S&P Global
Market Intelligence

W. R. Berkley Corporation NYSE:WRB

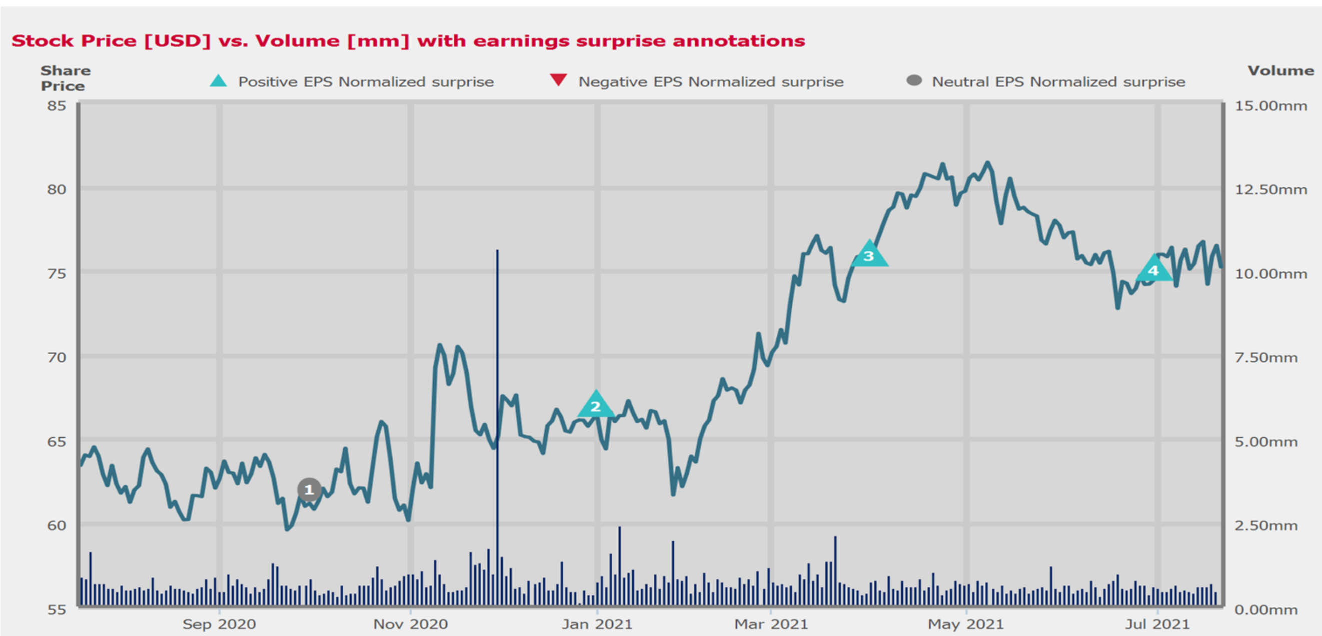
FQ2 2021 Earnings Call Transcripts

Thursday, July 22, 2021 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.00	1.17	17.00	0.92	4.04	NA
Revenue (mm)	1990.20	1971.62	(0.93 %)	1951.35	7694.53	NA

Currency: USD
Consensus as of Jul-22-2021 7:57 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.65	0.65	1 0.00 %
FQ4 2020	0.78	0.92	2 16.46 %
FQ1 2021	0.81	1.08	3 33.33 %
FQ2 2021	1.00	1.17	4 17.00 %

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EXECUTIVES

Richard Mark Baio
Executive VP & CFO

W. Robert Berkley, Jr.;President, CEO & Director

ANALYSTS

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Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
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Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Second Quarter 2021 Earnings Call. Today's conference call is being recorded.

The speaker's remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2020, 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.

W. Robert Berkley, Jr.;President, CEO & Director

Suzanne, thank you very much, and good afternoon, everyone, and again, welcome to our Q2 call. Along with me, cohosting, we have our Executive Chairman, Bill Berkley; as well as Rich Baio, Group CFO.

We're going to follow a similar agenda to what we've done in the past where we're, in a moment or 2, going to hand it over to Rich to walk us through the quarter and focus our attention on a few highlights. And once he is through, I'm going to offer a few soundbites and then we will be opening it up for Q&A. Rich, so if you would, please.

Richard Mark Baio
Executive VP & CFO

Great. Thanks, Rob, and good afternoon, everyone. The positive momentum continues to build in our business, as evident by our growth in premium and expansion in underwriting profits as rate improvements and additional premium associated with increase in exposure earned through the income statement.

We reported a consecutive quarterly record underwriting profit in the second quarter of 2021, along with strong net investment income, resulting in an annualized return on beginning-of-year equity of 15%. The company reported net income of $237 million or $1.27 per share. The components include operating income of $219 million or $1.17 per share and after-tax net investment gains of $18 million or $0.10 per share.

Drilling down into our quarterly underwriting performance, you will note that gross premiums written grew by $529 million or 24.8% to almost $2.7 billion. Net premiums written grew $472 million or 27.2% to more than $2.2 billion, recognizing an increase in both segments. Our overall session rate decreased in the quarter due to changes in certain underlying outward reinsurance arrangements, lower reinstatement premium and business mix.

Moving into segment production of net premiums written. The Insurance segment grew 29.2% to almost $2 billion with an increase in all lines of business. Professional liability led this growth with 64.8%, followed by commercial auto of 31%, other liability of 28.7%, short tail lines of 21.2% and workers' compensation of 15.6%.

The Reinsurance & Monoline Excess segment grew about 11% to $218 million with an increase in monoline excess of 20.9% and casualty reinsurance of 17.5%, partially offset by a decrease in property reinsurance of 13.8%. Underwriting income benefited from the compounding rate improvement above loss cost trends, along with growth in exposure and lower claims frequency in certain lines of business.

We did experience an above-average level of non-weather-related property losses in the quarter that partially offset these benefits. In addition, our current accident year catastrophe losses decreased significantly quarter-over-quarter from $146 million or 8.7 loss ratio points in the prior year to $44 million or 2.2 loss ratio points in the current quarter.

As a result, quarterly underwriting income increased almost 800% to a record $202 million. The reported loss ratio was 61% in the current quarter compared with 67.7% in 2020. Prior year loss reserves developed favorably by about

$0.5 million in the current quarter. Accordingly, our current accident year loss ratio, excluding catastrophes, was 58.8% compared with 59.2% for the prior year's quarter.

The continued growth in net premiums earned has benefited the expense ratio, which was 28.7% in the current quarter compared with 31% a year ago. Net premiums earned outpaced underwriting expenses by a margin of more than 8.5%. We also continue to benefit from reduced costs associated with travel and entertainment but do anticipate some of this will be given back as the economy more fully reopens.

Wrapping up the full picture. On the underwriting side, our current accident year combined ratio, excluding catastrophes, was 87.5% for the quarter compared with 90.2% for the prior year quarter. On the investment front, net investment income increased 96.9% to $168 million, driven by strong results in investment funds. The fixed maturity portfolio reflected a decline quarter-over-quarter due to the lower interest rate environment, although the quarterly gap is closing.

We also continue to maintain an above-average level of cash and cash equivalents as of June 30, 2021, which has been decreasing over the past few quarters where we see opportunities to invest at attractive risk-adjusted returns. Our duration remains flat at 2.4 years while maintaining a high credit quality of AA-. Pretax net investment gains in the quarter of $24 million is primarily comprised of realized gains on investments of $39 million, a reduction in unrealized gains on equity securities of $18 million and a decrease in the allowance for expected credit losses of $3 million.

The realized gain was largely driven by the sale of 2 real estate properties, which also resulted in the reduction in our debt that was supporting 1 of the real estate properties of approximately $102 million. Corporate expenses increased approximately $13 million due to debt extinguishment costs of $8 million relating to the redemption of hybrid securities on June 1, and higher incentive compensation costs as well.

In addition, we announced the formation of a new operating unit in the second quarter, which you may recall that such expenses are reflected in corporate until the operation begins writing business and has then moved into the underwriting expense.

Stockholders' equity increased by $164 million to approximately $6.6 billion in the quarter after regular and special dividends of $112 million. Book value per share increased 2.5% in the quarter and book value per share before dividends increased 4.3%. And finally, cash flow from operations continued to be strong with approximately $700 million on a year-to-date basis.

And with that, I'll pass it back to Rob.

W. Robert Berkley, Jr.;President, CEO & Director

Rich, thank you very much. So let me just offer a couple of quick observations and then we'll get to your Q&A and take the dialogue anywhere participants would like to.

I think by virtually any measure, it was a great quarter for the company. And from my perspective, it's been in the making for some period of time. In addition to that, I think there is a growing amount of evidence that would support the idea that there is more to come, and it's just, again, quite encouraging.

As far as drilling down into the market a little bit more, when we look at the major product lines with the exception of workers' compensation, all of them continued to get rate increases that outpaced our view of loss trend. And that is even as we have been factoring in a bit more for financial inflation.

Regarding workers' compensation, there are, again, growing but early signs that the level of erosion there is slowing. That having been said, we also are paying close attention wage inflation and what that may mean for the comp economic model.

Rich walked you through the top line. Obviously, the 27% growth plus is pretty healthy. A couple of observations there, though. One, please keep in mind, if you go back and you look at 2020, we were not an organization where in Q2 of '20, our top line fell off a cliff. We were, give or take, flat. So this was not just a bounce back to a normal run rate. This was a meaningful growth.

In addition to that, Richard commented around the Excess & Reinsurance segment. You would have noted possibly in the release and also, again, in Rich's comments that it was the reinsurance segment where -- particularly our domestic treaty business where we backed away from a couple of deals where we just felt as though while the rates were good, they weren't good enough for us to participate.

If you unpack the 27% growth overall, give or take, about 1/3 of it is coming from rate. The balance of it is coming from exposure, as you would have gathered from the rate increase coming in ex comp at just shy of 10%.

I think it's important that people not read too deeply into, as I suspect some might, as to the rate increase and what does this mean relative to what the rate increase was last quarter or at the same time in the prior year. The simple fact is that when we think about our economic model, it is multidimensional. We look at the margins that are available in the business and as we become pleased with available margins, we start to think about possibly how we reprioritize exposure growth versus pushing further on rate.

And again, as we have seen, the margins in a meaningful part of our portfolio become particularly attractive. We're still pushing for rate. We are still getting rate, by and large, ex comp, that outpace this trend. But again, growing exposure becomes even more of an opportunity that we are capitalizing on.

A couple of other comments just as it relates to the top line, I think it's a helpful data point, particularly our specialty businesses are getting flooded with submissions. It's a -- and in particular is our E&S businesses. What's driving it? Two things: an opening economy, which clearly we are benefiting from across the board; and, of course, a standard market that continues to revisit its appetite.

As far as the opening economy, just bouncing back to workers' compensation, as we have expressed in the past, we are concerned with that product line and where rates have gone, but you would have seen that product line growing in our release, and that is really driven by payroll growth. And again, I think it just speaks to the health and well-being of the U.S. economy as it continues to recover.

Maybe pivoting over to the combined ratio. Rich got through a lot of this, just a couple of observations from my perspective. On the expense front coming in at 28.7%, from our perspective, is a pretty good place with opportunity to improve from here. As Rich suggested, as our travel and entertainment picks back up, certainly some, if not all, of the approximately 50 basis point benefit that we've been getting as far as expenses due to COVID. That is likely to erode and disappear.

That having been said, if you look at the power of the earned premium coming through and how it is likely to build from here, and you can see that, given the written leads they earned, there is likely more benefit to be had over time.

Loss ratio, pretty good at 61%. The ex cat accident year, as Rich mentioned, was 58.8%. He talked about non-cap property and loss activity. That added relative to where it was running last year about a little over 2 points. So this was, quite frankly, we had a rash of fires. Some would suggest it's bad luck. We tend to believe that, oftentimes, you make your own luck. So we're digging into that to make sure that this is not a new normal, and it was more of a onetime unfortunate series of events. Another data point on the loss ratio from the paid loss ratio came in at a very attractive 44.3%.

A couple of comments on the investment portfolio. Again, Rich commented on the duration of the 2.4 years. The book yield is running, coincidently, at about 2.4 as well.

We continue to be very focused on inflation. From our perspective, inflation is very much here. There are some people that talked about it being this transient. That may be true. I'm not quite sure when people talk about transient, well, how long is transient. Regardless, the cost of things are up today. But even if you saw inflation return to a 2.5% or 3% level, we continue to believe that a 10-year 1.30% or less doesn't make a whole lot of sense for the long run.

One other comment just related to the balance sheet and the capital structure, and we can get into this during the Q&A if people are interested. We've done a fair amount of work in restructuring certain things per one of Rich's comments around the prepayment or the calling of certain securities and the costs associated with that. But as you think about, again, the earnings power of the business later this year, but even more so for '22 and '23, there's very meaningful benefit that will be coming through, again, savings around capital costs.

So long story short, very good quarter. And I think what's more encouraging than even just the results is if you look at how the table is set for what is likely not just to be the next couple of quarters, but quite frankly, the next couple of years, this is an organization that is going to benefit greatly from the broader macro conditions.
So let me pause there. And Suzanne, we'd like to open it up for questions now if we could, please.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I wanted to drill down into some of what you said in your introductory comments. You guys said that you're factoring in a bit more for financial inflation. Can you just expand on that? And what changed in terms of your loss trend assumptions in the current quarter?

W. Robert Berkley, Jr.;President, CEO & Director

So we are constantly visiting and revisiting our loss picks and trying to refine them based on all the available information at any moment in time. I think from our perspective, it's pretty apparent that there is more financial inflation in the system today, if you will, than there was a year ago.

And as we think about our loss costs, for example, in the property line, the cost of building materials or the cost of auto parts or other things like that, one needs to appropriately factor in the financial inflation and what that means and how that impacts.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Can you give us a sense of just the magnitude of the movement you guys saw in the quarter relative to your loss you saw in the company?

W. Robert Berkley, Jr.;President, CEO & Director

Generally speaking, Elyse, we don't dissect our loss picks to that extent. But certainly, I can assure you that when we have factored it in, it has led us to raise some of our picks from what we have been using in the past.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, you guys, also going back to some of your remarks, the expense ratio 28.7% on 28.7% in the quarter, I know you said that there was 50 basis points from COVID, but it sounds like given the fact that there's a lot of leverage to the top line growth that perhaps this could be kind of the new run rate expense ratio, both when we still see some pandemic savings and even when we get through with COVID, it could be within range of the 28.7%. Can you just help us think through kind of the run rate for the expense ratio?

W. Robert Berkley, Jr.;President, CEO & Director

Sure. So it's -- what I would suggest you do is if you sort of add back in the 50 basis points for COVID. But then you look at the momentum behind our earned premium, in part, by looking at our written and how that's going to come through. And while, yes, some of that expense is variable, commissions, boards, bureaus and so on, a meaningful amount of our expense is somewhat fixed. And to Richard's point earlier, I think that that will certainly offset, and probably then some, the COVID component not being part of the business, hopefully, going forward because everyone is back to a more traditional way of operating.

Operator

Our next question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Two questions. First question is on the loss ratio ex cat and the COVID for this quarter in Insurance. It looks like it's flat compared to last year. But I think -- and it's where I kind of want to get either a reminder or clarification. I think last year, you had some frequency benefit. So maybe this quarter actually did improve in Insurance? And can you remind us or talk about that?

W. Robert Berkley, Jr.;President, CEO & Director

Sorry, Michael, could you repeat the question? You broke up a little bit.

Michael Wayne Phillips
Morgan Stanley, Research Division

Sure. I apologize. Yes. So the Insurance segment, the loss ratio ex cat and COVID impacts, it looks like the loss ratio there, backing that out, was flat year-over-year compared to 2Q '20. But I think that you had some frequency benefits also that made 2Q '20 a little bit tougher for comp as you look at the raw numbers. So want to see if that was the case and clarify that. So actually, this quarter did improve in Insurance?

W. Robert Berkley, Jr.;President, CEO & Director

Yes. Well, I'll give you my 2 cents, and Rich may have some thoughts to add to it. I think the biggest piece was the comment that both Rich and I made around non-cat property-related losses being a bit more challenging in Q2 '21 than what we saw last year. And I think that would be a leading factor. And again, that was primarily fire. Rich, do you have any further thoughts on that?

Richard Mark Baio
Executive VP & CFO

That's spot on, Rob, that's exactly right. So I don't have any additional thoughts.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. So I was getting to maybe there was something last year that kind of dropped that loss ratio, but maybe not. So it's more just elevated this year from what you said. So okay. That's helpful.

Second question, Rob, did you approach the -- I guess, the way you set reserves, the philosophy behind how you set reserves for accident year '20, given all that was going on last year, any differently than you otherwise do in your reserve impacts list?

Richard Mark Baio
Executive VP & CFO

Certainly, all of us, we, as a team, took note of the impact of COVID on multiple levels, some of it too -- that was helpful. Some of it was not helpful. But the big piece that perhaps you're referring to is frequency trend, and there were many product lines that benefited from COVID as it relates to frequency. And how we have thought about it. First off, we recognized that that is not the new normal, and we're seeing frequency trend virtually across the board returning to a more traditional norm.

And second of all, as far as what I would define as a unique situation in 2020 and some onetime benefits that came out on the frequency assumption, we have recognized some of that. But I think as we mentioned last quarter, we're reluctant to declare an outcome prematurely because there are certain things you can conclude that they're done. And there are other things, it's hard to know whether there's just a pinch point in the legal system, for example, and there will be a catch-up.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. I guess the reason I was asking, Rob, because I think it's no secret that there's probably some cushion in the industry numbers. I'm not going to ask you about yours but in the industry numbers because of the 2020 accident. And I guess what I was getting at is, do you think there's any impact of that on the overall pricing cycle because of what may be more of a cushion because of COVID reserves?

W. Robert Berkley, Jr.;President, CEO & Director

I think that different organizations have chosen to recognize that cushion at a different pace. I think a lot of that cushion came through primarily in the shorter tail lines, which would have been recognized sooner rather than later. And fundamentally, I think a lot of the drivers that are pushing this market to continue to firm are coming about as a result of other things. So I don't think that cushion is going to impact the direction or the momentum that exists.

Operator

Our next question comes from the line of Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

A question on -- the growth obviously strong. We see that coming back and kind of the pivot towards growth. Does that change how you see the loss ratio progressing maybe looking out over the next year relative to what you might have thought 6 months ago?

W. Robert Berkley, Jr.;President, CEO & Director

From our perspective, again, nobody knows exactly what tomorrow will bring or there's always the unforeseen event. But when we look at the data points, you can see rate continuing to outpace our view on trends by and large. In addition to that, when you do the math, one needs to factor in the impact of terms and conditions, particularly in the E&S space as well as on the facultative front. And even in the just broader specialty space. So when I think about it, I think that there's further opportunity from here for things to improve. And again, we have a view that our rate increases on a written basis and on an earned basis will continue for some period of time outpacing trend.

Ryan James Tunis
Autonomous Research LLP

Got it. And then my follow-up, I guess I was looking for a little bit of a reminder, obviously, Berkley has a lot of the individual underwriting entities. I know these are pretty decentralized generally. So does it work in such a way that those entities are kind of reporting up loss ratios to you guys and you're kind of counting up the picks? Or to what extent centrally are you guys able to kind of actually have control of the assumptions that go into that like underlying loss ratios?

W. Robert Berkley, Jr.;President, CEO & Director

Yes. So at the heart of our model, it's not an us and them, so to speak, model. It's much more of a collaborative one. So things such as a loss pick, using that as an example, that is certainly something that is a collaborative effort amongst, really, driven very much by the colleagues in the field. At the same time, it is collaborative with us here. And we work together and we try and make sure that we're looking at it, if you will, a more local granular level. At the same time, we want to make sure that we're getting the benefit of the broader view of the group and beyond. So it's not one or the other, it is really a team effort from my perspective, and there's a what I would define as a very healthy give and take.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Please don't get angry. I got a tough question, but I'm sure you have a great answer. I look at you guys as the poster child for, we recognize bad news quickly and good news, sort of, I guess, incubate first before putting it in the numbers. I was just looking through the past numbers, and it seems like you guys have been releasing reserves in workers' comp for recent accident years. I'm sure there's a great reason for it. I know that you guys would usually sit on reserves even things are producing favorable in a long tail line for a number of years until you do that with confidence. So I was hoping that you might be able to enlighten how it works a little bit.

W. Robert Berkley, Jr.;President, CEO & Director

So Josh, let me say it back to you because the line isn't great, and I want to make sure that I understood your question. You're making an observation around how -- what our loss reserve development has been in the workers' comp line and philosophically, how we think about that?

Joshua David Shanker
BofA Securities, Research Division

Well, I was just -- I was looking through the schedule of PIC, recent accident years and workers' comp are throwing off favorable development. And I imagine you guys would want to leverage workers' comp, traditionally, you would sit on those reserves for a few years before making any changes.

W. Robert Berkley, Jr.;President, CEO & Director

Well, I think the answer to the question. And again, we're happy to get into a more granular discussion with you off-line is that we are looking at our picks and we're looking at the historical data and we are looking at both frequency and we're looking at severity, and we are trying to adjust appropriately. I think we tend to be particularly cautious early on out of the gate. And then, of course, as it seasons, we will respond. But again, I don't have the P in front of me, so I would be reluctant to try and get into a more granular discussion. But if you'd like to take it up off-line, we would be pleased to do that with you or one of your colleagues whatever would be most convenient for you all.

Joshua David Shanker
BofA Securities, Research Division

Happy to do that. And the other question I had was about the arbitrage market. You guys let that fund get bigger, sometimes get smaller. What's your outlook right now given where the market is and the opportunity there is? Will you be allocating more capital or less capital in the future to that in your minds?

W. Robert Berkley, Jr.;President, CEO & Director

I think we take it one day at a time. We have some extraordinarily skilled colleagues that run that business, and we have no shortage of cash as you would see from our balance sheet. So while it's been pretty steady, if they see more opportunity, we're certainly in a position to provide them more capital to manage.

Operator

Our next question comes from the line of Meyer Shields from Keefe, Bruyette, & Woods.

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

So 2 quick questions. I think if I understand your response to Elyse correctly, you were talking about tweaking up some loss picks because of higher financial inflation. But if we take out the non-cat weather in the quarter, it looks like the underlying loss ratio was better than in the first quarter. So I feel like I'm missing something there.

W. Robert Berkley, Jr.;President, CEO & Director

Well, I think, obviously, we're in an industry where the -- you price your product before you fully know your cost of goods sold. And when we were thinking about the impacts of financial inflation and what that may mean for our claims costs in the future, we're trying to make sure that we appropriately factor that in. I think if you're like me and you show up at Home Depot once a month, you'll notice that a lot of the stuff you buy there is considerably more expensive than it was a year ago.

So we're just trying to make sure that we are appropriately adjusting for the shift in a lot of commodity pricing and the shift in a lot of costs that would come about with claims.

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

Okay. The examples you gave for the financial inflation all seemed to focused on short tail lines. Are you seeing similar worsening inflation on the liability of the longer tail lines?

W. Robert Berkley, Jr.;President, CEO & Director

Not as visible as the shorter tail lines just using a pretty broad brush. I would -- we'll have to see the impact over time. Obviously, there can be an impact on things -- on certain things. But for us on the liability side, it tends to continue to be more of a social inflation discussion.

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

Okay. Perfect. And then one last question, if I can. I assume that some of the employment costs you have are fixed costs. Is inflation there getting any worse?

W. Robert Berkley, Jr.;President, CEO & Director

I think, generally speaking, there is wage inflation throughout the country. And there's likely to be more of that for at least the short term, we'll have to see what it means over time.

Operator

Our next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Rob, a couple of quick ones here. The first one, just back to the fire loss you had in the quarter. I imagine you expect some level of fire losses every quarter, right? And I'm just curious, kind of -- is there a kind of -- is it above baseline? It was -- last year's fire loss is abnormally low? Just trying to kind of establish kind of what a good baseline is here right now for the underlying loss ratio.

W. Robert Berkley, Jr.;President, CEO & Director

Yes. I was -- it was a series of losses, it wasn't just one loss. And I would tell you -- I don't have the numbers in front of me. Rich, do you have -- I would say it's a little bit of both of what Brian referenced. I think last year was a little on the lighter side. This year was particularly heavy, and our run rate is probably somewhere in between the bookends. So I think the 2.4% over last year, I'd say 1 point, 1.5 points, I would put back in. What's your thought on that?

Richard Mark Baio
Executive VP & CFO

Yes, I think that's right. I would agree with that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Perfect. That's helpful. And then another one just quickly on the underlying loss ratios. I mean you're growing your casualty book pretty quickly right now. Does that -- is that mix of business going to kind of have some effect here going forward as we kind of looked at the combined ratio or the loss ratio just because some of the casualty lines probably carry a little bit higher underlying loss ratio?

W. Robert Berkley, Jr.;President, CEO & Director

I think that it is going to prove over time that the margin in the business that we are writing is very attractive.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Great. And then my last question, I'm just curious, you said you're concerned about wage inflation with respect to workers' comp. But don't you actually get premium for any type of payroll? Or isn't that based on payroll? So why would you be concerned?

W. Robert Berkley, Jr.;President, CEO & Director

Thanks for raising that, Brian. I may have mischaracterized it or misspoke. Actually, it's the other way around. So when -- as you've had to listen to us whine for the past several quarters about the workers' comp line and how even though frequency may be the industry's friend and certainly, it was the industry's friend during COVID, we continue to be focused on the severity component, and we are meaningfully concerned about that for the industry, which has led to some of the commentary you've heard.

When you come up with a loss pick for workers' comp, obviously, there are a variety of components. One of the components is the medical trend assumption that you are using. So when you think about the exposure, you make certain assumptions around payrolls. And to the extent that payroll or wage inflation is driving payrolls up more and perhaps medical inflation is going up but not going up by as -- or is not keeping up with the wage inflation, that could then err to the benefit of the margin.

Operator

Our next question comes from the line of Mark Dwelle from RBC.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Let me start with just a small numbers question. Was there, in fact, any COVID expense within the catastrophe, the $44 million of catastrophe that you had this quarter? Or is that -- are you no longer booking anything?

W. Robert Berkley, Jr.;President, CEO & Director

There was a relatively modest sum. Rich, do you recall how much it was?

Richard Mark Baio
Executive VP & CFO

Yes, we had about 1.2 loss ratio points embedded in the current accident year cat losses for COVID. So just under $25 million.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. And then the second question -- well, I'm tempted to ask you what the last thing you bought at Home Depot was. What I'll actually ask you is in terms of competition across the industry, are you still seeing primarily rational competitive behavior? Or are you seeing any signs around the edges of, call it, aggressive competition or price-oriented competition like you would typically see perhaps near peaks of a pricing cycle?

W. Robert Berkley, Jr.;President, CEO & Director

There is nothing that leads us to believe -- let's put workers' comp aside for the moment. There is nothing that leads us to believe that the opportunities in virtually every other product line are very meaningful today and will be very meaningful tomorrow. We continue to see the opportunity to push rates further. And quite frankly, we're seeing the standard market continue to push business out, creating opportunity for the specialty market. So we remain very encouraged, by and large, as it relates to the opportunities. And no, we do not think that this marketplace has peaked in any way, shape or form, quite to the contrary.

Workers' comp, again, being the one outlier. Are we seeing the rate decreases depending on the state slowing a little bit? Yes, there is signs of that. At the same time, it has been surprising to us how there are certain markets that are becoming exceptionally aggressive with things such as commissions. And quite frankly, we just shake our head. We've kind of seen the movie before. We know how it ends, and it's usually a sign that we're getting towards the end.

Operator

[Operator Instructions] There are no further questions at this time. Please continue.

W. Robert Berkley, Jr.;President, CEO & Director

Okay. Suzanne, thank you. So we -- a, first off, thank you all very much for finding time to join us. As you would have gathered, not only was it a strong quarter, but we're very optimistic about where things are going for the next couple of years. From our perspective, the table is set for some pretty terrific returns, and we will look forward to enjoying those again over the next couple of years. So we will update you again in about 90 days. Thank you for your time.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.