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W. R. Berkley Corporation

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Earnings Call

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Call Participants

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Executive Chairman of the Board

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Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Second Quarter 2024 Earnings Conference Call. Today's conference call is being recorded.

The speaker's remarks may contain forward-looking statements, some of which 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 ending December 31, 2023, and our other filings made within 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. Rob Berkley. Please go ahead, sir.

W. Robert Berkley, Jr.

Krista, thank you very much. We appreciate you getting us through that marathon of a safe harbor statement. And good afternoon to all, and welcome to our Q2 call. Thank you for finding the time, and thank you for the interest in the company. Along with me on the call, you have Bill Berkley, Executive Chair; as well as Rich Baio, Executive Vice President and Chief Financial Officer of the group.

We are going to follow our typical agenda where momentarily, I'll be handing it over to Rich. He'll run through some highlights for you all. He'll then flip it back to me. I'll offer a few of my own observations on both the industry as well as our quarter, and then we'll be pleased to open it up for Q&A.

Before I hand it to Rich, I guess, perhaps stating the obvious, clearly, an active quarter of frequency of what I would define as severity, but perhaps relatively modest severity on the property front. From our perspective, it was an opportunity for this organization to differentiate itself as it does when there is severity on the property market front.

And in spite of all the challenges, we were still able to deliver a 91% combined. I guess for those that subscribe to the [but 4 club], it would be an 88%. But when we look at the goal of the exercise being to generate good risk-adjusted returns, to build the book value, we are of the view that cats do count, and so does net development.

In our opinion, it's not just about the steps forward that you take, it's also about the steps backwards that you will avoid, and that is very much woven into how we approach the business on all fronts. So with that, I will hand it to Rich, and I will follow him in a couple of minutes, Rich, if you would, please.

Richard Mark Baio
Executive VP & CFO

Of course. Thanks, Rob, and good evening, everyone. The company continues to perform well, with a second quarter annualized return on beginning of year equity of 20% on a net income basis and 22.4% on an operating earnings basis. References to per share information in my comments and the earnings release have been adjusted for the 3-for-2 common stock split effected on July 10.

Operating income increased approximately 35% to $418 million or $1.04 per share, driven by strong underwriting and investment income. Growth of 11.2% in net premiums written to a record $3.1 billion represents the first time above $3 billion for a quarter, and provides the opportunity for continued record-setting net premiums earned beyond this quarter.

The U.S. dollar strengthened to many foreign currencies in the quarter, adversely impacting the growth rate by approximately 90 basis points, and accordingly would have been 12.1%, excluding the foreign currency impact. We grew in both segments of our business, led by the Insurance segment with 12.2% growth, unadjusted for foreign currency, and the Reinsurance & Monoline Excess segment increased 3.5%, led by property.

Pretax underwriting income was $254 million, which included $90 million of catastrophe losses or 3.2 loss ratio points. Heightened catastrophe events during the quarter led to the increase in cat losses of 1.1 loss ratio points over the prior year quarter, well below what we would expect will impact the industry. Our careful and prudent management of cat risks has continued to result in stability in earnings.

Our accident year loss ratio, excluding cats, is at 59.4%, slightly below the prior year's 59.5%. The prior year accident development was favorable by $1 million. Combined with the previously mentioned cat losses, brings our calendar year loss ratio to 62.6%. The expense ratio increased 40 basis points to 28.5%, primarily due to higher commissions from business mix and is relatively flat to the sequential quarter. We remain confident with our guidance that the expense ratio should be comfortably below 30%.

Record pretax net investment income increased almost 52% to $372 million. The fixed maturity securities continue to drive results quarter-over-quarter with an increase of more than $100 million. In addition, net investment income from investment funds improved to $25 million in the quarter. The record operating cash flow through the first 6 months of $1.6 billion combined with the ability to reinvest the roll-off of existing securities at higher yields should continue to drive growth in net investment income quarter-over-quarter for the foreseeable future.

The credit quality of the investment portfolio and duration remains at a AA- in 2.5 years for the quarter. The effective tax rate was 23.7% and will likely remain at this level throughout the remainder of the year due to the contribution of foreign earnings taxed at rates greater than the U.S. statutory rate of 21%.

Turning to capital management. The company returned total capital of $381 million, consisting of $224 million of share repurchases, $127 million of special dividends and $30 million of regular dividends. Stockholders' equity increased 4.2% from the beginning of the year to $7.8 billion, while book value per share of $20.42 grew 5.4% over the same period. Book value per share before share repurchases and dividends grew 4.7% in the quarter and 9.7% on a year-to-date basis.

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

W. Robert Berkley, Jr.

Okay. Thanks, Rich. That was great. A couple of comments from me, maybe starting on the more macro in the industry, and then we can touch on our quarter as promised. So from my perspective, the industry continues to be one that responds to pain. Pain is the catalyst for discipline and change. We see that from one product to another.

I guess perhaps one analogy would be the cast may change, but generally speaking, the script does not change. Unfortunately, it's somewhat predictable. Speaking of change, certainly, we are seeing a bit of a tempering on the financial and economic inflation front. That having been said, social inflation shows no sign of abating.

Social inflation is something that we have been very actively and loudly talking about, going back to 2018, when we started to wave our arms and share with people what we were seeing in loss trend. One of the challenges, particularly as of late, and it's really in much of the country, is there's a bit of resistance in amongst many insurance departments in allowing carriers to get rate filings that they need to keep up with loss cost trend.

That consequently has been creating and continues to create an opportunity in the specialty lines, in particular, the E&S lines as the standard market is not able to get their rates to where they need to be, again, given what trend is driven by social inflation. I'm not going to get into every nook and cranny of every major commercial line, but I will flag that auto liability continues to be an area of concern. And obviously, by extension, that can feed into the umbrella line. From our perspective, when you talk about social inflation, there is no product line that is more exposed than auto liability these days.

Turning to our quarter. As Rich covered earlier, I would just point out the growth was up by 11.4%. As he mentioned, the net was up by 11.2%. The big delta there was a couple of folds. One was our captive business, which continues to do exceptionally well; a few new operations that we started, and when they're in their infancy and don't have much balance to them, will maybe be more dependent on the reinsurance buy; and lastly, there was a moment post 1/1 but before everyone started to turn their attention to what could be a very active wind season the ILW market softened a little bit, and we took advantage of that.

As Rich mentioned, the 11.2% on the top line was reasonably healthy growth. The rate coming in at 8.3x comp from our perspective should give comfort to others as it gives to us that we are keeping up the trend. That having been said, rate's important, but it's not the whole story. One needs to be conscious of what's happening with terms and conditions as history would remind all of us that oftentimes terms and conditions can have a greater impact than rate on the outcome of underwriting.

In addition to that, something that we talk about from time to time but is coming into sharper and sharper focus, and that is how there are certain territories or jurisdictions or venues that, as far as a legal environment or a legal climate, are changing and changing very rapidly. So there are certain territories that once upon a time, politically were red and that was still over for the legal environment. We are seeing those change. And I wouldn't say that they're bright blue, but they are certainly evolving to something that's more of a shade of purple, from our perspective.

Rich touched on the expense ratio. Again, reasonably stable there, obviously. As he had mentioned earlier in the year and again, touched on in his comments a few moments ago, new businesses that we started that are in their infancy are now incorporated into that. Until they get their critical mass, they're a bit of a drag on the expense side. And in addition to that, we are making some pretty chunky investments on the tech front as well as the data and analytics front.

Loss ratio, the 62.6%, again, not bad given the time of year and what's going on with SCS and related. That having been said, we are always looking to try and improve upon that. There's a lot of chatter in the marketplace at the moment around losses, and specifically around reserves. Look, when the day is all done, there's -- one of the great challenges of this industry is you sell your product before you know your cost of goods sold.

None of us know what tomorrow will bring. None of us know what a jury is going to do. That having been said, as we have commented countless times over the past several years, particularly in light of the commentary, the questioning and, occasionally, the chastising that we've received, for in spite of all the rate we've gotten, how is it that you are not dropping our loss picks?

Our response has been consistently that we have a respect for the unknown. We have an appreciation for what's going on with social inflation and consequently, early on, we are going to hold our picks at a higher level, and they will season out over time as we have more information.

A couple of data points that I thought could be possibly helpful is, the paid loss ratio continues to run in the mid-40s. When we look back at how much rate we have gotten since 2019 on all lines, ex comp on the insurance front are approximately 68%. That's cumulative, of course. And finally, another data point, since some people have suggested that the paid loss ratio only tells part of the story because your business is growing, I would add to that, much of the business' growth has been due to rate.

But nevertheless, I would suggest that people could look at a different data point, if it would be helpful to them, that being initial IBNR relative to net earned premium. And if you go back in time and you look at that data, which we have, if you look at sort of the '16 to '19 period, that was running at somewhere between 31% and 34-ish percent. If you look at '20 to '23, that's running between 37.5% and 39%. So as people think about the strength of our loss reserves, perhaps that would be a helpful data point.

Pivoting over to the investment portfolio. Rich touched on this earlier, duration 2.5, strong AA-. The domestic book yields come in at 4.5%, and the new money rate, in spite of all the chatter around interest rates and where they're going, so on and so forth, still starts with a 5%, and I would tell you it's probably flirting with 5.25% these days. Cash flow remains strong for the quarter. It was $880 million, $1.6 billion for the first half of the year.

Maybe taking a half step back on a little more of a macro front. I think some people have taken note that we played it reasonably well in how we positioned things for this rising interest rate environment. After the quick acknowledgment of that, I think attention quickly turns to, so what are you doing now? What are you doing to make sure you set the table appropriately for tomorrow? And to make a long story short, we have a view that regardless of who ends up in the White House and regardless of who's sitting in what seat in Washington, D.C. this country has a serious issue with deficit and fundamentally a serious issue with spending.

So there is nothing that leads us to believe that, that is going to be curtailed anytime soon. That having been said and what compounds the challenge is that some of the largest buyers of U.S. treasuries, that being foreign buyers specifically China and Japan, it's reasonably apparent that they, along with other foreign buyers, the appetite may not be there. So when you put all of this together, our view is that even if short-term rates come down, you are likely to see the yield curve uninvert, and that will provide an opportunity for us to nudge our duration out.

Obviously, around the election, there's a lot of commentary and speculation as to what leaders that will be in the White House will be doing going forward. I would just add the observation from our perspective, if we find ourselves in a situation where an administration takes a different view around immigration and we find ourselves further in a situation where certain parts of the labor market are no longer here to do those jobs, that will likely lead to greater inflation. Additionally, the idea of tariffs does -- quite frankly, all it does is raise the cost of products. That will likely lead to inflation as well.

Just pivoting quickly over to capital. Rich touched on the capital we've been returning. When the day is all done, the company at this stage, for the foreseeable, we think, is going to be growing 10% to 15%. Could there be a quarter where we do a little more, a quarter we do a little less? Absolutely, but that's sort of the strike zone as we see it. But at the same time, we're generating returns in give or take, high teens, low 20s pretty consistently, and there's a lot of visibility around that from our perspective.

So our ability to return capital for the foreseeable is pretty robust. When you layer that on top of, I think that the view, if you take a close look at the analysis any of the rating agencies have done, we are in an exceptionally strong place to begin with. So we'll have to see what tomorrow brings, but there is a lot of flexibility that the organization enjoys at this stage.
So I will pause there. And Krista, we would be pleased to open it up for questions. Thank you.

Question and Answer

Operator

[Operator Instructions]. Your first question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, you hit out in your comments, right? A lot of interest in reserves these days across the industry. I know you guys said you released $1 million in the quarter. Could you just provide some more color at the breakdown between insurance and reinsurance, or anything by accident year just to give us a sense of what's going on within that?

W. Robert Berkley, Jr.

Rich has the insurance versus reinsurance, and if you're looking for more detail, I would suggest that if you don't mind, Elyse, follow up with Rich and Karen, and they'll give you as much detail as they're legally allowed to.

Richard Mark Baio
Executive VP & CFO

So on the insurance segment, we developed favorably by $2.5 million, and on the Reinsurance & Monoline Excess segment, we developed unfavorably by $1.5 million. So that headed down to the $1 million.

W. Robert Berkley, Jr.

I would just add there's a lot of gives and takes on each one of those, depending on the product line, and for our purposes, we're looking at it by operating unit by product line.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then maybe another one for Rich. You guys had given some guidance on the Argentinian inflation-linked securities. Where did that come in, in the quarter? And do you have a sense of what that could provide in the third quarter?

Richard Mark Baio
Executive VP & CFO

So in the second quarter, we wound up reporting $63 million on inflation linkers, so it was within the high end of the range. And then if you were to look at a normalized level with regards to the linkers on a go-forward basis, looking out over the next few quarters, we would anticipate, depending on inflation where it goes, it could be somewhere between $20 million and $30 million.

W. Robert Berkley, Jr.

And just to add to that, Rich, if -- maybe -- what you were just sharing is sort of contribution, what it means operating. If you could circle back and give Elyse a sense what it means on the net as well because of the FX piece and so on, because I think it's important that people have the full picture on this.

Richard Mark Baio
Executive VP & CFO

Absolutely. So in the quarter, one of the things that you'll have noticed is that we had about $58 million of losses on a, I'll say, a realized/unrealized capital gain perspective. There's a number of moving pieces in there. But to Rob's point, there's about $50 million of foreign currency losses that are reflected in that number.

So that would offset the $63 million that we reflected in net investment income. So on a net income basis pretax, you have about $13 million of impact, if you will, impacting the net income. And if we were to look out into the foreseeable quarters, you'll likely see a similar situation arise where FX will largely offset the impact that's coming through on the net investment income side.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And one last one. Rob, you had 8.3 rate ex workers' comp in the quarter. I think that went up 50 basis points sequentially. What was the driver of the increase?

W. Robert Berkley, Jr.

We charge more.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Well, which lines contributed?

W. Robert Berkley, Jr.

I have the aggregate in front of me, Elyse. If you want to circle back with us, we'd be happy to share it with you. But what I would tell you is probably auto is the leading candidate. So when you look at -- maybe this is more than you're looking for, but I'll throw it out there anyways. When you look at the growth, for example, where we break it out in the release, the auto line has grown at almost 16%. What's driving that is rate, rate, rate, per the comments earlier. So auto is the leading candidate these days.

Operator

Your next question comes from the line of Rob Cox with Goldman Sachs.

Robert Cox
Goldman Sachs Group, Inc., Research Division

I appreciate you taking the question. Yes, I just wanted to go back to reserves. Rob, you mentioned some bigger movements. I don't know if that's bigger than usual this quarter between product lines, but any further color on the reserve movements by product line?

W. Robert Berkley, Jr.

Sorry, I don't recall commenting on reserves by product line. Rich, did you hear something about product line?

Richard Mark Baio
Executive VP & CFO

No.

W. Robert Berkley, Jr.

Yes. So what we -- there was no commentary on that, Rob. I'm not quite sure what you're referring to, excuse me.

Robert Cox
Goldman Sachs Group, Inc., Research Division

I was just commenting on how you said there was like puts and takes, I think, by product.

W. Robert Berkley, Jr.

Yes. I mean, ultimately, the point that I was trying to articulate was that we got 60 different businesses that make up the group, and we're looking at it both in the aggregate as well as at a very granular level.

So when you hear about the development that Rich looked at, I think that the reality is that there are a lot of pluses and minuses, and that's just where it came out to. But as far as specifics, as it relates to what's happening, that will probably be more detailed in the Q.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. And then just as a follow-up, I wanted to just go back to some of the comments from last quarter on raising some IBNR in the insurance picks, and if there was any movement in sort of how you guys looked at loss trend across product lines within the insurance segment this quarter?

W. Robert Berkley, Jr.

Well, honestly, Rob, I don't have a clear recollection of what you're referring to. I think generally speaking, we feel pretty good about our picks. But as mentioned earlier, alluded to earlier, we're paying close attention to the auto liability line.

Operator

Your next question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I'm going to get my chances on reserves. We'll see what I can find. So one of your competitors or maybe one of your peers, I should say, said there's been an elongation in the pace of wind claims are being paid and being paid at a higher level of severity. To the extent that, that doesn't mean you couldn't have reserved or anticipated for it, but is there another pig that the python has swallowed for the industry in '22 and '23 that the claims are coming in differently than they would have looking at the trends from the years prior?

W. Robert Berkley, Jr.

Nothing that's noteworthy from our perspective. Josh, we're not the biggest property shot that they cover, but we certainly do play in the space. And at this stage, we're not noticing any meaningful pattern of an elongation of the property claims too.

Joshua David Shanker
BofA Securities, Research Division

And you cited, of course, the difficulties persistently with a line like commercial auto liability. When you talk about how much IBNR you're putting up, are there certain lines that are getting that special IBNR focus that are driving that in particular?

W. Robert Berkley, Jr.

I think what really we're focused on, Josh, is the claims environment and making sure that we are acutely aware of where that is going. We have taken a tremendous amount of rate and a variety of other actions, and we continue to pay close attention to that.

And when I was making the comments earlier about being sensitive to different legal venues, that would certainly apply to commercial auto or auto liability, if you like. So when we look at that product line, are we trying to make sure that we are approaching it with the appropriate level of caution? Absolutely.

Joshua David Shanker
BofA Securities, Research Division

And if I can sneak one more in for Rich. And I guess in past quarters, we're talking about the high interest yield opportunity in fixed income markets, and I think it was said that the appetite for the proportion of income going into alternatives res will be lower, given how much money you can make in bonds. I've noticed the proportion of alts has been creeping up over time. Is that just unusual quirk, or are you seeing different opportunities in the alternative markets that you couldn't see 6 and 12 months ago?

Richard Mark Baio
Executive VP & CFO

Josh, I think it's really more around commitments that we make. So as you can imagine, these are private equity-like investments. And so when you make an investment in a particular fund, you're committing to a certain amount of capital over time. So that's what's giving rise to the increase in the dollars that are showing up there, if that's what your question is.

W. Robert Berkley, Jr.

But I would just add to Rich's comments, Josh. We are -- just given where interest rates are, from our perspective, alternatives are really not of great interest to us going forward. Could there be an exception here or there? Absolutely. But we are very pleased with the opportunity that the fixed income market offers, and I think you will see us continue to lean into that at this stage.

Operator

Your next question comes from the line of Michael Zaremski with BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

Just curious. Most of the attention on reserves has been come from noncommercial auto actually more recently. You've been showing and talking about kind of commercial auto continuing to get increasing rate. Not that commercial auto has been a good guy for the industry in any way, but is there anything we should be reading through that you think the industry still has plenty of kind of issues to deal with, scrap with, on commercial auto more so than the other non-auto stuff or...

W. Robert Berkley, Jr.

What I'm trying to message, Mike, and I'm probably not doing a great job, is that I think social inflation doesn't necessarily discriminate between lines. I think it is alive and well and basically, every liability line is exposed to it. That having been said, I think there are some liability lines that seem to be getting more attention from the plaintiff bar than others.

From my perspective, auto liability is -- got the biggest bull's eye on its chest. Does that mean GL gets off scot-free? Absolutely not. But that's sort of how we think about it, and that's what the data that we see would suggest.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. Switching gears a bit to the dynamics within the workers' comp market. You all have been kind of clear that the profitability for your view is that it's likely that the soft market is going to impact for profitability. And most of the commentary historically has been more on the severity side of the equation and negative pricing, but one of your peers recently brought up that frequency was becoming a little less negative. I don't know if you also share that view or data that we should be thinking about the frequency component of workers'.

W. Robert Berkley, Jr.

I think that how long can it be so negative for, I think, is an appropriate question. But the piece of the puzzle that we have been most preoccupied with is the medical piece. And from our perspective, the comp benefit schedules in many states has been, some would say, suppressed. Other people would say just benefited from the fact that it prices off of Medicare, much of it prices off of Medicare.

The federal government and how it approaches Medicare pricing, I think we all know is just a mechanism for them to transfer public costs to the private sector. And comp has benefited from that. But when the day is all done, we don't think that, that will happen indefinitely. When you look at other product lines, like private passenger auto, and you see the shift in trend around medical cost for claims, I think that, that would be another data point.

Mike, I think as we perhaps have talked about in the not too distant past, you can look to a state like Florida and the action that they took as it relates to benefits. So I'm sure that it can't be a negative trend with the same pace that it's been on the frequency front indefinitely, but the -- in our opinion, one of the big wildcards out there is medical trend and we think that, that's going to come home to roost.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. And lastly, in your prepared remarks, Rob, you talked about -- I might hack what you said. I don't have a live transcript open, but some resistance allowing carriers to kind of get the rate they need to queue up the loss cost trend. I had thought that's more of a personal lines phenomenon, and you're not really much of a personal lines player...

W. Robert Berkley, Jr.

My comments were not focused on personal lines, though. Clearly, to your point that it's a real issue for personal lines. We've seen it in certain states where it's proven to be really problematic and leads to a dislocation in capacity in the marketplace or availability of capacity in the marketplace.

That having been said, there are many insurance departments in this country that are resistant, that a, are not operating in a very timely manner and b, are, in some cases, quite resistant to allow carriers on the commercial line side to get the rate increases they need.

So when you look at the very healthy flow of business into the specialty market and the E&S market, in particular, which we have been a great beneficiary of and continue to be, part of the catalyst for that is standard markets are not able to get the rates that they need, and consequently, that is impacting their writings. And that creates opportunity for organizations like the one that I work for.

Operator

Your next question comes from the line of Mark Hughes with Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Rich, you had suggested, I think, in your commentary that the investment income should continue to step up quarter-over-quarter for the foreseeable future. Is that also taking into account the drop in contribution from the inflation linkers?

Richard Mark Baio
Executive VP & CFO

Yes. So if you look at it on a prior year basis to the 2024 year, we would expect, for the foreseeable future, an increase in our net investment income.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

When you say quarter-over-quarter...

W. Robert Berkley, Jr.

Corresponding period, so Q2 '24 versus Q2 '23, Q3 '24 versus Q3 '23.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Okay. Got that. And then the expense ratio in the Reinsurance segment, Rob, I think you talked about some chunky investments in technology, that sort of thing. Would one expect the expense ratio in Reinsurance to kind of stay at this level, at 29% or so?

W. Robert Berkley, Jr.

Yes. But obviously, a lot of that has to do with scale. So as we've touched on, I think, in the past, much of the opportunity has been in the short-tail lines. We'll have to see how those opportunities persist. Further, our colleagues, to their credit and their underwriting discipline, have not found as much opportunity on the liability lines.

So is the 29% sustainable? Yes. But a lot of that will be, in part, driven by whether the business is able to grow or remain the size it is, or if market conditions were to deteriorate dramatically, it's possible that could tick up incrementally.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And when you think about growth, you pointed out that E&S has become more prominent, perhaps. How much of the growth is coming from that mix shift in the E&S when we think about your top line?

W. Robert Berkley, Jr.

So the E&S business is probably growing at, give or take, 50% more than the standard market rate. That's a bit of a generalization.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And is that -- 50%, is that a little bit better than what it was this time last year? Or has that held pretty steady?

W. Robert Berkley, Jr.

Maybe incremental or better.

Operator

Your next question comes from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

First question is just what are the cat losses within insurance, almost $90 million. Could you give us a feel, Rob, of the driver of that? Was it the convective stuff in the U.S. or some of the international stuff?

W. Robert Berkley, Jr.

No, it was primarily SCS in the U.S., right up the middle of the country.

Ryan James Tunis
Autonomous Research US LP

Got it. And then I guess just on the capital returns, I was going to ask how you think between dividends and share buyback, but then I noticed -- because I mean you see you guys doing these specials, and then I noticed that these specials have been almost as predictable from a time of year standpoint as just the regular divvies.

Can you just give us an idea of like why -- why not increase just the common dividend by more and maybe get more credit for that rather than pay these special dividends as though they're regular?

W. Robert Berkley, Jr.

I think that this boils down to flexibility. We're pleased to share the capital with the shareholders, return it to them with consistency, at the same time, we don't know what the opportunity will be tomorrow. We don't know how the stock will trade tomorrow. So we want to have flexibility as far as growing the business. We want to have flexibility around what we believe is the most sensible way to return capital to shareholders, whether it be repurchase, special dividend, so on and so forth.

Operator

Your next question comes from the line of Andrew Kligerman with TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

Friday was a pretty surreal day with that whole CrowdStrike cyber issue. So I'm kind of curious, could you frame W. R. Berkley's cyber exposure? And then with that, what do you make of that for the industry and how it's going to affect the industry, whether it's pricing, loss costs, et cetera?

W. Robert Berkley, Jr.

Well, I appreciate the question, and it's certainly a topic that many of us around here have been scratching our heads over just kind of wondering and daydreaming what will come of it as far as market conditions. But when the day is all done, as far as our book goes, we don't -- will we have perhaps some level of loss activity? Yes, perhaps. But given what we know today, we don't see this being a material loss to the organization at this stage.

When the day is all done, to the extent that some type of business interruption is offered, usually, there's an hour's clause, if you like, associated with that. And consequently, given when the patch was available and how quickly people, particularly institutions that have some level of sophistication, could get back on their feet, we think it will prove to be manageable.

So I would be surprised if we didn't have any loss activity, but we certainly do not envision this being something of materiality or great consequence at this stage. That having been said, I think, for what does it mean for the industry, what does it mean for society? I think we'll have to see over time. But I think for many, perhaps it was a reminder or a wake-up call for the systemic exposure that exists around much of the technology that the world uses to operate.

Andrew Scott Kligerman
TD Cowen, Research Division

That's helpful, Rob. And just quickly, I mean, as a percent of net written premium, like what proportion of your overall book might that size to?

W. Robert Berkley, Jr.

Less than a couple of percent.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. Okay. And then maybe just shifting back to the commercial auto. 16%, you said, maybe all of that growth might have been rate. How comfortable are you with the '24 book of -- 2024 book of commercial auto that you're writing? And what does that speak to your reserve adequacy from '21 to '23 on that same line?

W. Robert Berkley, Jr.

Yes. Look, it's something that we are looking at very carefully. I think that we -- in our picks, we thought that we were building in appropriately a bit of a risk margin with that period that you just referenced. We'll have to see how much risk margin still is there. But at this time, we feel reasonably comfortable.

That having been said, are we looking at it actively, and are we trying to grapple with how much do we need to charge today with the assumption that trend will continue on from here and when we settle the claims? Yes, we are focused on it. So at this stage, are we uncomfortable? No. Are we paying attention to it? Absolutely.

Operator

Your next question comes from the line of David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just had a question on the Insurance segment. So the accident year loss ratio ex cat was flat year-over-year, increased a little bit versus the first quarter. I was wondering if you could just talk about some of the puts and takes within that, what was driving it to be up versus the first quarter and just how we should think about that going forward.

W. Robert Berkley, Jr.

Really, just to the extent -- I'm just trying to think for a moment, David, really the only big moves that, and they weren't even big, they were just incremental, but we made in a couple of places would stem from auto, and they can ensure that we're staying on top of that. But again, when it comes to the overall, it's pretty incremental. And then we may have, in a couple of places, taken a look at the umbrella, because, again, how that feeds into -- how the auto feeds into the umbrella, we want to make sure that we don't fall behind there.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. That makes sense. And then I think the previous question kind of touched on this, too. But I noticed in the 10-Q from last quarter, it looked like you guys had started to make additional reserve increases to just the other liability line for, I think it was accident year 2020 and '21. It sounded like those were primarily auto related. I guess I was just hoping to get a little bit more color on exactly what was going on, if you're seeing that happen again here in the second quarter, and then maybe just how you're thinking about that maybe spreading to general liability and umbrella just non-auto related.

W. Robert Berkley, Jr.

There's no evidence that we see at this time of the issues that we're seeing in umbrella, if you will, spilling over to the other product lines, or the issues that we're seeing specifically in auto, I should say, spreading to the other product lines. So said differently, we feel quite comfortable at the moment with the GL.

As far as the auto goes, it's a challenging moment. I mean you drive down I-95 or whatever highway you go down, and every other billboard is a plaintiff attorney with their phone number in case a truck cuts you off. And from our perspective, the trend is meaningful, and we need to make sure that we keep up with it and we want to make sure that the old years are in a reasonable place.

And that obviously, as mentioned a few moments ago, has implications, though relatively modest implications for umbrella. But to your specific question, do we see that sort of some type of viral effect, if you like, spilling over into GL, for example? No, we are not seeing that.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. That's helpful. And then maybe just a quick one. You had said earlier you guys have gotten 68% cumulative rate since 2019, excluding workers' comp. I'm just wondering how does the loss trend look versus 2019, if we were just to compare versus that 68% rate increase?

W. Robert Berkley, Jr.

The numbers that we have, it's less than that.

Operator

Your next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions for you. The first one, I just noticed professional liability grew this quarter for the first time in over a year. Anything kind of interesting going on there? Is it getting better or just anomaly?

W. Robert Berkley, Jr.

It tends to be -- what it is, is what I would define as professional liability ex D&O is having a reasonably good moment, that's both admitted and non-admitted. The challenge as we've discussed in the past, and of course, you're acutely aware of, Brian, is on the professional front is D&O. So that continues to be a challenged marketplace.

A submarket under D&O that I would flag as very, very concerning is transactional liability, and that is a book of business that we have that is shrinking at a very rapid pace just because we don't like market conditions. But as far as the opportunity, it's much of the professional market ex D&O, both admitted and non-admitted.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then second question. You talked a little bit about terms and conditions and how that's been a -- should be a big benefit to profitability, you're going forward on a bunch of this business. Maybe you can give us some examples of kind of what's happened over the last several years in terms of conditions, limits profiles and that stuff that's going to contribute to the profitability. And I'm assuming that's not factored into that 68% number that you gave us. And maybe how that mitigates any type of development potentially on some of the GL and commercial auto?

W. Robert Berkley, Jr.

Yes. On the GL side, an example would be that you see a contractor move out of the admitted market where they were buying whatever, a $1 million limit or a [1-2-1] and they're paying basically, whatever, $50,000 for the $1 million limit, and all of a sudden, the standard market, because of loss activity or a variety of other reasons, including they can't get the rate that they need, all of a sudden kicks it out.

And as opposed to being $50,000, it's $150,000, but to get $650,000 of cover, and maybe you're doing something with defense and you start sublimiting all kinds of other things and how you -- so it really is very much apples and oranges or maybe even apples and bananas because of what you can do with the terms and the conditions. And that's why if you look at our history as an organization, some of our most profitable business has been what we've been able to write on an E&S basis.

Brian Robert Meredith
UBS Investment Bank, Research Division

And actually a quick follow-up then. Do you know approximately how much of your business today is E&S versus, call it, 2019, prior to the cycle hardening up?

W. Robert Berkley, Jr.

I don't have the number in front of me. But as I mentioned to your colleague earlier, pretty consistently, our E&S business, even putting aside specialty, but just E&S, has been growing at a rate for some number of years. It's 50% more than what our standard market business has been growing. And just to define standard market, a lot of that is admitted specialty. So I mean the E&S has really been growing quite quickly and provides good opportunity.

Operator

Your next question comes from the line of Meyer Shields with KBW.

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

Some of the questions from Brian, it looks like at least compared to the first quarter of the growth in insurance [product] line [indiscernible]...

W. Robert Berkley, Jr.

Sorry, Meyer, I beg your pardon, but your line is breaking up a bit.

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

I'm sorry, is this any better?

W. Robert Berkley, Jr.

A little bit.

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

I was hoping you could comment on the apparent slowdown in the growth rate of short-tail lines in insurance.

W. Robert Berkley, Jr.

Sure. It's just -- long story short, that's really property and property market. And I think as we talked about some number of quarters ago, the property reinsurance market was what drove the property market. The property reinsurance market has peaked, and no surprise to any of us, the waterfall effect of that is that the property market continues to be good, but the level of opportunity there is perhaps not quite as robust as it was 6, 12 months ago.

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

Okay. That makes sense. Second question, I guess. In the investment portfolio, we saw, at least on a percentage basis, the decline in equity [indiscernible] income. Can you comment on that at all?

W. Robert Berkley, Jr.

I'm sorry, could you repeat that once more?

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

Yes. Just the sequential decline in the carried value of the common stock equity portfolio compared to March 31.

W. Robert Berkley, Jr.

Yes, we -- did you want to go -- we sold a bunch...

William Robert Berkley
Executive Chairman of the Board

The answer is we sold a bunch of common stock.

W. Robert Berkley, Jr.

We took some gains. We realized some gains.

William Robert Berkley
Executive Chairman of the Board

We just decided that in our specialty positions, the stock market wasn't the place we ought to be at the moment.

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

Okay. Yes. I just wanted to know if there was any sort of macro view embedded in that.

William Robert Berkley
Executive Chairman of the Board

No, sir.

Operator

That concludes our question-and-answer session. I will now turn the conference back over to Mr. Rob Berkley for closing comments.

W. Robert Berkley, Jr.

Krista, thank you very much. We appreciate your assistance today, and thank you to all for finding them to join us for this discussion. Hopefully, you take away from the dialogue that not only was the company, in spite of some of the challenges in the environment, to deliver a great outcome, we are also very well positioned.

And it's not that there aren't challenges out there, but the business has, is and will continue to do a very effective job in managing the shareholders' capital and making sure that we are achieving those risk-adjusted returns that the capital is entitled to. We will look forward to speaking with you in about 90 days. Thank you very much.

Operator
This concludes today's conference call. Thank you for your participation, and you may now disconnect.