S&P Capital IQ

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W. R. Berkley Corporation NYSE:WRB

FQ3 2011 Earnings Call Transcripts

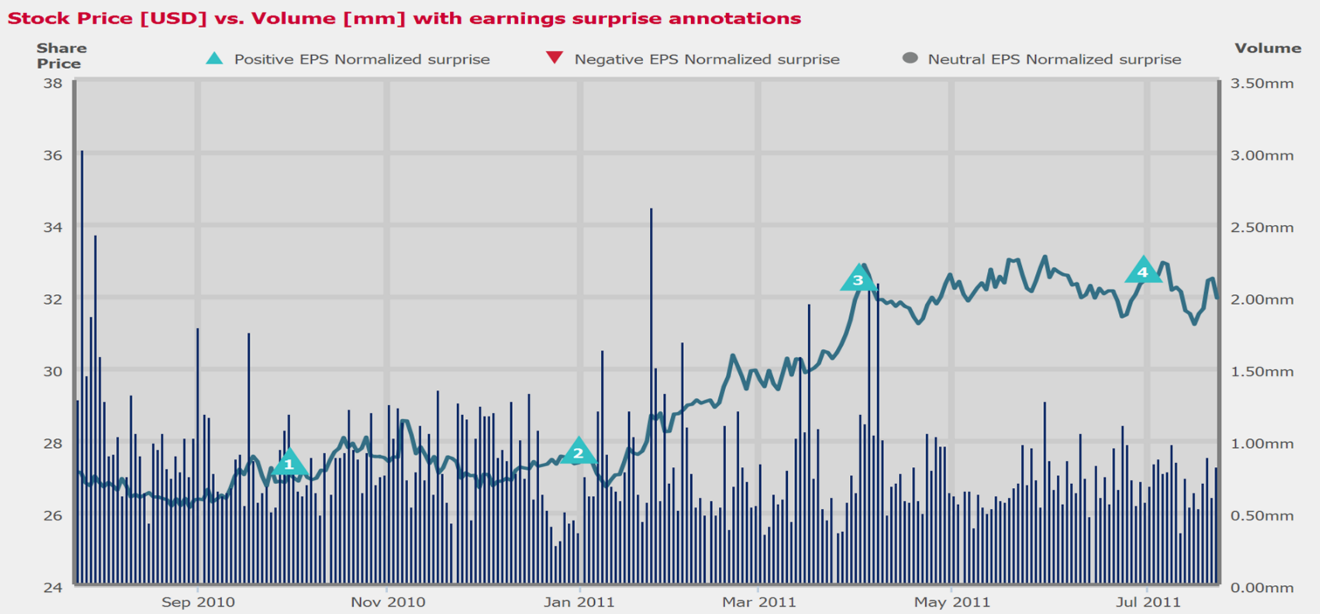
Thursday, October 27, 2011 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.44	0.00	0.60	2.14	2.64
Revenue (mm)	1223.98	1279.73	4.55	1232.01	4878.26	5161.31

Currency: USD

Consensus as of Oct-27-2011 1:03 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	0.66	0.66	1 1.52 %
FQ4 2010	0.67	0.68	2 1.49 %
FQ1 2011	0.65	0.66	3 1.54 %
FQ2 2011	0.42	0.47	4 11.90 %

Call Participants

EXECUTIVES

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Executive Vice President of Finance

William Robert Berkley
Founder and Executive Chairman

William Robert Berkley
Chief Executive Officer, President and Director

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Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Third's Quarter 2011 Earnings Conference Call. Today's conference is being recorded.

The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will in fact be achieved. Please refer to our annual report on Form 10-K for the year-ended December 31, 2010 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 like to turn call over to Mr. William R. Berkley. Please go ahead, sir.

William Robert Berkley
Founder and Executive Chairman

Thank you very much, Karen. We had a good quarter. We were pleased with our results. It's roughly a year since we told you we expected the market to start to turn and we were going to begin to put pressure on raising prices. Unfortunately, we were early in that process but we, in fact, went through -- basically, starting at year-end, we continued that process. We had now our third successive quarter of increasing prices. It's been somewhat erratic, although generally month after month with some variation at the end of each quarter where our competitors were competing for volume more aggressively, where we've been able to deliver those price increases somewhat more slowly than I have expected, but not significantly. We've said that we expect, by year end, the price increases, looking back, will be 5% to 8%, and I think it will be a little above the bottom of that level, but we won't get to that 8%, I don't think at the end of the year. The environment continues to be competitive, but nothing approaching where it was a year ago. So I'll first turnover to report on our operations to Rob and then Gene will talk about the financials and I'll give an overall view. So, Rob?

William Robert Berkley
Chief Executive Officer, President and Director

Thank you, good morning. Cash-free activity persisted through the third quarter, leaving 2011 a year to be remembered or perhaps for some, a year they would like to forget. Clearly, the uptick in frequency of cash [ph] is forcing many industry participants to reexamine how they define their P&Ls. Additionally, the value that geographic spread brings to a property portfolio has become questionable during the number of severe events that have occurred around world over the past several quarters. Unfortunately, the casualty market is not a prettier picture. Our ongoing expectations that the industry's casualty/accident year loss ratios are on the rise continue to become a growing reality. Aggressive pricing over the past several years, combined with increasing loss trends, is proving to be a recipe for significant deterioration in industry results. Finally, the current interest rate environment is having a gradual yet building negative impact on overall returns. Some of the lines of business that stand out as being amongst the most competitive are in the excess casualty and excess professional liability space. In particular, public company, D&O seems to be leading the charge when it comes to irrational pricing. Unfortunately, a common characteristic amongst these lines is the lack of loss frequency, as well as a longer period of loss development. Consequently, carriers may be lulled into a temporary, yet false, sense of comfort with inadequate rates due to the lag in time before their portfolios true loss costs become apparent.

In spite of these challenges that I've mentioned, there is a rapidly growing level of evidence that would support we are in the initial stages of a noteworthy change in market conditions. The commentary we have been hearing in the marketplace regarding the need for action as it relates to both pricing and, with selection, is finally beginning to converge into a change in behavior. This shift in behavior is visible to the increasing amounts of business that is being thrown out of the standard market into the specialty market, as well as carrier's ability to achieve rate increases without sacrificing renewal retention ratios and continued growth in the assigned risk plan policy count. While the states of change is not uniform across all territories and product lines, it remains clear that this is an increasing trend spreading throughout the industry. Additional encouragement can be drawn from the growth in auto premium activity, which would appear to be stronger today than it has been in several quarters. This apparent strength in auto premiums is a clear sign that the financial health of our insureds has improved.

The company's net written premium for the quarter was approximately $1.13 billion, this represents an increase of 14% over Q3 2010. The main contributor to this growth, as in the past several quarters, were our specialty and international segments. More specifically, our operations that serve industries, as well as economies that continue to maintain significant momentum. Furthermore, the balance of our operations are, in general, no longer shrinking and, in many cases, are finding opportunities for modest growth.

The company's price monitoring showed an improvement in the rate of 3% for the quarter compared to the corresponding period in 2010. Additionally, it's worth mentioning, rates were up approximately 3.5% in the month of September. One should also take note that this is the third quarter in a row where we achieved a growing level of rate increase. The renewal retention ratio remained at approximately 80%, providing evidence that the quality of the book is not eroding, as we achieve rate improvement.

The loss ratio for the quarter was at 64.8%, which includes 4.8 points of storm. This level of storm activity is notably above our historic experience and was primarily driven by losses stemming from Hurricane Irene as well as an unusually high level of weather-related activity, principally in the Midwest. Our expense ratio for the third quarter was at 34.3%, this represents an improvement of roughly 0.5 points over the second quarter. We anticipate this trend continuing as our earnings premium build.

To make a long story short, the company generated a combined ratio of 99.1% for the third quarter. Having said this, when you adjust for abnormal catastrophes, as well as a reserve take down, the business continues to run at just under 100%. The company's balance sheet remains strong on both sides of the ledger. In particular, when it comes to our loss reserves, we continue to believe that it is not advisable to presume that future loss trends will remain as benign as they have been over the past several years. More specifically, we tend to be measured with our initial loss picks and recognize this caution as the books develop. This approach continues to be evident through the results of our quarterly individual operating unit actual analysis, leading to 19 quarters in a row of positive group reserve development. The property and casualty insurance industry continues to be one that seems to have to learn the hard way. It has become increasingly apparent over the past 2 quarters, that painful lesson resulting from irresponsible underwriting has in fact, arrived. It is this bittersweet reality that is driving the apparent change in behavior that we're observing at an ever-increasing pace. The need for additional rate continues to remain painfully obvious, and it's finally beginning to be accepted and acted upon. Over the past few years, the company has remained focused on underwriting discipline, as well as investing in existing operations and selectively starting new ones. As a consequence of this activity, our shareholders have patiently endured an increasing expense ratio. Having said this, it has remained our belief that we are on the cusp of receiving a return on this investment. It is our strong view that the company remains particularly well positioned to disproportionately take advantage of this change in the market. Thank you.

William Robert Berkley
Founder and Executive Chairman

Gene, you want pick up now with the numbers?

Eugene G. Ballard
Executive Vice President of Finance

Okay. Well, thanks. Well, first just back to premiums for a moment, the 14% growth in premiums that Rob mentioned, that was led by the international segment, that international segment is actually up. Net premiums are up 34% for the quarter, that's primarily a result of strong growth in our new Lloyd's operation, as well as our Asia-Pacific branch. And approximately 4 points of the 34% increase for international was due to changes in foreign exchange rates. The specialty alternative market and regional segments were each up 15%, as all of those segments have benefited from ventures that we've formed over the last 5 to 7 years. And our regional segment, where we formed fewer new ventures over that time period, was up 2%.

Gross premiums were up 16.5%, slightly higher than net premiums, and that's again, due to the fact that we're seeing a greater portion of the business written by some of our newer companies. The overall combined ratio was 99.1%, up 3.7 points from a year ago, and that's primarily a result of the higher catastrophe losses that Rob described. Catastrophe losses represented 4.8 loss ratio points this year compared to 2.3 loss ratio points a year ago. Total catastrophe losses were $51 million, and that included $32 million for regional segment, $6.5 million each for the specialty and region -- reinsurance segment, $5 million for international and $1 million for alternative markets.

We had favorable reserve development of $56 million in the quarter, and that compares with $51 million in last year's third quarter. The impact was 5.3 loss ratio points in both periods. All 5 of our business segments reported favorable development in the third quarter of this year, with a majority attributable to the specialty segment. The underlying loss ratio, before cats in reserve releases, was 65.2%, that's up just 0.4 from a year ago, as price increases and changes in business mix has basically offset any changes in loss costs. That gives us an overall combined ratio of 99.1%, and an accident year, combined before cats, of 99.5%. Our quarterly pay loss ratio was 61.5%, unchanged from a year ago, and our operating cash flow was up 32% to $269 million.

As you probably heard by now, the FASB has issued new guidance on deferred acquisition costs, and we plan to adopt those new rules on January 1, 2012. We do not expect the new guidance to have a material or significant impact on either our expenses or our operating earnings in 2012. However, the initial adoption of this new standard will result in a reduction of the deferred acquisition asset on our balance sheet and a corresponding decline in book value. We've estimated that the adjustment to book value will be less than $0.30 per share.

Net investment income was $114 million in the quarter, that's down 4% from $119 million a year ago. And investment income for the fixed maturity portfolio including invested cash, was $123 million, unchanged from a year ago. And the annualized yield for the fixed income portfolio was also unchanged, even though our average duration remained at 3.5 years. So far, we've been able to maintain the yield on the fixed income portfolio, in part because the decline in treasury yields has been somewhat offset by wider spreads for non-treasury products. And secondly, we've been able to invest a slightly higher portion of our cash flow in both corporate and agency mortgage-backed securities. With respect to merger arbitrage, our in-house account broke even in the third quarter and our externally managed account reported a loss of $3 million. That compares with arbitrage earnings of $14 million for both accounts in the third quarter of 2010. Also, investment funds reported a loss of $8 million in the quarter, that compares with a loss of $19 million a year ago. Within that energy-related funds, which are carried at fair value, reported a loss of $12 million, while real-estate and other funds reported earnings of $4 million. The energy fund losses reflect, primarily, the impact of lower oil prices on companies for which the fair value estimates are closely related to the price of oil.

Realized gains from the sale of investments were $21 million in the quarter and our unrealized investment gains, before tax, were $632 million at September 30. We repurchased 4 million shares of our own stock in the third quarter, and that brings us to a total of 5.1 million shares, so far, in 2011. And finally, that gives us an annualized return on equity of 8.4% in the quarter and 10% for the first 9 months of 2011.

William Robert Berkley
Founder and Executive Chairman

Thanks, Gene. So we're pretty pleased that prices continue to move upward. Opportunities in our market are increasing, as standard markets push aside some of the business. All is not perfect, some areas of the business such as worker's comp have double-digit price increases, other areas are still seeing virtually no increase. But overall, there's no question the market turn is definitive, it's here. Almost all our lines of business are having those price increases. Terms and conditions are getting a bit better here and there, and the opportunities in the specialty areas are beginning to increase. We're pleased by all that, the rate of our growth is mainly being shown as our new entrants, or they're not so new anymore, have gained traction and are adding to our bottom line. We continue to have several companies that we've added in the past year in the technology area, reinsurance enterprise that will start up in the U.K., and we continue to work towards broadening our horizon in areas of the business that offer the opportunity for us to achieve our 15% plus return. We think we still can attain that, and while treasury yields have come down dramatically, the spreads on mortgage-backed securities and corporates have gotten wider, and thus, investment returns have gone down a bit, but not nearly so much as it would look when you examine treasury yields first. I think, we disagree with several of our competitors who elected to lower the quality of their portfolio in order to gain yield. We don't think that the world is as wonderful as it might be, and while we believe the economy is going to get stronger and we're optimistic, we today, as always, have felt we take our risk in the Insurance business, not on our portfolio, and therefore, we've maintained the quality of our fixed income of securities, not going down in quality, maintaining that AA average portfolio rating. Giving up, on occasion, as I've said before, some of that liquidity, and we've been able to maintain our yield. Although clearly, if business gets a lot better and cash flows increase, we will give up something on that yield. It wouldn't surprise me if our new investment yields were down 5% or 8% over the next 12 months if we had substantially more cash flows.

We're pretty happy with what we've been able to do and what we've seen, and because we weren't a corporate investor in a significant way or a real estate investor in a significant way, we have lots of room in the portfolio. But we are still maintaining basically the same duration and the same portfolio quality as we had before, and we've been able to do that and still keep the yield virtually unchanged. Business, still, is gaining traction and our -- especially in our new units, or newer units, and we're pleased. It's looking like the cyclical turn is getting stronger and we're optimistic. So with that, Karen, we'd be happy to answer questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Amit Kumar from Macquarie.

Amit Kumar
Macquarie Research

Just going back to your comments on the cycle turn. There is this debate, are market conditions currently similar to Q2 of 2000, when we had Unicover and several other issues, which resulted in modest pricing improvement over several quarters. I was curious what you thought were the similarities and sort of the dissimilarities versus Q2 of 2000.

William Robert Berkley
Founder and Executive Chairman

Well, first of all, the market really had very little turn until October of 2000 when Reliance and Frontier went out of business. And when Reliance and Frontier went out of business, Unicover was a prelude [ph] to Reliance and Frontier going out of business and a lot of other things happening. Every cycle has its own qualities. Today, it's so different than any cycle we've had before because of the financial debacle that we've seen in the prior several years and the extraordinary volatility in markets, there was no place to hide. People who had aggressive investment portfolios had -- some had severe problems, although not so much in the property casualty business. The opportunities to invest your money became challenging. I think that this is a bit different than the 2000 cycle. I would say that, if you look at pricing, standard line pricing is down between 15% and 18% from peak. Especially in line price, it's probably down 25%. That said, pricing at its peak, gave us great returns and great underwriting results. But along with that, with investment returns down significantly over all, you're looking at an industry that's probably not making money. So I think the driver of pricing and cyclical turn is always the same and that is the fear of a total loss of profitability. And sometimes, it's individual events that bring about that fear, sometimes it's an examination of trends. And I think, right now, what it is, is it's the loss of redundancies in people's reserves. We're beginning to see recent year deficiencies develop, and I think you've seen a few companies report deficiencies in their current year, and I would guess that you're going to start to see a number of other companies in the past couple of years on their reserve positions were established at deficient level and they're going to have to start to recognize those deficiencies. And between that situation, which means they've got a problem with their pricing in a significant way and lower investment income, I think you're going to find a number of companies, especially those companies that claimed they were focused on these great information technology-driven bases, are going to find that their past data wasn't as accurate as they thought. And one of the things that happened, and always is a keystone of a change in cycle, is the data you relied upon didn't prove to be accurate. And in this case, the data of the reserve levels you put up for the current action of the year, I think, is going to prove to be deficient. So I think, for example, the current action here for the industry is probably 110, and worse for worker's compensation. And I think few people are putting up anything like those numbers. And I think that there's a lot to come. So, no, I think the cycle turn is different, but I think for those companies who've adequately reserved, the opportunities are going to be fabulous.

Amit Kumar
Macquarie Research

That's very helpful. And then just related to that, on competition. You mentioned this competition, aggressive competition on excess casualty and liability for quite some time. I'm curious, is it like a specific set of companies? And has the trend line -- is the trend line still downwards on that or do you see an inflection point approaching, in terms of that reversal of that competition?

William Robert Berkley
Founder and Executive Chairman

I'm going to let Rob talk about it first, because I need to be restrained and not throw stones at anybody. So I'm going to let Rob talk first and I'll probably add some things. My lawyer is shaking his head, telling me that was very good. So, Rob, go ahead.

William Robert Berkley
Chief Executive Officer, President and Director

Yes. The answer is, and I fear this may not be particularly helpful, but it really depends on the part of the excess casualty space or excess professional space. Generally speaking, there are parts of those marketplaces that are as competitive today as they were 12 months ago. Some of that has been created by participants in those markets that are not particularly knowledgeable on the subject matter and it hasn't occurred to them the problems that they are creating for themselves. Others have withdrawn from those lines of business, but it seems as others -- as some withdraw, others turn up and try their hand at it. So we are not seeing the shift there that we were seeing in other areas. Once again, partly having to do with the lack of frequency in some cases and partly having to do with the length of detail. Having said this, it is our expectation that, over the next couple of quarters, you're going to start to see the level of anxiety start to increase with many that have jumped in without looking to see if there's any water in the pool.

William Robert Berkley
Founder and Executive Chairman

I guess I would add a little bit and say that, I think that the true groups that are the most aggressive competitors, the small companies that won't be around to make up for their mistakes. And they're there and very, very aggressive. And their strategy is, don't worry about interest rates, they'll average back at 5% or 6% then you can discount them based on those numbers, and you're going to hold the reserves a long time. And they're aggressive pricers, and those people will be out of business. And then there are the big companies who use outdated statistical information. But ultimately, you need to make a profit and we think much of this pricing is right about to change. It's always the last part of the business to change, and then it changes at a very rapid rate, and it's the last part because you don't see those losses for a while.

Operator

And our next question comes from the line of Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

On the new business. Just curious as to what ROEs you're getting on the new business. You've grown your top line quite significantly. And do you think that the pace of the growth this quarter is sustainable?

William Robert Berkley
Founder and Executive Chairman

Well, first of all, we know we have carefully said, we can't say it's new business anymore, because some of this business has been here for a while. If you look at the company, all but 3 of the units have been here since 2009 and we can't say it's new anymore. That business is -- represents a large part of our business for this year. It's more than 10% of our business and it's going to grow a lot more. These people were patient and sitting by the side and we would expect, if anything, that will represent an accelerating portion of our business and of our growth. Some of these teams of people who joined us wrote $300 million, $400 million, $500 million of business before they joined us. And given pricing levels, we're happy to write $40 million of business in the first -- each of the first few years they were with us. We would expect those teams of people will write a lot more business as opportunities present themselves. So I think that, that's going to be a real generator of -- it's a very substantial amount of growth. And we have 3 units that we started, 1 in 2010 and 2 in 2011, and the 2 in 2011 contributed 0 premium and we would expect that will be different in 2012. And the one in 2010, really, is just beginning to get any traction at all.

Vinay Gerard Misquith
Evercore ISI, Research Division

So what sort of ROEs do you think that you're getting on this business? Because the argument we hear from the other side is that prices are going up, but with rates down, that the ROEs are still high-single digits.

William Robert Berkley
Founder and Executive Chairman

We would not enter into any business where we didn't think very comfortably we could get a 15% plus return. And in the good parts of the cycle, which we think we're entering now, 15% plus means the plus side of that substantially. So our expectation is that's where we'll be. I would tell you, that -- I'll give you a better assessment of that next year, and we'll probably be able to give you our view. But I would be more than disappointed if we weren't able to deliver those kinds of ROEs starting -- beginning the second half of next year, on companies that have been running for a period of time.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's great. The -- just to follow up. When do you think we'll be able to see margin improvement from rate increases?

William Robert Berkley
Founder and Executive Chairman

I'm sorry, could you repeat your question?

Vinay Gerard Misquith
Evercore ISI, Research Division

You are, right now, getting rate increases of 3%. You said you're hopeful to get rate increases of around 5% by the end of the year. When do you think that margins will expand? Because pricing is rising in excess of loss cost trends.

William Robert Berkley
Founder and Executive Chairman

Well, for instance, in September, pricing increases averaged 3.5%. We expect prices are going to continue to rise, and I would expect that, that will continue. I would think that debt margins will continue to improve really, every month frankly, as that continues.

Vinay Gerard Misquith
Evercore ISI, Research Division

So what are loss cost trends right now? I mean, are they in the 3% range? Or 3% to 5% range right now?

William Robert Berkley
Chief Executive Officer, President and Director

This is Rob. As far as loss cost trends go, it really depends on the product line that we're talking about. Obviously, certain product lines are more slow. It slows to variables and that may be experiencing larger amounts of inflation or trends these days. And generally speaking, historically, unless there's going to be a change that I'm advised of, we don't get into what our trends are, that we're using or assuming by line of business.

William Robert Berkley
Founder and Executive Chairman

I think the biggest issue with loss cost is the mix of medical cost involved. And medical cost is the real question. And it's a real unknown at this point, you've got the government trying to shove medical cost inflation everyplace except there, and simultaneously, you've got lots of pressure on the entire medical provider segment of this global business, trying to deal with that. So I think that's the big unknown.

Operator

And our next question comes from the line of Vincent DeAugustino of Stifel, Nicolaus.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

I guess for Rob or Gene. Looking at the expense ratio, we've talked about the expectation for that to improve as the newer start ups gain scale. And if we just assume that there's no additional start ups at full scale, what ballpark range would you ideally like to see the expense ratio at? And then, if there's any sense of how long it would take to get there with the current structure. And then I just have one follow-up.

William Robert Berkley
Founder and Executive Chairman

Let me just comment one thing, and that is you have to remember that the expense ratio follows earned premium, not written premium. And second of all, our view has always been the same, and that is, this isn't an expense ratio business, this is a loss ratio business. And we're not -- we view as -- when you take out commissions and you take out taxes, license and fees, expenses are sort of 10 points or less. And when you look at that 10 points or less on an earned basis, you'd expect that savings there just aren't going to move the needle much.

Eugene G. Ballard
Executive Vice President of Finance

But our expense ratio was comfortably below 30 points -- our part of the market in the last cycle.

William Robert Berkley
Founder and Executive Chairman

So we would anticipate better growth. We would anticipate an expense ratio with that same area.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Just one kind of follow-up. Let's say the low interest rate environment continues out to 2014, 2015. Maybe not as low as today, but let's just say, less than optimum. Would you envision any structural change to the portfolio allocations? Not sure if high-dividend yielding equities start to look a little more attractive. I know you said that, at least in the current environment, you're not looking to change, but if that environment sustained longer...

William Robert Berkley
Founder and Executive Chairman

Well, we've in fact, invested some money, relatively modest amount, in high-dividend equities. Probably $300 million or $400 million. And it's certainly something we would consider. I think that every day, in this volatile world, you make decisions on where you think you're going to go and what you're going to do and try to assess the riskiness of those decisions and the capacity to adjust. So finding ways to give you flexibility, financial security, and adjustment is important. But we're looking at every kind of option from high-dividend equities to various kinds of direct lending.

Operator

And our next question comes from the line of Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

You made comments, and I don't want you to repeat because it's a repeat of a question, you can just go to the next one, but you were talking about the competitive landscape. And I'm looking a lot of companies reporting, including yourself, whose premiums are ahead of auto premium and price increases. I'm wondering who's losing premiums in this market. Not by it specifically, but by class, maybe.

William Robert Berkley
Founder and Executive Chairman

I think there's a few things going on. I think first of all, you're seeing some people just withdraw from the marketplace, who are getting out of the business, who are electing not to participate. So you're seeing some of that. And in bits and pieces everywhere, in areas of the specialty business, you're seeing people who, as Rob commented, are just finding the business wasn't as profitable as they thought. And then you're finding those opportunities are there. You're finding some people in the standard markets who are getting out of certain areas. So, I mean, I think it's across the board. And I think that, clearly, if you'd look at the total amount of business of our growth, the substantial amount of it, the growth, Josh, has been overseas. I think a big part has been our Lloyd's syndicate in Australia and Southeast Asia, and it's this relatively modest amount. Our domestic business has grown, but it's not a huge number. And so, I don't think it's anything dramatic at the moment.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And then the other question in that. I'm just following up on your comments that you said that you thought the newer businesses would be 15% ROE businesses, but much higher when the market would turn for them. Is the legacy business not performing as well as those newer businesses?

William Robert Berkley
Founder and Executive Chairman

No, I don't think that. I think the legacy businesses were much higher return businesses than 15% when the market got hard. And then what I'm suggesting to you is that the businesses we got in, we have the expectations that they will do as well as the legacy business.

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you think, right now, the ROE of the legacy business or the newer businesses is higher?

William Robert Berkley
Founder and Executive Chairman

We don't -- every business we got in, we think has met expectation. I mean, when we get into a new business, we talk to teams of people, we sit and look and examine the industry they're in, the lines of business they want to write, and examine what we know about it and what we think the returns will be in various phases of the cycle. And our expectation is we don't want to do things that we think will dilute our overall return. Now it'll dilute our return when the businesses are entered, because obviously you have to build up the scale. In a soft cycle, it takes time to build up the scale, more time than it would in a hard cycle. And in a hard cycle, you can get up to scale in 18 months or 2.5 years, maybe. And in a soft cycle, it could take you 4 years. But once you get up to that scale, you start to end up doing the same kinds of returns as the legacy business. Now obviously, something may change and one might do better and one worse, but basically, we think they'll both do the same.

Joshua David Shanker
Deutsche Bank AG, Research Division

And the extent to which excess capital is dampening returns right now?

William Robert Berkley
Founder and Executive Chairman

We were pretty aggressive in buying back stock. And, clearly, we have some excess capital. But if we continue to grow at the pace we're growing, and I'd be surprised if we at least don't continue to grow at a relatively rapid pace. We won't have that much excess capital. We'll be able to generate enough capital to maintain good ratios, but we won't have a huge amount of excess capital. I think we have probably $500 million of excess capital now, and if the opportunity came to buy stock back at an attractive price or to make an acquisition at an attractive price, risk adjusted, that's fine. But we don't think we have -- we don't think we're going to have huge amounts of additional redundant capital. We have enough now to put us in a position to take advantage of any opportunity.

Operator

And our next question comes from the line of Mike Grasher of Piper Jaffray.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Rob, you had some comments about growth in auto premium activity. And just curious, what about exposure units? And then, I guess, how about exposures overall, whether it's the higher utilization rating, commercial auto or payrolls and comp. Are you experiencing improvements anywhere in terms of exposures?

William Robert Berkley
Chief Executive Officer, President and Director

The answer is yes. We are seeing that in many of our insurers, whether it be worker's compensation, and payrolls are on the rise in part because of people adding positions or adding to staff. We also are seeing people who are adding power units to their schedules as far as commercial auto. And then generally speaking, much of our activity that is based off of receipts, we are seeing that either the initial estimate was overly conservative or things are working out better than had originally been anticipated. It is a better situation than what was expected as far as exposure.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Okay. Any areas, I guess, accelerating?

William Robert Berkley
Founder and Executive Chairman

I think nothing that would really jump out. We are seeing it's certainly quite apparent in worker's compensation, but we are seeing it in some other areas as well, but comp would probably be the one area that we've taken the greatest note of.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Okay. And then with regard to comp, big picture here. Is there a mix change, I guess, with clients where maybe excess comp demand goes higher as changes occur on the primary side, be it price or any reforms that are occurring on the state level?

Eugene G. Ballard
Executive Vice President of Finance

Look, it's certainly possible as primary comp rates go up, people become more interested in alternative markets solutions, and by extension, they may be exploring the excess comp market to provide some cover above whatever their retention is, if you will. But at this stage, we have not seen that movement. Quite frankly, worker's compensation for the average person walking down the street is a pretty good deal. It's going to be a less good deal tomorrow, but I don't think that reality has really come through yet, driving that change in behavior in that exploration into alternative solutions.

William Robert Berkley
Founder and Executive Chairman

And we also should add that excess comp is getting to be a little more expensive than -- it's one of those lines that relies on discounting. And the interest rates people are using to discount have come down a lot. So therefore the pricing for excess comp has gone up and probably ought to go up a lot more.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Okay. And then is there a preference, from your standpoint, just in terms of which direction you would take that business on or prefer to take that business on?

William Robert Berkley
Chief Executive Officer, President and Director

I'm not sure...

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Between the excess comp and the primary.

William Robert Berkley
Chief Executive Officer, President and Director

We want to take it on wherever we're going to get the best margins.

Operator

And our next question comes from the line of Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a question. You mentioned, at the business level that, overall, are rate increases outpacing loss trend? I mean, do you feel like you're seeing that in your aggregate book?

William Robert Berkley
Founder and Executive Chairman

I would say that, at the moment, they are just now slightly higher than loss trends. And I think that directionally, that they're accelerating in loss trends, are not accelerating at the moment although they've been up significantly from where they were, let's just say a couple of years ago. But understand that the volatility that you all see in the marketplace, and you see in the economy, and change that. We don't know a lot about what's going on, as far as the government's policies on medical costs and so forth, and that's the big thing that we worry about. But in addition, you've got lots of variability in the whole economic picture. Today, lost costs are not quite as rapidly increasing as pricing, and pricing seems to be increasing at a faster rate. But it's not our primarily worry right now. We're okay with that, but clearly, everything about the economic picture is more variable today than it's been in the past.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just one question on small versus large accounts. Can you talk about where the competition is more severe? You talked about small versus large insurers. But on the accounts themselves, can you talk about how the landscape is different among those 2 groups?

William Robert Berkley
Chief Executive Officer, President and Director

Mike, it's Rob here. The trends continue as it has been for probably the past couple of years now that there continues to be far greater competition around large accounts versus small accounts. Presumably, in part, that is because people's anxieties -- some market participants are making sure they hit their budget, then they start doing things like providing large account discounts which quite frankly, never made a whole lot of sense to us. But yes, the greater competition does continue around the larger accounts. The breaking point had been sort of around $100,000. I would suggest that it slide down to $75,000 or so, maybe even close to $50,000.

William Robert Berkley
Founder and Executive Chairman

But one thing is even starting to see a few large accounts would be a big change. So that hasn't happened yet, but when it does, that would be a really big change because that really means that people are saying volume is not as important as it was. So it's one of the things we watch for carefully.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. If I could one last one. And this is just more like a -- kind of a -- in the business question. So if your business is not very cat exposed overall like relative to the market and insureds have decent loss experience, the policyholders themselves. What is the conversation like when you are looking to raise rates 3% or 5% to them? Like how -- you're accounting for loss trend or low interest rates, how does that result in and them accepting a higher premium?

William Robert Berkley
Founder and Executive Chairman

Well, I think for starters, not many folks look forward to the opportunity to pay more for anything. Having said that, we do try and encourage people to take a look back and think about where their rates are today and what we're asking for compared to what they were a few years ago. And the reality is that we've been losing ground for some period of time and at this stage, we need to capture some rate in order to have an organization that can make a reasonable return. And we're not embarrassed about representing to our partners on the distribution side as well as our insureds that we're in business to make a return, and that is our expectation and if that means we need to raise our rates, we will do so. So while it's not received with open arms, I think generally speaking, people understand that we are entitled to get some rates, particularly given what has happened with the rates over the past several years.

William Robert Berkley
Chief Executive Officer, President and Director

I think that honestly, Michael, the discussion about rate is a minimal discussion when it's 3% to 5%. I think when the discussion starts to get up to 10%, it changes the tone and the nature of the discussion. Because, in fact, most everybody you talk to have seen price come down substantially as Rob pointed out and in addition to that, they recognize the fact that interest rates are down, everything else is down, all of which is how we make money. So I think it's a reasonable and okay discussion. I think that the discussion will not be as easy if you're pushing for a lot higher rate but in fact, on the lines where you're pushing for a lot higher rate, in general, you can show them that people are losing money. Here are the industry numbers.

Operator

And our next question comes from the line of Gregory Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

If I could just pursue the, I guess, the pace of change in terms of this particular cycle term. You mentioned the 15th ROE beginning, I guess, back half of next year and if I look back at '00 to '02, '03, it actually -- the ROE didn't go above 15 until 2003. So I'm wondering what in particular is making this rate of change in the market bigger than in the previous cycle term?

William Robert Berkley
Chief Executive Officer, President and Director

Greg, it's Rob here. I think first of all, it would be -- we were sharing with you our expectations, but it's not a perfect science. So trying to hang one hat on any 90-day period for such a significant change, I think, would suggest that there's a greater level of precision than really exists. That is our best estimate. Second of all, I think if you go back and you look at the period that you were referencing, much of the lag that we saved in achieving the type of returns that were mentioned earlier, had to do with some negative reserve development that we had encountered from prior years. So if you back the reserve development out, my suspicion is, while I don't have the specific numbers in front of me, that is going to get you into the neighborhood that was being suggested earlier.

William Robert Berkley
Founder and Executive Chairman

Saved me from talking, Greg. Because I was still in charge when we had those negative developments.

Operator

And our next question comes from the line of Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just to clarify that last commentary. I saw, when you were talking before, when you threw out that 15% ROE, that's what I -- I thought you were talking about kind of the pricing on some of these newer ventures, what you hope to achieve. So on a reported basis with the earned premium effect, it seems a lot less likely you'd see an actual reported 15% ROE into 2012 anytime.

William Robert Berkley
Founder and Executive Chairman

We were talking -- the question that was asked that I had answered that question about was when did I expect on an underwriting year these companies to achieve that, and I answered starting in the second half of next year, which wouldn't be reported for the 12-month period. So that wouldn't be reported if you will -- June 30, 2013, it would be achieved by then. But I think that the point Rob made is true and that is the moment -- I can't tell you whether you're going to get price increases of 5%, 6%, 7%, or 8% in the second of fourth quarter of this year. I can't tell you what you're going to get next year. I can tell you directionally where things are going. I can tell you that my anticipation next year is that you're going to get another 8% to 10% price increases next year, maybe even a little more. And that's how things look. And you will get better returns by a substantial amount because the marginal increase in pricing. But we're also talking about the newer companies, I think the older companies that have been around for a while aren't going to start to gain more traction also as time goes by. So I would anticipate us being able to do better. But yes, you are correct. I was trying to answer Mr. Locraft's question as he presented it and not get into an "I said this" or whatever.

Gregory Locraft
Morgan Stanley, Research Division

Right, right. I just want to make sure I understood where you were coming from, so that's helpful. Just a question on 2 segments where the growth rate accelerated quite a bit. One was reinsurance, which looked like maybe it was an easy comp there. And the other one was alternative markets, which can jump around a lot. I was already wondering what's going on in both of those segments.

William Robert Berkley
Chief Executive Officer, President and Director

Yes. I think that, in fact, when you -- the growth in the pieces of the reinsurance part, which grew by $16 million. Again, a fairly small dollar amount which was basically our premium business just expanded. And also, some of it was our participation in the Lloyd's syndicate and that accounted for it. The alternative market business growth...

Eugene G. Ballard
Executive Vice President of Finance

That really had to do 2 things. One, the pools that we participate in where the premium just flows in and flows back out, and then the other area has to do with accident and health businesses, particularly medical stop loss.

William Robert Berkley
Chief Executive Officer, President and Director

It's where we have continued to experience a meaningful amount of growth.

Gregory Locraft
Morgan Stanley, Research Division

Got it. Just on the Reinsurance business because I see a year ago, premiums were down about 20% and I remember there being something that negatively affected that business? Is...

William Robert Berkley
Founder and Executive Chairman

That was one particular transaction where there was some return premium. That was just an unusual thing.

Gregory Locraft
Morgan Stanley, Research Division

Okay. So in other words, going forward, is a 15% number a reasonable number to think about or is that a bit inflated because of that comparison?

William Robert Berkley
Founder and Executive Chairman

I think the comparison was a bit inflated, number one, and number two, more than an insignificant part came from our participation in the Lloyd's syndicate.

Gregory Locraft
Morgan Stanley, Research Division

Got it. Second question. On the capital front, certainly on a premium-to-surplus ratio, you look really well-capitalized. From a debt-to-capital standpoint, I guess you're bumping up just over 30%. Is there a range or a limit that you think about when it comes to leverage?

William Robert Berkley
Founder and Executive Chairman

We've told the rating agencies that we'll stay within 25% to 35%. We ought to be, based on what we said, sort of at the higher-end of that range now. We're not at the higher end, we're right at the midpoint. We have short-term flexibility there. A great opportunity here, we have plenty of borrowing power as long as we demonstrated to the rating agencies that would come down. And we told them that, that range has been the range we put forth to them for an extended period of time, which is that 25% to 35% range. So I think we have capacity, we certainly have plenty of people who would be willing to lend us money. But as we look at the world today, we have plenty of capacity to expand. We were opportunistic in buying back stock because we view the cycle each quarter as being more definitive, and our stock traded down in the quarter. So we took advantage of it.

Gregory Locraft
Morgan Stanley, Research Division

Great. And then last question, in the investment fund, I know that's reported, at least many of them on a one-quarter lag. At this point, do you have any visibility into the fourth quarter number?

William Robert Berkley
Founder and Executive Chairman

Only for 2 funds. There are only 2 funds that report, one of which is okay and one of which is negative. But it's -- one of the parts which we knew when we changed how we reported is, especially in the oil and gas fund, we invested in a group that did venture-type investing, not quite development investing. And once those investments proved out, then they went -- the companies that we invested in became public companies. And when those public company stocks go up and down, the volatility in the marketplace with oil and gas prices changing, we reflect those unrealized gains and losses through our income statement. If we owned the same stocks just as investments, they would just be changes in our unrealized gains and losses in the portfolio. So that's really the problem we're facing, but we knew it when we said, look, it didn't make sense not having these funds as part of our income statement. So it gives us a little more volatility in that area and unfortunately, that one fund accounts for a big part of the losses in the funds. In fact, I think it accounts for more than all the losses. It's more than 100% of the loss of the funds. And all it is, is 2 successful investments that became public companies but as oil prices go up and down, their stocks went up and down a lot. And I might add, it's back up again, but that will be in the first quarter.

Operator

And our next question comes from the line of Adrian Mele [ph] of Eagle Capital.

Unknown Analyst

Two quick questions. First question, do you have any opinion on if we're in a lower return world if this cycle would considerably look like past cycles or if you'd see a lot of capital coming in? If we're in a world where banks can't earn reasonable ROEs, will capital switch over to insurance or should it look like other cycles?

William Robert Berkley
Chief Executive Officer, President and Director

I would be surprised if it looked differently. I think the people who put money in after Katrina have not had a good experience. And a number of companies out there are not doing well and they're going to show bad results. So I think it's going to look with the historic returns we've seen before and in fact, I think more and more people who want to put their capital in the business want to put it in, in ways that keep them from being locked up, so they want to have it in special-purpose vehicles. So I think less real capital is going to go in the industry. So if anything, primary writers like we are ought to have a better opportunity.

Unknown Analyst

Okay, great. And then if we look at the way you've marked your business in the last year in the new units and we compare it to the last cycle, I think you wrote ROEs in the high 20s in the peak of the last cycle. Would you -- you're bigger now in terms of your divisions. Would you expect given your business mix, if the last cycle repeated itself, would the ROE approach at the same levels, be higher or lower given your current business mix?

William Robert Berkley
Founder and Executive Chairman

You just want to let Rob talk because the reason they weren't higher -- the reason they weren't higher last time is because we had some reserve deficiencies we had to make up at the beginning of the last turn in the cycle. And we are unfortunately not in the position now. So I would guess that we'd have a faster acceleration of our returns and our peak returns probably would not be nearly so long in the coming. But I don't think it would be much different.

Operator

And our next question comes from the line of Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple of quick ones here for you. The first one, Rob, I think in the beginning you talked about some tightening in terms and conditions. I'm just curious if you can elaborate on that and do you expect much tightening in terms and conditions in this firming marketplace we're in similar to what we saw in the last cycle turn?

William Robert Berkley
Founder and Executive Chairman

Actually, maybe -- I don't think I can comment on terms and conditions, but I'm glad you brought it up, that was a good point. Just by business migrating out of the standard market into the specialty market, that on its own is going to be tightening up terms and conditions on the exposures that go from one part of the marketplace to the other. Certainly, it is our expectation that you will see policy wordings getting tightened up, coverages getting tightened up, attachments, points being adjusted, deductibles, et cetera. So the short answer is yes. We are beginning to see the early signs of that once again as business migrates from standard to non-standard market, and we expect we will see more.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, great. And that's actually I guess helped looking forward with any kind of the loss cost inflation if it does kick up.

William Robert Berkley
Founder and Executive Chairman

I beg your pardon?

Brian Robert Meredith
UBS Investment Bank, Research Division

I guess that should help offset any loss cost inflation if we get anything kind of going forward.

William Robert Berkley
Founder and Executive Chairman

Certainly, it is very helpful to the rate you're getting for the unit of exposure.

Operator

And our next question comes from the line of Bob Farnam of Keefe, Bruyette, & Woods.

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

So is there anything that you worry about that could potentially derail the market turn?

William Robert Berkley
Chief Executive Officer, President and Director

Bob, you've known me a long time. Every day, I worry all the time about all kinds of things. I think that the greatest fear you have is people who believe their numbers in a way that leads them to wrong conclusions. And it doesn't require someone with an infinite amount of capital to derail a line of business or a group of agents. So Reliance and Frontier weren't huge companies, but they certainly had a huge impact on long-haul trucking. And frankly, a lot of companies who are relying on automated underwriting systems and have tried to remove people are going to not make quick enough decisions when trends change because trends take time to get into automated underwriting systems. And that will slow down, in some cases, those companies responses, hopefully management in those enterprises sort of override the system and say, hey, that doesn't count. But I think that most serious managers in the business know prices have to go up. And they're being driven by poor results and they look at their reserve development and say, we may have had past years with redundancies, we no longer do. And if anything, it looks like, you don't have to admit to yourself that it is, but it looks like there's some current year deficiencies. And as long as people face those realities, for most companies, it's within their realm to solve their problems. And I think that, that's the situation. But you're always going to have a company or 2 that deceive themselves that it can slow the change, but I think that, that's why we haven't had the change in a more rapid pace now.

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

All right. So, it's certainly nothing that's going to be derailing it, it may just be delaying it longer than you think.

William Robert Berkley
Founder and Executive Chairman

Yes. And I would be surprised frankly, if, in fact -- I think we may be a little too pessimistic as opposed to too optimistic.

Operator

And our next question comes from the line of Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sorry, just a couple follow-ups if I could. Bill, one thing I just wanted to follow up with is your question on the 5% to 8% decline in yields if you continue to grow. I was just trying to understand, is that kind of a percentage of the current yield in the book or...

William Robert Berkley
Founder and Executive Chairman

Yes. In other words, our 4%, Michael, will go down by 0.2% at 3.8%.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Oh, so like 20 basis. Got it. Okay. That makes sense. And then just when you look at kind of what other folks have said during these conference calls, have been positive comments here about commercial rates in the U.S. Just wondering why the regional -- your regional segment hasn't seen some of that or maybe it has and it's just a mix issue, if you could comment on that.

William Robert Berkley
Chief Executive Officer, President and Director

My understanding is that others have been commenting on their pricing as it relates to business insurance, and when you look at that portfolio and you compare it to our portfolio of risks, it would be probably similar to our regional group in particular. And the regional group has been achieving rates that are above the blended rate for our group overall.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. So -- but not seeing exposure growth I guess, is that the offset?

William Robert Berkley
Chief Executive Officer, President and Director

When I talk rate, I'm talking about number of dollars we create for an apples-to-apples unit of exposure, and as the premium count is not going through, but to make a long story short, to give you a number, it was slightly over 5% for our regional group in the quarter with the rate increase, and that's [indiscernible] if you will.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Right. So does that mean that exposure units were down?

William Robert Berkley
Chief Executive Officer, President and Director

Yes. Modestly.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Got it. And then, Bill, if you were looking at the environment now, you're talking about like 5-ish percent now and kind of growing to maybe double digits next year, what would you place of the odds of just a period of 5% growth in rate? I mean is that -- instead of seeing momentum take it up higher to 10%, is that something that can happen that you think is possible, or do you feel like it's just a matter of time before rates have to continue to move higher?

William Robert Berkley
Chief Executive Officer, President and Director

I think the answer is when you look at just comp for instance, to get the line to where it's breakeven, including investment income today, you need another -- that line of business is having a rough, something slightly more than 10% increase right now, and you probably need another 8% in addition, another 8% to 10% next year. Just to get the line of business to be a breakeven because you got to remember comp has a lot of inflation with medical costs and loss costs. So I think you've got something. Other lines of business, to get to where they're profitable industry wide, you need those kinds of additional price increases. So I think that -- I'd be shocked if it stayed at just 5%. Now if it was 5% more on top of the 5%, possible. But I would think it's going to be 8% to 10% more on top of the 5%. But we'd have to look.

Operator

And our next question comes from the line of Keith Walsh of Citi.

Keith F. Walsh
Citigroup Inc, Research Division

For Bill, in one of the last -- prior questions I should say, you alluded to the marginal increase in returns from higher rates. Maybe if you could just embellish on that a little bit, talking about marginal returns on what relative to ROE in combined ratio from increasing rates.

William Robert Berkley
Founder and Executive Chairman

Well, I think, the reality is it's rate increase minus loss cost minus expenses. So, I mean, I think that if you say, for simplistic sake, your expenses are going to go up by 3%, that's insignificant, that's 0.3% on your rate base. Loss costs go up by 3%. Anything you raise your prices more than let's say between 2.5% and 3%, I'm going to give you additional margin. So if you get 5%, you're going to add, let's just say 2 points to your margin. If it can go up to 8%, you're going to add in round numbers 5 points to your margins. So I think the question Mike asked, which was a real critical one, which is everything you get over 3% is going to be a real improvement in your combined ratio or industry-wide, a diminishment of your losses. So I think that, that's a -- it's a really critical question, Keith. And I think that's why it's so sensitive as to how well you can get prices up. And I don't think that, that is the heart. I think there's a difference between September's 3.5% and the average for the quarter of 3%, tells you directionally what's going on and it was the same as we, in fact, directionally, things are getting better and I think that it's why I'm really incredibly optimistic about where things go because that marginal trend is the critical number in profitability. So 5% is huge when compared to 3%. So I think your question's right on.

Operator

And our next question is a follow-up from the line of Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Not to get too granular, but you suggested just recently that the regional business was seeing increases around 5% and you also said that worker's comp, you were getting more like a double-digit increase. And I assume most of that's in the either regional or alternative market business. It suggests that the specialty business is kind of well below that 3% still. Is that accurate? And I guess it partly reflects in the D&O which you say was still pretty competitive, but could you reflect on that?

William Robert Berkley
Founder and Executive Chairman

I think that -- first of all, a big part of that comp business is in that regional business. So I think that, that part, second of all, I think that when you look at the specialty business, there is a piece of specialty business that's not getting price increases and lots of other parts that are getting substantial price increases. I think that it's -- one of the problems with being an analyst is you're trying to get -- Gene and I were talking about it this morning, you're trying to come up with a specific analytic number that won't add up the way you're getting at it. But in fact, I'm giving you information that's analytic from our pricing monitors, okay? And it's a matrix pricing monitor the comes up with those numbers. So, I'm going to have to -- to give you your answer, I'm going to have to spend -- I'd have to spend a lot of time trying to break apart all the pieces. You want to add to that, Rob?

William Robert Berkley
Chief Executive Officer, President and Director

Yes. I think if I understood your question correctly, Jay, obviously as we suggested, depending on the product line, we're getting a different level of rate increase. The comment about worker's comp, maybe it was lost, but the significant rate that we're talking about achieving is really around the line of excess comps, but we are getting a meaningful amount of rate on this primary comp. I would suggest that at blended basis, primary comps probably running at about 5 or so, and excess comp is something north of that.

Operator

And I show no other questions in the queue at this time.

William Robert Berkley
Founder and Executive Chairman
Okay. Thank you, all, very much. I think that -- I appreciate it, and if anybody has any other questions, feel free to give Karen or Gene a call. And have a great day.