S&P Global
Market Intelligence

W. R. Berkley Corporation NYSE:WRB

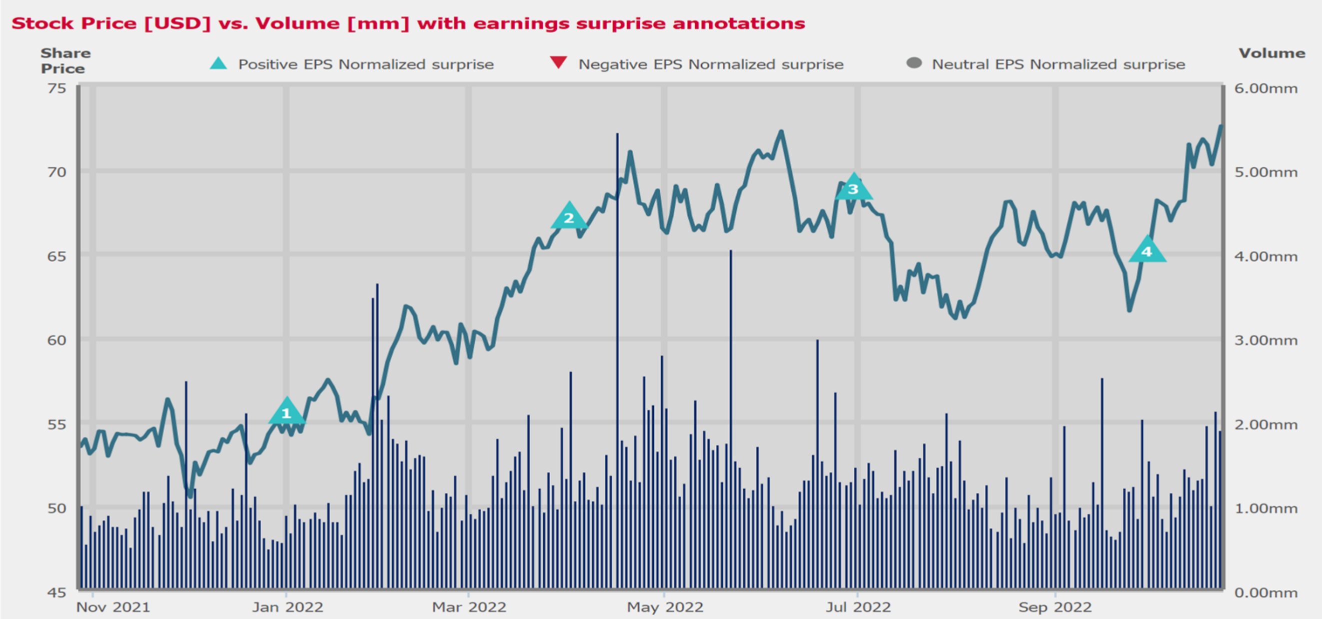
FQ3 2022 Earnings Call Transcripts

Monday, October 24, 2022 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.85	1.01	▲18.82	1.11	4.23	NA
Revenue (mm)	2438.57	2441.96	▲0.14	2508.29	9535.12	NA

Currency: USD
Consensus as of Oct-17-2022 5:20 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	0.83	1.02	▲1 22.89 %
FQ1 2022	0.94	1.10	▲2 17.02 %
FQ2 2022	0.86	1.12	▲3 30.23 %
FQ3 2022	0.85	1.01	▲4 18.82 %

Table of Contents

Call Participants 3

Presentation 4

Question and Answer 8

Call Participants

EXECUTIVES

Richard Mark Baio
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Mark Alan Dwelle
RBC Capital Markets, Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Michael Zaremski

Ryan James Tunis
Bernstein Autonomous LLP

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Good day, and welcome to W. R. Berkley Corporation's Third Quarter 2022 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 that the future plans, estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2021, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results. W. R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

I would now like to turn the call over to Mr. Rob Berkley. Please go ahead, sir.

William Robert Berkley
President, CEO & Director

Bo, thank you very much. And let me echo your welcome to all to our third quarter call. We appreciate your finding time to join us. Joining me on this end of the call is also Bill Berkley, our Executive Chairman; as well as Rich Baio, our Executive Vice President and Chief Financial Officer. We're going to follow our typical agenda where, on very short order, I'm going to be handing it over to Rich. He's going to run through some highlights of the quarter. I will follow with a couple of observations on my end, and then you will have the 3 of us at your disposal to take a Q&A session anywhere people would like to take it.

Before I hand it over to Rich, I did want to flag or raise a thought for participants' consideration, and it's something that we spent a good deal of time thinking about on our end. And it particularly comes into focus during periods of time like what we saw in the third quarter when cat activity spikes considerably. And great attention, amongst many, turns to trying to understand exposures, trying to understand claims activity and what does that mean from a dollars and cents perspective. And those questions are well placed and are all important and appropriate.

That having been said, in the flurry of activity around trying to understand what has transpired from a financial perspective, it is easy to lose sight of the more, what I would call, the human aspect and the loss that has occurred and how that impacts individuals, not just their homes being destroyed, but oftentimes something even more severe such as the loss of life.

So I did want to just comment on this that it is something that my colleagues and I pay great attention to, we are sensitive to, and all of those impacted by the events of the third quarter are certainly in our thoughts. Furthermore, we have many colleagues, particularly on the claims side of the business, that are working tirelessly to make sure that we as an organization are servicing customers, making sure we as an organization are living up to our commitments and our promises, which is something we take very seriously.

And finally, from our perspective, to the extent there is any type of silver lining in these types of situations, clearly, it is an opportunity for the industry to demonstrate the value that it brings to society. We cannot undo what has been done, but we certainly are in a position to assist society in picking up the pieces and trying to put it back together. That is not just an obligation but an opportunity that we as an organization take very seriously.

So I will leave it there for the moment. And now, Rich, if you wouldn't mind taking us through the numbers having said all that. Rich, please?

Richard Mark Baio
Executive VP & CFO

Sure. Thank you, Rob. Appreciate that. Operating income increased 14.2% to $282 million or $1.01 per share with operating return on equity of 16.9%. Net income of $229 million or $0.82 per share resulted in a return on equity of 13.8%. The company reported strong underwriting income in spite of the industry-wide catastrophe events. In addition, the record quarterly net investment income and foreign currency gains resulting from the strong U.S. dollar contributed to our excellent quarterly results.

Pretax underwriting income of $192 million demonstrates the resiliency of our underwriting portfolio in an environment facing many challenges, including social and economic inflation as well as frequency and severity of natural catastrophes. We reported pretax catastrophe losses of $94 million in the quarter with 3.9 loss ratio points compared with $74 million or 3.5 loss ratio points in the prior year. Probably of no surprise, the main driver in the quarter was Hurricane Ian. We developed our best estimate on a ground-up basis, operating unit by operating unit, the predominance of which is IBNR due to the timing of the event.

Focusing next on our top line. The company grew gross premiums written to a record of almost $3.1 billion. Net premiums written increased 10.8% to approximately $2.6 billion. Breaking this down further between segments, Insurance grew 11.5% to $2.2 billion, while Reinsurance & Monoline Excess increased 6.8% to $340 million. Exposure growth is a significant contributor to the increase in premium.

The current accident year loss ratio, excluding catastrophes, improved 30 basis points over the prior year to 58.6%. Prior year loss reserves developed unfavorably by 1.6 loss ratio points in the current quarter, bringing our calendar year loss ratio to 64.1%. Record quarterly net premiums earned benefited the expense ratio of 28%. We continue to invest in the business and identify strategies to operate more efficiently and optimize our technological capabilities.

Wrapping up underwriting performance. Our current accident year combined ratio, excluding catastrophes, was 86.6%, and our calendar year combined ratio was 92.1%. Record quarterly net investment income of $203 million was led by growth in the core portfolio of 51% and better-than-average investment fund results despite the significant downturn in the equity markets. The increased invested asset base, along with higher interest rates, is contributing to much of the growth in the core portfolio. Book yields on the fixed maturity securities has sequentially improved each quarter this year with 2.2% in the first quarter, 2.6% in the second quarter and 3% in the current quarter. The short duration of our investment portfolio of 2.4 years, combined with strong operating cash flows of almost $1.8 billion year-to-date, should contribute to further growth in net investment income and improving book yields. At the same time, the short duration of the portfolio and high credit quality of AA- has tempered the market value impact on book value.

As it relates to the investment funds, our diversification strategy has benefited our results to date despite certain funds' correlation with the equity markets. Our investment funds are reported on a 1-quarter lag. And in light of the third quarter deterioration in the broader equity markets, we may see our fourth quarter results impacted. Pretax net investment losses in the quarter of $67 million is primarily attributable to the net change in unrealized losses on equity securities of $50 million, which largely related to sector declines in technology and financial services.

Stockholders' equity was more than $6.3 billion as of September 30, 2022. Strong earnings of about $1 billion on a year-to-date basis has mostly offset the impact from rising interest rates on unrealized losses. At the same time, we proactively managed our capital position as evidenced through regular and special dividends of approximately $209 million year-to-date, along with share repurchases in the third quarter of almost $7 million. Fitch validated this view of our financial strength early last week with an upgrade to AA- from A+.

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

William Robert Berkley
President, CEO & Director

Rich, thank you very much. So let me just offer a few comments. I promise I'll keep it on the brief side, though I think I say that every time and I rarely do, but I guess it depends on your definition of brief.

So the marketplace overall remains a very interesting one from our perspective. There are pockets of the market that remain extremely attractive, and there are others that is surprising the level of competition. One of the observations that we have shared in the past and we continue to see very much a reality is how the market is still as cyclical as ever. That having been said, different product lines are marching not in lockstep but very much to the beat of their own drum, which translates to, they are at different points in the cycle at any moment in time.

I would tell you that the specialty space, in particular, the E&S space, remains very attractive. In addition to that, I would tell you that if it is a piece of business that falls within the appetite of the standard market, particularly a national carrier and some regional carriers, it is shocking to us how competitive some participants are willing to be.

That having been said, if you have an opportunity to look at our release and you look at Page 7, you would have seen the different product lines and where the growth is coming from. Certainly, in our opinion, if a leading indicator is if we are growing at a healthy rate, it means that we think there is margin there, and we are leaning into it. When you look at the various product lines, certainly, short-tail lines, in particular, property, as of late is demonstrating more opportunity. In addition to that, when you look at the reinsurance space, we are seeing a similar opportunity, and it is likely you'll see us leaning into that even more.

On the other hand, you have professional liability with particularly public D&O standing out as a product line that has become increasingly competitive, and workers' compensation, that is a product line that we've been talking to those that are willing to listen for an extended period of time that we've been surprised by the level of competition. You might say, "How do you reconcile that with the growth rate that you have in the product line during the period?" To make a long story short, it's just exposure, if you will, growth in payroll.

Overall, we as an organization benefit from the diversity of our product offering. As a result of that, at any moment in time, there are parts of our portfolio that are shrinking, and there are parts of our portfolio that are growing and growing dramatically. We are in the marketplace every day trying to optimize. The market may move towards us. It may move away from us, but we are consistently there at a rate that we think is appropriate or then some.

When you look at the growth that Rich talked about in the quarter, approximately 11%, we think, is reasonably healthy. Again, the discipline on the professional liability that I alluded to a few moments ago, I think, has created a little bit of a headwind.

That having been said, our discipline remains with our renewal retention ratio remaining at approximately 80%. And we are getting a bit of a premium on new business relative to our existing portfolio, which as we've discussed in the past, we think, makes sense because you know more about your renewal book and your new book. As you would have also picked up during -- it's somewhere in the release, we made some good progress on the rate front coming in at 7.3% ex workers' comp. And at that pace, we're quite comfortable that in the aggregate, we are keeping up with trend.

I think another data point that's important, particularly in an inflationary market, and that is audit premiums, to what extent, if the exposure is growing, are you capturing that and making sure after the policy incepts that you're going back to collect everything you should have. And we were pleased to see the growth in our audit premiums over the corresponding period last year, up 42%.

Rich walked through with the loss ratio with you all, the 64.1%. For those that subscribe to the but-for model, it's at 58.6%, the 64.1%. When the day is all done, in my opinion, that is reality. That having been said, breaking it down, Rich walked you through the cats of 3.9. And the last piece as far as the development goes was essentially entirely related to what I would define as isolated and unique events stemming from COVID. And to the best of our knowledge and as clearly as we can see it, we do not envision this being an ongoing issue. Again, we view it as isolated to 2 unique situations, and that's how it looks to us at this point. So that's to the best of our knowledge.

With the 58.6%, as Rich flagged, a bit of a small step in the right direction, an improvement of, call it, 30 basis points on the ex cat accident year. Look, when the day is all done, we are pushing on the rate, and we are not going to declare victory prematurely. I understand some people have done the math and said, "Well, why isn't your ex cat accident year loss ratio improving more?" And it's because of something called inflation that comes in 2 different flavors that we are exposed to, both financial or economic as well as social.

Expense ratio at 28%, we think that is pretty healthy by any measure, particularly for a specialty writer. Some of the realities that we had talked about during COVID and the COVID benefit on expenses, those are starting to dissipate as people are traveling and entertainment is coming back to be part of our business. That having been said, also, costs are going up. We are not just focused on inflation as far as raising our rates and what it means for our loss costs and how we're responding to that with rate increases. Also, it impacts our operational costs in making -- whether it be remuneration or any other expenses that we have.

Rich touched on the investments. I'm just going to, I guess, echo a couple of his comments. Long story short, I think we are very much being rewarded for the discipline. I have made the comment in the past how we went for many years keeping our duration short and not compromising on quality. And quite frankly, that came at a cost. There were others that were compromising on quality and taking the duration out, and they served themselves well for that day but did not position themselves particularly well for tomorrow. And guess what? Tomorrow is here.

As a result of that foresight and that discipline, we are enjoying the benefits as to what the impact has been on our book value as far as the unrealized or some perhaps other organizations maybe are realizing it. And in addition to that, we have the benefit of being able to put money to work at higher rates much more quickly than others. You would have -- as Rich flagged for you, our book yield ticked up considerably in a 90-day period going from about 2.6% to 3%. And obviously, you all can do the math as easily as we can as to where the new money rate is likely going given where interest rates are today. And it would seem as though that they are headed tomorrow. So we have a lot of room to push the duration out a bit if we think it makes sense, if we are getting paid for it. And we think that we are very well positioned.

So long story short, and I guess desperately trying to live up to my word that I would keep it short, what's the punch line? The punch line is that we are an organization that has, is and will continue to be very focused on risk-adjusted return. When we think about risk-adjusted return, we clearly take volatility into account. We have the ability to pivot from one product line to another, emphasizing and deemphasizing products as we see fit, depending on market conditions.

Certainly, it is very possible, for example, that you will see us participate more significantly in the property cat space. It would be my expectation to the extent we chose to participate, depending on how attractive the market gets, that we would probably participate for a year or 2, unlikely more than 3 in a significant way. We are going to deploy capital with an eye towards risk-adjusted return, and we are not going to be shy to let the business go when we don't think it makes sense anymore.

That same focus on risk-adjusted return that applies to underwriting also, as I mentioned a moment or 2 ago, applies to our investment activities. We are disciplined. We are focused on the idea of how much risk we are taking on and are we getting paid appropriately for it. When the day is all done, we are in business to build book value for shareholders. And we think that we have been able to do that again because of our eye towards risk-adjusted return.
So let me pause there. And Bo, we would like to open it up for questions, if we could, please.

Question and Answer

Operator

[Operator Instructions] We'll go first this afternoon to Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question on, you guys saw a little bit, if we look at your pricing disclosure, a little bit of an uptick. You gave us the color ex workers' comp in the quarter. Can you just go into more details on what drove that? And then given, right, that Hurricane Ian is going to be a pretty large loss, would you expect that, that number would continue to trend higher in the fourth quarter?

William Robert Berkley
President, CEO & Director

So we're not going to unpack the rate number by product line, but what I would tell you is that we are very focused on rate adequacy or rate adequacy plus. And we're conscious of the environment. And while we all would like to grow, that is not going to overshadow our focus around rate adequacy. So again, I would be careful not to be too much one way or another into a certain number of basis points, but I can tell you that rate adequacy remains a priority.

As far as market conditions going forward, it is pretty clear to us that property pricing, particularly cat-exposed property pricing, but property pricing in general, is going up. It has -- we haven't seen it in a long time, but it's likely to be led by the reinsurance market. And the insurance market, I expect, will follow. And we will be leaning into that in every way that we think makes sense for the organization. Will there be a spillover to other product lines? We will see with time. It's not as clear to us that, that will be the case, though to the extent that those opportunities present themselves, I promise you, we will be there to catch them and try and take advantage of them.

But again, certainly, as far as property and cat-exposed property and perhaps the most interesting property cat reinsurance or even certain types of retro, those are things that we are paying close attention to, not just as a buyer but potentially as a meaningful seller. But again, we would be there when we think the margin is there. Typically, the vast majority of the time during a cycle, we do not believe the margin is there, which is why we control it very tightly. But we are not shy to lean into it if we think that it makes sense from a risk-adjusted return basis.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Is there a level -- like sticking with the property cat re comment, is there a level of rate that you guys are looking to at January 1 when you think about incrementally adding to your property cat reinsurance exposure?

William Robert Berkley
President, CEO & Director

More.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the prior year development, I know you guys typically wait for the Q to give the color by segment, but it was a large number this quarter. And for us, those of us trying to get a sense of the underlying margins by segment, can you just give us a sense of that $39 million of adverse development of the [indiscernible]?

William Robert Berkley
President, CEO & Director

That was basically -- it was the isolated COVID stuff that I was referring to and to you -- what I would define as unique and isolated situations, primarily the vast, vast, vast majority of the development was in the insurance segment.

Operator

We go next now to Mike Zaremski of BMO.

Michael Zaremski

First question, trying to get a little more color, if you're willing, on unpacking the spread that you feel there is between loss cost inflation and pricing. Inflation came up a lot in your prepared remarks, obviously. And I think last time you gave us an update on this, I think you said something in the magnitude of rate was exceeding loss cost trend by hundreds of basis points. Just curious if that spread has narrowed a bit over the last couple of quarters and any color you might want to offer.

William Robert Berkley
President, CEO & Director

Yes. Mike, I think that we're starting to try and get into the weeds. And obviously, it varies by product line. But in the aggregate, at the 7.3% that we're talking about, I think that we are comfortably outpacing loss trend by a meaningful margin. And that would be, in all likelihood, more than 100 basis points. My crystal ball is really no better than anyone else's, and we are trying to err on the side of being measured around loss picks in general. But again, at 7.3%, I think it's still very fair to say that we are outpacing it by more than 100. Maybe it's 200 basis points, but it's a pretty healthy margin.

That having been said, as I have suggested, we are not going to declare victory prematurely. There is a huge amount of sensitivity around those assumptions. And if it proves that it's something more than we expected, we're going to make sure that we have the ability to try and absorb that. So it's going to take some time for that to season. And ultimately, we'll have some clarity.

Michael Zaremski

Okay. That's helpful. Maybe moving to the investment portfolio. It looks like cash levels have come down. Duration, you're kind of staying put for now, room to extend there. I guess just curious, interest rates have risen a lot. But I guess, is the bottom line that you have an extended duration because there's the -- you think there's an increased potential for interest rates to move a lot higher? Or is there just a -- I guess, I imagine just thinking about...

William Robert Berkley
President, CEO & Director

Maybe a couple of quick comments, Mike. First off, I think that our view is that it is likely rates are going to move up from here. And while they may not move up at the same pace that they have been going up as of late, we think they're still going higher.

In addition to that, the fact of the matter is while -- to move the duration out would -- in a meaningful way would require us to go pretty far out on the yield curve. And we don't think you get paid enough, quite frankly, to take it out. And we're pretty comfortable in that what I would define as 3- to 5-year zone, if you like, probably at this moment, a little bit closer to 3 than 5, but sort of in between. And that will naturally even -- may take the duration up a little bit, but not a huge amount. And I think you're going to see the book yield continue to tick up at a pretty healthy pace as we get to start to think that maybe rates are peaking or close to the peak. We're going to think about duration a little bit differently perhaps. But at the moment, we think there's still a bit of runway ahead of us.

Michael Zaremski

Okay. And just to sneak one last one in, just curious if reinsurance -- so thinking about the primary side of your portfolio, not the -- cognizant that you write a good amount of reinsurance. Just on the primary side, if reinsurance rates do move up meaningfully, especially on the property side, should we be thinking about any changes in kind of gross to net strategies or any lines of business you might have to change kind of your strategic view on?

William Robert Berkley
President, CEO & Director

There's really nothing that we do today that we would feel as though we would have to curtail, if you will. As, Mike, I think we've mentioned in the past, if you look at our business, approximately 90% of our policies have a limit of $2 million or less. So we tend to buy what we really -- we buy some corporate covers, and we have the ability just to dial that down and increase our nets and just think about capital allocation in a different way.

Simultaneously, if we find ourselves in a position that the reinsurance market is that hard, it's likely you will see that part of our business grow, and we will deploy capital in that direction. So do I think it's caused some people a little bit of agita and maybe a bit of a headache? Yes. Do I think for us, it can create opportunity? Yes, I do.

Operator

And we'll go next now to Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

First question, not so much to your numbers on Ian, but more specifically just kind of your thoughts on industry observations here. There's kind of -- there's been 2 school of thoughts that are kind of throwing around. Industry numbers could move up from what we've seen from the modeling numbers or there's another school of thought that says they could move down given some things that have been happening in Florida. And I guess I'm just curious which side you'd be on? Is there more risk of current industry numbers moving up or down from what we see today?

William Robert Berkley
President, CEO & Director

I think it really depends on which estimates you're talking about. But what I would tell you is that it's likely this is going to prove to be a very, very significant flood issue, which obviously will impact the loss for many on the homeowner side and on the property side. Obviously, auto is a different animal. I think the auto loss is likely to prove to be far more severe than maybe the models would have initially suggested. So long story short, I don't think there's a huge amount of clarity. It's not that we take any particular great issue with the numbers. And sort of that 50 to 70 as bookends, that's probably not a bad range.

That having been said, I think the way it's going to get allocated amongst product lines may prove to be a little bit different than what people anticipated. And my best guess is that it's probably between those bookends, towards the lower end than the higher end.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. My second question is more of a follow-up to the first set of questions from Elyse. When you talked about risk-adjusted returns, the volatility activity in the property cat, I don't think I understood what you meant in your second answer when you said more. When we're at...

William Robert Berkley
President, CEO & Director

Yes. That was being a wiseass, which probably...

Michael Wayne Phillips
Morgan Stanley, Research Division

No. I know. I know. Yes. But -- yes. So I guess...

William Robert Berkley
President, CEO & Director

My view -- here's the story. From our perspective, for an extended period of time, and we've offered this perspective in the past, the reinsurance marketplace has kind of gotten led around by the nose by the insurance marketplace. And there's enough pain out there that has been building for an extended period of time. It would appear as though that the reinsurance marketplace maybe has gotten the courage and the discipline that has been a long time coming. And we have our view on what is rate adequacy.

And if we see, for example, in particular, property cat reinsurance pricing getting to a level that we think makes sense, we have been making plans and positioning ourselves, as you would expect, or at least you don't, you should be expecting, to be able to participate in a meaningful way. But we are only going to do that if we think you are getting paid enough. We are not in that product line day in and day out, riding the cycle up and down. We are going to participate, call it, on average when we think everything lines up, the planets and stars line up for, call it, 2 years out of every 15 years. And it is certainly very possible that 2023 could be 1 of those 2 years. But if we don't like it, if it doesn't get hard enough, we're not going to stick our toe in the water, let alone a foot.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. So you mean that is it still too early to say whether the rates are up enough for you to want to participate or to be determined?

William Robert Berkley
President, CEO & Director

It is too early to decide to what extent we would participate or whether we will participate really in a meaningful way at all. But we do have the colleagues and the -- with the expertise all lined up. The distribution knows that we are here, that we want to see what's out there. And we will participate again to the extent that it makes sense. If it doesn't make sense and the pricing doesn't get to where we think it needs to get to, then we have absolutely no problem sitting back and putting our powder away.

Operator

And we'll go next now to Yaron Kinar at Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I want to go back to the commentary around really being focused on clearing the return hurdles. Are those hurdles going up? I would assume that the cost of capital is going up at the same time and also getting probably better investment returns. So how are you thinking about those return hurdles from an underwriting perspective?

William Robert Berkley
President, CEO & Director

Yes. Our benchmarks are clearly going up. But ultimately, we also think about our overall economic model. Obviously, as everyone on the call knows, we generate return in 2 ways: one being underwriting, and the other one being investment income. But perhaps if I'm understanding your question appropriately, there is no movement on our end to look to start to compromise our loss ratio picks because of a higher interest rate environment. We are not, have never been and will never be, as long as the Chairman and I are here, cash flow underwriters. That's not what we do.

So again, I'm not a big fan of the but-for, but we are -- I think that the loss ratios that we generate or the combined ratios that we generated in the quarter on a calendar year is certainly not what we targeted, but it's certainly not the end of the world. And we have no interest in compromising on our targets at this time.

Yaron Joseph Kinar
Jefferies LLC, Research Division

That's helpful. And then my second question, just looking at the professional liability line within insurance, down a little bit this quarter year-over-year. I'm assuming that's just the transactional business that's slowing down a bit year-over-year and maybe slower rates as well. So maybe you can give us [indiscernible].

William Robert Berkley
President, CEO & Director

The professional liability on the insurance side, I think, was up about 1%, and the big movers in that were particularly D&O. And there are a couple of drivers there. One, I think it's competition. But two, the demand has slowed a little bit, particularly around IPOs and to a lesser extent but still there, SPACs. And those 2 pieces drove a meaningful percentage of the demand. So I think that's a piece of it.

Also, in addition to that, look, it's still a cyclical market, as I was suggesting earlier on, and people are becoming more competitive. So we accept that reality. And that's why you -- what was a product line for us that was growing at a very rapid pace, if you go back to this time last year or the year before, you'll see that underwriting discipline here. And that's coming through in the growth rate slowing considerably. And at some point, I expect that plus 1 is going to turn into a negative number, and that's okay. But we take one day at a time.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And where does cyber fit into this? What kind of opportunities that maybe offset some of the slowdown in D&O?

William Robert Berkley
President, CEO & Director

We are a player in the cyber space, though I would define it in a very controlled and limited way. We have an outstanding group of people that have terrific expertise. And at this stage, that business remains one that we think there's still much opportunity ahead of us.

Operator

And we'll go next now to Josh Shanker at Bank of America.

Joshua David Shanker
BofA Securities, Research Division

For the Berkleyologists, I'm trying to remember in '02 or '06 whether you ever engaged in either participation or rhetoric about meaningfully participating in the property cat market. I don't seem to recall it, but I might have not as good of a memory as some people on the call.

William Robert Berkley
President, CEO & Director

Josh, so in 2002, we did enter into what I would define as some short-term quota shares with a couple of facilities in London. And we wrote a fair amount of business for a very defined period of time. I don't remember if it was started in 2002, maybe 2003. And it proved to be very lucrative for the shareholders. And shortly thereafter, as it became a less attractive market, we faded into the background.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then there's chatter about another hard market coming. I think all lines move differently, and there's different things happening in different lines. But I think that you're still in the position that you're going to keep your focus on margins, but you're rate adequate in a lot of places. And you're looking to grow, maybe preferring growth over trying to take rate at this point. For the companies that are chattering about another hard market, do you think that your competitors are underpricing and needed to take price and that's why we're hearing it? If your rate adequate, you obviously don't know where they are. But at the same time, your psychology of the market, are there a lot of competitors out there who need to take rate at this point, do you think?

William Robert Berkley
President, CEO & Director

Josh, you're using a pretty broad brush. And if you don't mind, I might try and narrow the brush for a moment. I think generally speaking, the reinsurance market across the board will benefit from greater discipline, and that's in all products. In addition to that, I think the standard market needs to be paying more attention, in my opinion, to loss trends than it would appear as though from a distance that some of them are.

As far as the specialty carriers go, I think it varies by product line and by carrier. I think there are some that are very responsible and very disciplined. It's not clear to me -- it's reasonably clear, I should say, to me at this time that property pricing is going up. It may not happen as quickly as one might think it should happen. It's starting to happen today, and I expect you're going to see it become even more visible as we make our way through next year.

What the spillover will be into some of the other product lines, I don't know. I think one of the pieces that we have talked about in passing is workers' compensation. And I would suggest to you, that's not one to lose sight of, given that I believe it still is the largest component of the commercial lines marketplace from a premium perspective. And we have got to be getting close to the bottom there. And that may mean it's going to take another year or 2, and that's going to need to tick up. So I think there's meaningful pain to come in comp. I think property people are recognizing they need to change. I think on some of the liability lines, particularly in the standard market, I think they better be careful of loss trend.

Joshua David Shanker
BofA Securities, Research Division

Is there a gap year in 2023 for a lot of property writers where they need to take price, but over the near term, they're going to have to pay more for the reinsurance? And so margins are going to get squeezed for a 1-year period. Does that happen? Or am I thinking about this too simply?

William Robert Berkley
President, CEO & Director

No. For what it's worth, I agree with your question and your observation. I think there could be a lag. And that's why, particularly for those in the standard market, they have to get filings approved. And how quickly can they pivot and how much can they debit accounts to get to a rate to support those higher reinsurance costs, we'll have to see with time.

But if we go back to a period that we were touching on earlier in our discussion, I think you flagged 2002, if you go back to the end of 2001, right around 9/11, the market was starting to firm a bit, and then 9/11 served as a significant catalyst to affirming and giving people the conviction to really push. But if you go back and you look at the 2002 year, for much of the market, that did not prove to be such a great year because pricing started to go up. But just because it was going up, it really didn't become truly adequate until 2003. So if you look at those policy years, it was really the 2003 year where it started to become more attractive.

So long story short, Josh, I think there is a lag. I think you raised, in my opinion, an important point. And I think that ultimately, that lag oftentimes proves to be a further catalyst to get people to push even harder. So that's nothing more than speculation from one observer.

Operator

We go next now to Ryan Tunis at Autonomous Research.

Ryan James Tunis
Bernstein Autonomous LLP

First, I just wanted to clean up some numbers questions. So you guys disclosed in insurance -- I'm trying to figure out how much of short-tail lines is cat exposed. Like exposed to Florida or anything else will have seen much of a rate. We just see these short-tail lines. I don't know how much of that's broader specialty. And I guess the same question for reinsurance, how much of property is property cat?

William Robert Berkley
President, CEO & Director

I don't have the percentages in front of me. I would tell you that on the property side, on the insurance front, it's not going to be a huge amount. And we have the ability to flex that up, which we will be looking at very closely. But by design, we have limited the amount of aggregate we're willing to put out in certain zones, in certain ZIP codes. And it's a similar story on the reinsurance front where, again, we have the ability to flex. But just demonstrating through action, if you will, we have not found the pricing to be particularly attractive until as of late. And it will likely become even more attractive, which is why if you look at sort of where our growth is and what's happened in the third quarter, it was really some recent opportunity for us to try and take advantage of a changing market. And you may see more of that. But again, we are not a big player in the space today, and I don't think it's ever going to be the lion's share of our business. But it could become a more significant part of our business temporarily over the next year or 2.

Ryan James Tunis
Bernstein Autonomous LLP

Got it. And Rob, you mentioned standard lines getting a little bit more competitive. Definitionally, I guess that's always tricky, admitted and not admitted, yada yada. But just directionally, how -- what percentage of your insurance book do you think of as kind of having the characteristics of standard?

William Robert Berkley
President, CEO & Director

Modest, and that's by design. We like the stuff that falls off the table of the standard market, and we'll leave it to the 800-pound gorillas sitting up at the table to fight over what they keep up there. We're a very -- because the stuff that falls off the table, we can charge what we want.

Ryan James Tunis
Bernstein Autonomous LLP

Got it. And then I guess my last question, just a follow-up on the reserve charge. I get that it's onetime in nature. But it's just interesting. Like every quarter, there's pluses and minuses. It's always very, very de minimis one way or another at Berkley. I'm guessing you had that observation, too, about this quarter. That's the first time that I think I've seen more than $10 million of favorable, unfavorable. Is there maybe less of an offset? I'm just looking for some perspective on -- in the past, we've kind of -- the number has been de minimis. This time, it's a little bit higher. Just how would you interpret that?

William Robert Berkley
President, CEO & Director

I -- let me try and share with you as much as I can. So we had 2 specific and unique situations where our -- again, from our perspective and my understanding, which I did get into the weeds on these situations, they were very much one-offs. And as you referenced earlier, we usually don't have a lot of development one way or another. It's because we're constantly trying to get the ports just right in every nook and crane of the organization. And there's no sense in trying to put lipstick on the pig.

Long story short, Ryan, these were 2, again, isolated situations that we're not going to pretend it's something that it isn't and try and obfuscate the picture. That's just not how we operate. That having -- but long story short, we do not think that this is something that we're going to see more of and -- based on everything I can see at this time.

Operator

And we'll go next now to Brian Meredith at UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Listen, just quickly following up from Ryan, just a quick question on the reserve charge. Does it all kind of make you think about the conservatism of your other COVID-related reserves that are still up? Are you kind of going to rethink those a little bit given these 2 events?

William Robert Berkley
President, CEO & Director

Yes. Brian, I think a very fair question, and that was probably a self-serving comment on my part because we asked ourselves that same question. And I promise you that we -- it served as the catalyst that you're suggesting where we took a look to see, do we think we have anything else that's material out there of this nature that we should be looking into? And again, based on what I know today and what my colleagues know today and the stones that we looked under, we feel comfortable about where we are.

I can assure you, I'm not interested in being on this type of call 3 months, 6 months, whatever from now and having to talk about this again. So I can't promise, but we made every reasonable effort to try and make sure that there's nothing else that we could see at this time.

Brian Robert Meredith
UBS Investment Bank, Research Division

Perfect. Appreciate that. And then my second question, Rob, is coming into this year, you were pretty optimistic, bullish about growth prospects. I think you threw out the 15% to 25% top line growth. Clearly, this quarter wasn't there. It was good but not there. And I guess my question is, one, what's changed since then? Is it because the professional lines maybe is a lot worse pricing-wise as you considered? Is there a change in the market that's kind of worse than you were thinking? And then as I look forward, are you maybe increasing -- a little bit more optimistic about that growth given what's transpired recently?

William Robert Berkley
President, CEO & Director

So the answer is yes. As you flagged, Brian, I agree with the point, the professional liability has slowed considerably, and we applaud the discipline of our colleagues. But that is certainly having somewhat of an impact. That having been said, in addition to that, we've been a little bit surprised by how some of the liability lines within -- and professional lines within the casualty reinsurance space have become more competitive as of late.

But to the second part of your comment/question, I do -- we'll see what the fourth quarter holds. It's encouraging so far, but we'll see. It's still very early. But I would expect that there should be, in much of the marketplace we participate in, some very attractive opportunities in early next year and beyond.

Operator

And we'll take our next question now from Mark Dwelle at RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Between Brian and Ryan, they covered the ground I wanted to cover. So I don't have any further questions.

William Robert Berkley
President, CEO & Director

Okay. Thanks for dialing in.

Operator

We'll go next now to Mark Hughes at Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Rob, in the past, you've mentioned the paid loss ratio, and I'm not sure if you gave any specific number this quarter. But if there is any detail you could share on that front, I would be interested.

William Robert Berkley
President, CEO & Director

Yes. We'll have to follow up on that. I'm in a conference room, and I left all my notes down the hall, which I apologize for. That is something that in the past couple of quarters, we've tried to flag, but -- for folks. So we'll -- what we'd like to do is, if you don't mind, just give Karen or Rich or myself a call, and we'll have that for you in the morning. But I just -- it was like the 1 sheet that didn't make the 6-inch stack that I brought down with me. So apologies for that.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

No. It's quite all right. One sort of follow-up. When you think about the rate increase this quarter, obviously a little bit more, was that reflective of the broader market that the pricing environment improved? Or was it that you pushed a little bit harder to get rate and you achieved it, and perhaps that impacted the top line growth a little bit?

William Robert Berkley
President, CEO & Director

Look, if you look at our renewal retention ratio, it's kind of hanging in there, and it kind of fluctuates between 79% and 82% quarter in and quarter out. Our colleagues -- and again, it's at a pretty granular basis. They're looking at each one of the product lines that they are operating with within their P&L. We're looking at it at a granular level, and people are trying to pay close attention to what -- where the environment is and where loss costs are going and what do we need to make sure we're rate adequate plus. And there continues to be sensitivity to inflation of both types.

So again, I think that we continue to push on the rate. And I don't think there's any reason to expect we are not going to continue to push into the fourth quarter and through next year.

Operator

And we'll take our next question now from David Motemaden at Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Rob, I have a question, kind of following up on Ryan's question on the property side. If I look at just short tail and property, it's around 20% of your premium mix right now or over the last 12 months. Is there a ceiling that you think about like how big you would allow this to get, assuming pricing is where it needs to be to produce attractive returns? Is there a ceiling, just a level where you just don't want to let it go above as you think about like maybe introducing a bit more nat cat volatility or just attritional volatility into results?

William Robert Berkley
President, CEO & Director

It's -- we do have some numbers internally that many of us sit around the table and we grapple with. And one person will argue one side, and the other will argue the other. And after we are tuckered out, we'll exchange who's arguing which side. But when the day is all done, we have a fair amount of headroom to the extent that we see the opportunity presenting itself. And I would tell you that it's somewhat on a sliding scale. The more attractive we see the opportunity, the more healthy we see the risk-adjusted return, the more inclined that we are to write more of this type of business.

Do I think that we are going to become a leading property cat underwriter overnight? No, I do not. At the same time, do I think it could become a more meaningful part of what we do in the short run? Yes, I do. But that doesn't mean that it's going to be -- it's not going to become more than half of what we do or something like that. But it will be noticeable relative to its size today and its contribution today, again, if the opportunity is there.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Yes. Got it. Understood. And then maybe just another question. I guess were there any other changes or any changes in terms of how you're thinking about loss cost trends here in the last quarter or 2? Both on -- I'm particularly focused on long-tail lines but also on the short-tail lines as well. Any sort of changes there in terms of how you're thinking about that would be helpful.

William Robert Berkley
President, CEO & Director

Yes. There is nothing that we see that would suggest the social inflation challenge is becoming any more benign. It remains alive and well and very challenging. And on the financial or economic side, I mean, we all see where inflation is running at. We see where CPI is, we see where core is, and there clearly continues to be pressure there. So when we look at it, do we think this pace will keep up forever? No, we don't. But that having been said, from our perspective, we will continue to price as we see fit.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. Yes, that makes sense. And then maybe just lastly, if I can squeeze it in, just on the commentary just on rate being 100 basis points or so above -- or 100 to 200, I don't know exactly what the number was, rate being above trend. I mean, I believe that is excluding workers' comp. How should we think about it just on an overall basis? Are we still at a level where we're above trend?

William Robert Berkley
President, CEO & Director

As far as comp goes or the whole thing? Or what are we...

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

The whole book, if I sort of mixed in comp.

William Robert Berkley
President, CEO & Director

Yes. If you include the comp in that, we're very comfortable that our comp book is priced at a very healthy level. So in the aggregate, yes, we're feeling very comfortable where we are.

Operator

And gentlemen, it appears we have no further questions this afternoon. Mr. Berkley, I'll hand things back to you for your closing comments.

William Robert Berkley
President, CEO & Director

Okay. Well, thank you very much, and thank you to all that dialed in. Again, I think in spite of the challenges that came the industry's way in the quarter, we still performed quite well and generated a healthy return. We'll have to see where the property cat market goes. Again, I don't think we're going to become a property cat writer overnight, but we do have the ability to participate in a very select manner for a defined period of time when we think the opportunity is there. But we are going to remain core to being a specialty primarily liability underwriter, and that remains the focus of the business, though, again, we are in a position to take advantage of market opportunities when they present themselves.

We thank you all for your participation, and we look forward to catching up with you early next year. Thank you.

Operator

Thank you. Again, ladies and gentlemen, that will conclude W. R. Berkley Corporation's Third Quarter 2022 Earnings Call. We'd like to again thank you all for joining us, and I wish you all a great evening. Goodbye.