of the trends we observed in Q1. Carriers seem to be increasingly aware of the realities that stem from a weak investments environment, combined with less robust prior year reserve development. Additionally, it is becoming more apparent that the benign loss trends experienced over the past several years may not be a proxy for what we should expect going forward. The reality of these ongoing circumstances continue to apply pressure to the situation, and it consequently is requiring market participants to refocus on achieving an underwriting profit.

However, while the need for a change in behavior may be clear, it is equally apparent there is significant tension between the desire to increase underwriting discipline versus the impact these actions may have on production. Having said this, by and large, companies seem to be accepting the realities of the industry's challenges and are consistently looking for additional rate while simultaneously continuing to show early signs of an introspective examination of the risk appetite. In particular, it is encouraging to see national carriers taking this path given the meaningful tone they play in setting the stage for the overall market.

Generally speaking, the excess market continues to be one of the areas that is the most resistant to change. It would appear as though there is a misperception held by some that the loss activity that is occurring in the primary layers won't climb up the coverage tower over time. A prime example of this would be excess comp. It is our view that some of the loss activity that the primary comp carriers have been experiencing with time will begin to impact the excess comp markets as well. Having said this, perhaps the silver lining is that history would suggest the areas that get the softest for an extended period of time tend to be the ones that offer the best opportunity in a hard market.

Net written premium in the second quarter was $1.19 billion. This represents an increase of 12.6% compared to the corresponding period in 2011. All 5 business segments contributed to the growth, although to varying degrees. The expansion of the specialty and international segments continues to be a result of our market positioning, breadth of product offering and relationships, as we have discussed in the past. The strength in the alternative markets was driven by improving market conditions, specifically in primary workers' compensation. The growth in the reinsurance segment, primarily in the treaty division, we believe, is generally a result of cedents becoming increasingly sensitive to financial strength, as well as their confidence in the value our team brings beyond financial capacity.

Our regional segment experienced less growth than other segments, which is a reflection of the level of competition in their part of the market and their unwavering commitment to underwriting discipline. The growth in the quarter, not only varied by segment, but also by operating unit. Of the 44 units running business during the period, 31 of them grew a total of 23%, while 13 declined a total of 14%. As we have suggested in the past, our model allows us to focus on growth when opportunities present themselves and the ability to shrink when necessary.

The company's rate monitoring report indicated an improvement of approximately 6% compared to the second quarter of 2011. This represents the sixth quarter in a row that rates have improved and the second quarter in which we have achieved rate increase over rate increase for corresponding periods. Additionally, this is the third quarter in a row where we believe our rate increases have more than outpaced loss trends. Our rate monitoring for new business shows that we are achieving 4.6% more rate on new versus renewal business. Finally, our renewal retention ratio remains at approximately 80%, suggesting, as it has in past quarters, that the quality of the book is not being sacrificed as we achieve these improved rates.

The group's loss ratio for the quarter was a 63.7. This result included 2.3 points of storms, which primarily impacted our regional segment. The company's expense ratio in the second quarter was a 34.5. This is an improvement of almost 0.5 point compared to the second quarter last year. This modest progress is a result of the group's increased earned premium. However, it is partially offset by costs associated with some of our younger operations, as well as some changes in our reinsurance programs. As we have suggested in the past, we anticipate a continued gradual improvement in this area as our earned premium builds. Gene will be going into more detail on this shortly.

When one puts all the pieces together, the group delivered a combined ratio of a 98.2 for the quarter. However, when one looks at the business on an accident year basis, we believe this reported number is a reasonable indicator.

The company's balance sheet continues to be in good shape. In spite of the challenges in finding investment yield, the average rating of the investment portfolio remains AA-. Additionally, on the other side of the balance sheet, we remain more than comfortable with our aggregate loss reserves.

On balance, the group is performing in line with our expectations given where we are in the cycle. Rate increases are outpacing loss trends, and as a result, we expect our underwriting margins to improve as higher earned premium flows through. While a turn in the market always seems to take longer than one would expect, it continues to be comforting that with the many signs that would suggest we are well on our way.

William Robert Berkley
Founder and Executive Chairman

Gene, you want to pick up?

Eugene G. Ballard
Executive Vice President of Finance

Okay, thanks. It was another solid quarter for us with significant improvement over the prior year for both underwriting profit and investment income. I'll start by going through the premiums, but I really only have a couple of points to add with what Rob already said.

First, for the international segment, premiums were up 22.5% to $208 million with strong growth from both our insurance business and our new reinsurance business in Europe. And also, if you adjust for the impact of foreign exchange, international premiums were actually up 30% in constant dollars for the quarter. Our alternative market premiums were up 21% to $148 million with strong increases for our primary workers' compensation business. Our reinsurance premiums were up 14% to $113 million. Specialty premiums were up 12% to $454 million. But if you look at our 20 specialty companies the way Rob looked at the overall business, you'll see the same focus on growing the profitable business. We had 14 specialty companies that grew by 31% and 6 companies that declined by 17% in total. And the regional business was up 3% to $268 million.

The overall loss ratio was 63.7% in the quarter, which is a decrease of 2.6 points from a year ago. Catastrophe losses were down significantly to $26 million from $63 million a year ago. That's an improvement of 3.9 loss ratio points, as we had fewer cat events in the quarter compared to last year and a significant decline in the average loss per event. We had favorable reserve development of $30 million in the quarter. That's 2.6 loss ratio points and is up from $25 million in the first quarter of this year. Most of the favorably reserve development in the quarter was related to the specialty and reinsurance segments and was primarily for accident years 2005 to 2010.

The accident year loss ratio before catastrophes was 64%, unchanged from a year ago. On an accident year basis, there's only about 4 points of rate increase in the earned premium so far, and that's offset by our loss costs assumptions, which continue to be conservative. On a policy year basis, there's at least an additional 2 points of rate increases that will convert to earned premium and underwriting margin that will become more visible in the second half of the year.

The overall expense ratio declined 0.4 point from a year ago to 34.5% with declines of 1 point each for alternative markets and reinsurance segments and 2.5 points for the reinsurance segment. The specialty and regional expense ratios were up slightly, and that's due primarily to changes in our reinsurance programs. These changes include a shift in some programs from quota share reinsurance treaties that had ceding commission to excess of loss structures without no ceding commissioned.

As I mentioned last quarter, following the change in accounting for DAC, we've began to place more focus on the gross written expense ratio, which is gross expenses before DAC divided by gross written premium. On that basis, which we think is a better measure of our current operating costs, the specialty expense ratio and the overall expense ratio declined by 1.2 percentage points from a year ago, and we expect that trend to continue. The overall combined ratio was down 3 points from a year ago to 98.2 in the quarter, and the accident year combined ratio before cat was about a 98.5.

Net investment income was $161 million, up 8% from last year. Income from the core portfolio, which includes fixed income, equities and over $1 billion in cash, was $126 million compared with $128 million a year ago. We've added over $900 million to the core portfolio at new money rates in the past 12 months as a result of strong cash flow, as well as the proceeds from a $350 million debt offering in the first quarter of this year. The annualized yield on the core portfolio was 3.7%, and the duration was 3.4 years for the fixed income with bonds. Income from investment funds was $36 million in the quarter, up from $16 million a year ago. That's a return of 22% in the current quarter on an average invested balance of approximately $650 million. Most of the income in the quarter was from funds invested in energy-related businesses. Those funds, as well as the rest of our investment funds, are reported on a one quarter lag, and we do not -- and we expect the return for the energy funds to be lower in the third quarter.

The merger arbitrage trading account made a modest profit in the second quarter and had an annualized return of 4.2% for the first 6 months of this year on average invested assets of approximately $315 million. Realized gains, primarily from the sale of equity securities, were $24 million in the quarter and $68 million for the first 6 months. In addition to that, we had unrealized gains before taxes of almost $100 million since the beginning of the year and have unrealized gains of $750 million at June 30, 2012.

Finally, I'll mention just a few other key numbers for the quarter that are in the release: cash flow, which was $239 million, up 48% from a year ago; share repurchases, we repurchased 1.3 million shares for a total cost of $48 million; our ROE which was 11% in the quarter and 12.4% for the first 6 months; and book value per share, which was up $1.93 or nearly 7% from the beginning of the year.

William Robert Berkley

Founder and Executive Chairman

Thank you, Gene. Well, we were really pretty pleased with the quarter in spite of what seemingly others weren't. We run the business, as we've said, as owners. That means we count catastrophes. That means we count all kinds of other things. We look at how we're doing as far as increase in book value per share. We think that's the real measure. And we think lots of people who say without catastrophe losses -- well, it's great to say, but that -- when you don't have catastrophe losses, you count the high returns that come from that chicken today, feathers tomorrow business. We also think that people who don't show realized gains and losses over an extended period of time tend not to show the risks inherent in their portfolio, and you can take greater risk and never be held accountable for it.

That aside, I might mention that we do have substantial unrealized gains in our private equity portfolio which was not in Gene's numbers of our unrealized gains, which as I've mentioned before, we expect some significant portion will be realized before the end of the year.

I think the biggest news is we're not worried about the cyclical change in the market. People who are parsing over 6% or 6.5% or 7% instead of 7.5% are really focusing on the wrong things. The cycle is changing. Clearly, the economic activity may well have slowed the pace of rate increases somewhat, but the cyclical change is taking place, and rate increases continue to move up a pace. Whether it moves up at 6% or 6.5% is sort of irrelevant. It's continuing to go. Our view still is really unchanged that by the end of the year, we'll be looking at 8% to 9% rate increases, and nothing has changed to that.

I was really trying to get across a message that it's clearly -- in any short period of time, people's psychology is impacted, and therefore, price increases may have a blip for a month. But there's nothing that's here. The cycle has changed. It's no longer the issue.

So what are the things we sit and look at? Well, first of all, when we look at our reinvestment rate for our portfolio, in spite of us finding niches and whatever, we're just not able to reinvest at as high a rate as we got before. Therefore, our -- while our after-tax returns are probably not much different because municipal returns are better, and we bought a fair-sized portfolio of high-quality dividend bank common stocks, the fact is our yield has come down by probably 40 basis points or so. And it's going to probably come down by another 15 or 20 by the end of the year because cash flow is coming in, and reinvestment rates are not as attractive; the biggest thing to worry about. It's our biggest concern.

Second on our list of concerns, inflation or no inflation. We're making some conservative assumptions in loss costs. Are we too conservative? Maybe. But just as important, we're making conservative low risk assumptions on how far out we go with our investment portfolio. We're investing with relatively short duration. We're still buying in the 5- to 7-year area and keeping our portfolio duration in the area of 3.5 years. That is because we believe the risk of ultimately having to face inflation is still there. We don't want to have a big charge in our portfolio when you mark to market and not be able to get out of our own way.

Therefore, we're being cautious on both sides: cautious in our picks -- for our losses and our expectation there; and cautious in keeping our portfolio shorter than we might. In the short run, that costs us money. In the long run, it's beneficial in our risk-adjusted criteria that we put forward for our shareholders. We are happy with where we're going. We think our returns can continue this way for a while. But obviously, we don't see a turnaround in the economy, where interest rates start to move up. At some point, we're going to have to look and say, is 15% still the right target? To achieve that targeted return, it's investment asset leverage per capital and it's opportunities. I think that from our point of view, we're pleased with where we see things going at the moment.

I think that there still are a few people out there doing stupid things on occasion. There's nothing we can do about that. Most people, though, are much more responsible. It's clear that this is a tough competitive business. No matter how good an investor you are, you still have to have underwriting expertise. Back a long time ago when I was getting in the business, people who were investment managers thought this was the best business to be in, including me. I found out that no matter how good you are at investing money, without underwriting expertise, this was not a good business.
So I think before I babble on, why don't we take questions. Tyrone, why don't we open this up for questions, please.

Question and Answer

Operator

[Operator Instructions] We have a question from Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Just going back to the discussion on, I guess, new business pricing versus renewal pricing and how the new business is above the renewal. I know that in the past you mentioned that you examine the business mix and you revisit the loss picks every 90 days. Can we just sort of revisit that discussion and maybe tell us how the new business has been? When you've gone back and looked at it, has it been performing in line or has it been different?

William Robert Berkley
Chief Executive Officer, President and Director

I guess, once again, to confirm, yes, we do review our reserves every 90 days by operating unit, and we cut it, slice it and dice it every way that you can imagine, or certainly, that we can imagine. And so far, as far as the new business performance from the past several years when we have been having some increased growth, we are very comfortable with both the pricing and more specifically, the margin that, that business is providing us. So there are no early returns that give us reason to pause. That in fact, the pricing on that new business that we have been writing over the past couple of years, actually, has turned out to be something different than what we have suggested.

Amit Kumar
Macquarie Research

Okay. That's helpful. I guess, the only other question I have is on capital management. You bought back some stock. I'm sort of stepping back, thinking about the industry, your discussion on economy, your expectation for, I guess, the 8% or 9% pricing at year-end. If it is softer than that, should one anticipate more capital management for 2012? Or this is a one-shot deal in this quarter?

William Robert Berkley
Founder and Executive Chairman

Nothing is ever one-shot. Everything in life is continuous. When you get married, how they say, the ring is continuous. Everything in life is the same way. I think that one of the things we pay attention to is our premiums to surplus. And premiums to surplus continues to go down as our portfolio continues to do better. As I mentioned, we have very substantial unrealized gains in our private equity portfolio that are not reflected that we expect to occur in this year. That isn't something that was in our calculation. So I think that money, that gain, is something we may well use to buy back stock. Or we may instead decide to examine repurchasing our preferred. I think it's a continuing process. We don't reach a conclusion until the moment. If enough of you want to sell the stock now, we would probably make that decision this afternoon. But the fact is that it's opportunistic. As you know well, we joined and run the business that we think will get the best return to our shareholders. And if we found an opportunity, we would take advantage of it. But the reality is our capital account is growing pretty significantly, and our writing surplus are going down. So there's plenty of opportunity to balance all that out. So this was only $50 million. It was not a huge amount.

Amit Kumar
Macquarie Research

Got it. And don't buy a crop entity.

Operator

And next question is from Greg Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Just wanted to -- again, on the private equity, I guess, harvesting the gains. Can you frame maybe how much it is and what it is? And then actually related on the energy loss for the third quarter, can you also frame that as well? It sounds like you know what's [indiscernible].

William Robert Berkley
Founder and Executive Chairman

Energy loss, we said we thought it would earn less because it varies. So I don't think we said there will be energy loss. I think we said the earnings from the funds related to energy will be lower likely in the third quarter than in the second quarter. And we don't -- that would be not in the best interest of our shareholders. But I think in the aggregate, there is certainly in excess of $100 million of unrealized gains in that private equity portfolio.

Gregory Locraft
Morgan Stanley, Research Division

Okay. So $100 million of gains that can be used, obviously, to buy back stock and the preferred by year-end. That's sort of how you think about that?

William Robert Berkley
Founder and Executive Chairman

No, that's not what I said. I said that, that will -- the gains from the private equity portfolio weren't in our original calculations in examining what we might do, but everything stands alone. It's our capital account that's going to be probably somewhat better than we anticipated. And therefore, we're evaluating what and how we want to balance it, which includes whether we call the -- but we wouldn't buy it back. We would call the preferred, which will take up $250 million or whatever dollars or buy back stock. It's a constant balancing act.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And then the last question is just I think back in the first quarter, on the February time frame, when we did the fourth quarter call, you mentioned that the year was going to be back-end loaded. And I'm just wondering, is -- are these sort of -- is this the ROE we should be thinking about and expecting? Or how do you stand today versus that comment relative to [indiscernible]?

William Robert Berkley
Founder and Executive Chairman

I think what I was trying -- the explanation you're talking about was when I tried to explain to people how earned premium comes in. In other words, an increase in price comes in from an accounting point of view -- accountants will probably argue with me -- but let's just say 12.5% in the quarter you write the business, 25%, 25%, 25%, then 12.5% in the fourth quarter. And so price increases come in later on. So in fact, here's the second quarter, we're getting price increases from the second quarter of last year to the third quarter to the fourth quarter to the first quarter and the second quarter. So as you move out by the fourth quarter, you will get 100% of the price increases from the first, second and third quarters. You will get 12.5% of those price increases will be earned from the first quarter, and 12.5% in the fourth quarter. So that's going to end up whereas in this quarter, give or take, it's going to be 4%. And if you said you're going to be at 8% by the fourth quarter, you will probably have 7%, give or take, in the fourth quarter of improvement in the earned premium. So it's back-end loaded, assuming price increases are trending as they are.

Gregory Locraft
Morgan Stanley, Research Division

Right. Okay. And then I guess, maybe, perhaps, just to clarify, because -- so really, what we should be expecting is material margin improvement on an accident year x cat basis starting 3Q, 4Q. I mean, you're showing it now. It's just the year-over-year is going to be looking -- we're going to be getting hundreds of basis points of improvements starting now -- I'm sorry, starting third quarter?

William Robert Berkley
Founder and Executive Chairman

You're choosing 100. The answer is, I think that we would expect -- I couldn't persuade my accounting people to give me specifics. They were so difficult to deal with. But the answer is, you said that you'll get 2.5% to 3.5% improvement in dollars of earned premium over loss costs by the fourth quarter. That would be a reasonable assumption.

Operator

Our next question is from Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

Looking at the margins once again this quarter...

William Robert Berkley
Founder and Executive Chairman

I'm sorry, I can't hear -- it's not clear. Could you...

Vinay Gerard Misquith
Evercore ISI, Research Division

Sorry, yes, now, can you hear me? Okay, great.

William Robert Berkley
Founder and Executive Chairman

Yes, great.

Vinay Gerard Misquith
Evercore ISI, Research Division

So this quarter, the earned rate increases were plus 4%, and I'm -- my mind is telling that, historically, you've had a 2% to 3% loss cost trend, so just curious why margins were roughly flat this year versus the prior?

William Robert Berkley
Founder and Executive Chairman

Because we had more pessimistic people, and they were more overwhelming, and I didn't fight as hard as I should have. So they were more cautious. But the answer is, you're trying -- and I understand why. We're trying to split hairs, and whether it's 3% or 4%, and we look at it every quarter, where we think loss cost trended. And honestly, the economy being a little slower than we thought will end up having us review loss cost trends, and we may end up saying, we're a little cautious. So we may go from 4% to 3% or from 3.75% to 3%, okay? So it's a continuing process. So that optimism is not just in price increase or the rate of adoption and speed of price increase. It is also with expectation of loss cost. So I think we were a little more cautious in the second quarter than we may well be in the third, but that's not a promise. It is trying to give you an understanding that this is real-time stuff we're now talking about. I understand you have to invest day to day, but we're looking at this, and we look at our numbers and look at the development, and we have all these actuaries fighting amongst themselves. One dies every quarter from fights, and we have to replace him. So the fact is that, some days it's not always the one I want to die that dies. I got a few of those in mind. But the fact is that it really is a continuing process. And I think that when I say I wasn't pushing harder, the fact is how we all feel and how optimistic or pessimistic we are influences that short-term decision. And as we get to year-end, we're trying to true it up as much it is as we can, and I think that we were a little more cautious in the second quarter than the economy ended up warranting.

Vinay Gerard Misquith
Evercore ISI, Research Division

Well, fair enough. And then on the pricing -- I mean, on the related comment on pricing, so about 8% to 9% by year-end. Just curious just what your views are for next year and also given the fact that the economy is weaker.

William Robert Berkley
Founder and Executive Chairman

Well, I have one of those magic 8 balls in front of me coincidentally. And I have -- they heard your question, and it turned out and it says "most likely." So I guess, that means it's most likely to continue going up at the same rate. No, I think that we would expect pricing to continue increasing at sort of the same kind of pace, 8% to 10% rate, 8% to 9% rate. If you used 8% as a target, that would be what we think. And I think at that point, you're starting to really move into a very positive territory. But understand one thing, that there's 2 issues that the world has to understand. Investment income is going to start to really hurt a lot of people, a lot of people; people in the auto business and who invested short-term with the 1.5- or 2-year duration are going to get virtually no investment income, unless they change the duration of their portfolios. We have been good at it. It's something we're pretty good at. So...

Vinay Gerard Misquith
Evercore ISI, Research Division

You mentioned on the call that the investment deal is coming down, correct?

William Robert Berkley
Founder and Executive Chairman

Yes.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. And then one final thing on the alternatives, you mentioned that -- and you said, it's about $100 million of unrealized--

William Robert Berkley
Founder and Executive Chairman

No, I said at least $100 million.

Vinay Gerard Misquith
Evercore ISI, Research Division

So do you expect that to be released -- I mean, or sold in the second half of this year? Or is that just going to remain sort of in unrealized and not appear in the income?

William Robert Berkley
Founder and Executive Chairman

We would expect it's going to -- at least some significant part of that is going to happen this year.

Operator

Our next question is from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So just -- first question, I guess, is just trying to understand, Bill, your comment in the press release about the economy and the impact on pricing and, obviously, the economy and the exposures, a direct relationship there. But I just want to understand just a little bit more color on that comment, then one follow-up.

William Robert Berkley
Founder and Executive Chairman

I mean, I was trying to explain to people that as the economy sort of is under more pressure, this is just not a smooth world. We're not independent of the rest of the world. Prices are still going up. Nothing has fundamentally changed. However, we don't really see an acceleration quite as quickly as we thought before. We still think by the end of the year, we'll be at that 8% or 9%. If you would've asked me where we would've been in the second quarter, I would've been -- I would've said 6.5% to 7%. We were at 6%. So it was just slower than I thought. The psychology just isn't as powerful as I'd like it to be. But I know directional change, and it's one mind, people get depressed and pessimistic. I think -- honestly, I think we're pretty much past that at the moment, and I think you're starting to see a little bit more positive attitude.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then just trying to understand a couple things so -- and maybe this isn't right but as I understand it, pricing is better in the U.S. than outside, particularly in casualty. And your international business has been growing, I'm sure, as you've added folks and are writing new types of business. But just trying to understand kind of the growth in international, and then on the flip side, regional, which as I understand is mostly U.S., has been growing slower than the rate change that you've been talking about for the last few quarters. So I'm just trying to understand that -- maybe dichotomy is not the right word, but just trying to understand kind of the tradeoff between those 2.

William Robert Berkley
Founder and Executive Chairman

First of all, growth in new businesses in Europe has helped that, and Australia and Asia, as well as Brazil and Latin America. Some other parts of Europe have also grown, but it's been driven by a couple of particular things: our syndicate at Lloyd's and our reinsurance business in London. And as I said, these are times I think that the regional business has been terrific with price increases, and they haven't -- they have not grown as much. The price increases had been more than their growth, which obviously means we've lost some business. That's a segment of the business that is more competitive at the moment. But we're really pleased that in the places where the world is more competitive, that people are more disciplined. So that's why it's sort of not a uniform picture in every place. Rob, you want to add to that?

William Robert Berkley
Chief Executive Officer, President and Director

No. I think that generally speaking, you've covered it. I think There are parts outside of the United States where there are really significant opportunities, as there are parts outside of the United States where it's overwhelmingly competitive, hence, the point earlier that we have some operations that are growing. We have some operations that are shrinking. And to paint with such a broad brush to fit, as such is suggesting

all markets outside of the United States are -- are more competitive or less competitive, I think, is a slippery slope. As far as the regional companies go, as I've mentioned in my remarks, it has been a little bit surprising to us how that piece of the marketplace has remained a bit more competitive. At the same time, as was suggested a few moments ago, our underwriting discipline and focus on profitability is such that we are prepared to effectively shed policy count, as was also suggested a moment ago, in order to achieve the rate that we think is required.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just one last one, I guess, is in, Bill, kind of your comments before about margins through the rest of the year and earning premiums through, I mean, if -- we're going to kind of fast forward to the end of the year, what do you think is going to have a more pronounced impact on margins and earnings, is it the reduction in the loss ratio or the bigger premium base against which you're spreading your expenses?

William Robert Berkley
Founder and Executive Chairman

I think that the loss ratio will have a bigger impact by the fourth quarter. I think by the time you get to next year, you'll start to see a real benefit from the premium. We will also -- you have to remember, the constant balancing of what kinds of reinsurance you buy and how that impacts the expense ratio is pretty significant. So I think there's a lot of moving parts that are in there.

Operator

Our next question is from Bob Farnam of KBW.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Heading back to the European business. I'm just trying to get a feel for it. With your strong credit rating, is that really giving you a lot of opportunity in the European space?

William Robert Berkley
Founder and Executive Chairman

I think it gives us a lot of opportunity. Every opportunity has its risks, and we emphasize risk-adjusted return. And I think that where -- we see lots of opportunities to grow and enhance our business, and we're cautiously examining those opportunities. Rob spends a fair amount of time over there looking for opportunities, and he is cautiously optimistic that something will come along, but cautious is the bi-word. When you don't know how something is going to come out, it's a pretty critical assumption. And there's a lot of leverage in these things.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And can you just -- shifting topics, can you -- your liability duration relative to prior years, I mean, has your business mix changed, and is that coming down or is that staying?

William Robert Berkley
Founder and Executive Chairman

Our liability ratio is basically unchanged, it's about 4 years. Our assets are about 3.5, give or take.

Operator

[Operator Instructions] Our next question is from Meyer Shields of Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Bill, just a question. If you have to -- you're making a capital allocation decision, deciding between a dollar of profit in the investment funds and a dollar of profit in underwriting. Is there any difference in terms of how you'd evaluate that?

William Robert Berkley
Founder and Executive Chairman

Well, I think from my point of view, the question is investment allocations. I can look at the same decision every day. Building a better business is always a more attractive thing for me. So I would always rather invest in expanding my business than an investment in something else. However, the uncertainty of an investment versus the certainty of expanding the business is certainly not the same. The long and short of it is we always want to build our business. We always want to expand our business, and every opportunity that we see that let's us create long-term value, we want to seize it. And the tradeoff you're always making is you want to grab every one that's really attractive. And we, for instance, haven't bought back our long-term trust preferred, even though it's a lot better return than the things we're buying, because it suits our capital structure. So that would be a good example of -- it's always there. I can always buy it back. Don't use my capital resources for the moment to do that. So that would be a good example.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay, that's very thorough. And Gene, if I can turn to the reserves. I guess, can I ask for the releases by segment? Then also, in the first quarter, you talked about how maybe the $25 million in reserve releases was not a good run rate. Is the second quarter a better approximation?

Eugene G. Ballard
Executive Vice President of Finance

So first, we don't give out the reserve releases by segment during these calls, but we'll do that in our Q. Second, I don't think it's any better a run rate. I mean, that number fluctuates quite a bit. As the year evolves, we get more and more insight into how the current underwriting year is performing, as well as the older years, and things change, so I wouldn't assume that that's necessarily a run rate either.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, my question was answered.

Operator

There are no further questions in the queue right now. I'd like to turn the call over to Mr. Berkley for any closing remarks.

William Robert Berkley
Founder and Executive Chairman

Okay. I think that the one thing I want to remind people, which I think is so important in times of changing cycles, probably those people who followed our stock for a long time remember me talking about it in 2003, 2004 and on, and that is paid losses are the only thing no one can fool with. Paid losses are a certainty. They can vary quarter-to-quarter with storms and with other things. But if you look at paid losses to incurred premiums, or better yet, paid losses to earned premium, including loss adjustment expense, that trend is a really good indicator for how a company is doing. I'd urge you to keep track of that for all the companies you follow, us included. You can't hide from paid losses. There's no -- except for, there's no maybes, it's a great comparator to see how companies are doing, a simple number, a defined number. I thank all of you. And we are really excited. We think the business is great right now, and we're very pleased. So have a great day, and enjoy the rest of your summer. Thanks.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Have a wonderful day.