S&P Capital IQ

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W. R. Berkley Corporation NYSE:WRB

FQ3 2017 Earnings Call Transcripts

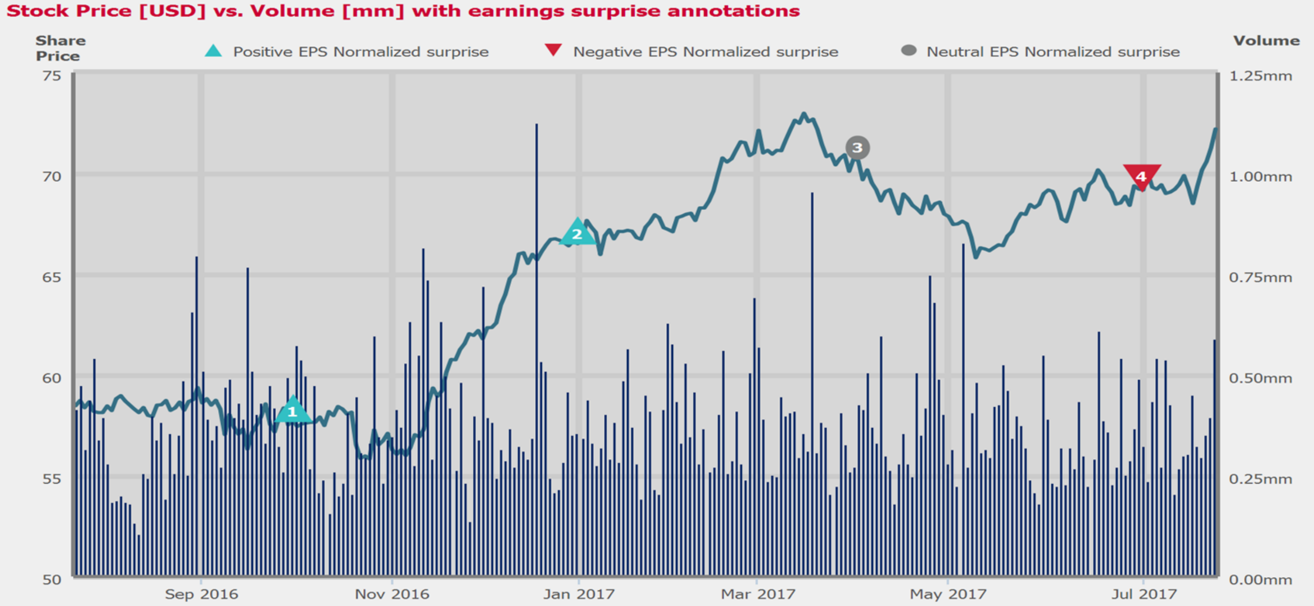
Tuesday, October 24, 2017 9:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.27	0.23	(14.81 %)	0.82	2.49	3.24
Revenue (mm)	1587.40	1581.50	(0.37 %)	1584.65	6307.90	6479.08

Currency: USD

Consensus as of Oct-17-2017 12:00 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.84	0.88	1 4.76 %
FQ4 2016	0.80	0.82	2 2.50 %
FQ1 2017	0.70	0.70	3 0.00 %
FQ2 2017	0.77	0.65	4 (15.58 %)

Call Participants

EXECUTIVES

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

William Robert Berkley
Founder and Executive Chairman

William Robert Berkley
CEO, President & Director

ANALYSTS

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Kai Pan
Morgan Stanley, Research Division

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Third Quarter 2017 Earnings Conference Call. Today's conference call is being recorded. The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2016, and other filings made with SEC for description of the business environment in which we operate and the important factors that may materially affect our results. W.R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise. I would now like to turn the call over to Mr. Rob Berkley. Please go ahead, sir.

William Robert Berkley
CEO, President & Director

Thank you, Skyler. And good afternoon all, again, and thank you for joining us for our third quarter call. So with me on this end, I have our Executive Chairman as usual, Bill Berkley, as well as Rich Baio, our Chief Financial Officer. Consistent with what we've done in the past, I'm going to start off with some general comments, and I'm going to hand it over to Rich, who will get into a bit of the details on the quarter. And then we will open it up for Q&A. The 3 of us will be available to answer any questions you may have, and finally I'll have a couple of sound bites at the tail end.

So well, ticking it off, obviously, the third quarter was exceptionally active on the cap front. And quite frankly, before we start getting into the numbers in the day-to-day of the business in the industry, let me first start by expressing our organization's concern and sympathies for the millions of people that were affected by the events in the third quarter as well as more recently, the wildfires in the fourth quarter.

Additionally, I'd like to thank our colleagues, and there are many of them, that have worked tirelessly over the past several months to ensure that our customers or claimants were appropriately looked after in a timely manner. And finally, I'd like to recognize the countless number of colleagues that have gone above and beyond on a personal level to volunteer and to donate to people in the affected areas. I think this is a true reflection of the values of the people that make up our organization, and ultimately, our culture is a reflection of their values. So we are very proud of the response by many of them. And we, as an organization, recognize we have a broader obligation to society than just our day-to-day business.

Switching over to the traditional topics. So what's going on in the market. From our perspective, obviously, again, Q3, very active, unusually active. And at this stage, there are probably 2 glaring questions flashing in bright neon at all of us. One question would be, so when you tally up all these losses in the third quarter, and you hear the number that's checked around, how come all of the parts, if you will, are not equaling or adding up to the whole. When you look at the numbers that have been announced or preannounced as it relates to losses during the third quarter, and again, you look at the projected whole, the parts are not equaling the whole. Obviously, there could be a couple of different reasons for this. One is that it will turn out -- the projected whole turns out to be something less than expected. Number 2, alternative capital and other market participants that have not announced. It's going to prove that they have more exposure than perhaps some people had originally expected. Or number 3, many market participants are just proven to be more optimistic than will prove to be reality. I'm not sure if anyone knows for sure, it could be some combination, but certainly the parts not adding up to the whole has made us scratch our head. Question #2 will be, so given the level of destruction of capital, give or take $100 billion, vaporizing in a relatively short period of time, so what will the response be from the marketplace? There is a broad spectrum of commentary out there, ranging from no response to you'll see a response in the affected areas, to the property line in general, to some would suggest this will have a meaningful impact on the broader market. From our perspective, while it's hard to know exactly what the degree of the response or a potentially hardening in the market will be, it is hard for us to imagine that given the level of capital that has been destroyed that there will not be a meaningful response.

Put another way, it is hard for us to imagine that given the loss activity, it is not going to be a definitive wake-up call for market participants and capital providers to focus more deeply or to revisit what is an appropriate risk-adjusted return.

Drilling down more specifically into the reinsurance market. Honestly, I don't have a lot to add beyond what you've heard me comment on in past quarters. It's as ugly as ever out there. Maybe it requires a large dose of medicine that doesn't taste very good to get people to wake up and realize what needs to happen. Obviously, a lot of the chatter is around the property cat market at this stage. From our perspective, the casualty and the professional market, while it may not be as clear arguably, could be almost if not equally impaired. It's just not, again, as visible.

As it relates to the insurance market, casualty and comp are probably the brighter spots. Although I would caution people around the comp market, we are seeing some pretty aggressive actions on the part of state rating bureaus. I think the rating bureaus for the most part, particularly NCCI, are pretty responsible. Having said that, there are certain situations where you see politics start to creep into the scenario and that does not lead to necessarily the right answer.

On the professional front, very mixed, though overall, I would suggest eroding or moving in the wrong direction. D&O is probably the line that gives us greatest reason to pause. We are concerned about that product. Property, it's really 2 worlds: cat and noncat. And finally on the auto front, from our perspective, while things continue to improve, we have not gotten to the mile marker that we need to before we are going to really open up the spigot all the way.

Couple of comments, specifically, on our quarter. Top line is off modestly, and again, Rich is going to get into the weeds with a bunch of these numbers. But it was primarily due to our reinsurance segment. Little more specifically, it was driven by our domestic or U.S. treaty business. Some of you may have seen in the release on Page 6, I believe it is, we give a bit more detail. The headline is, we're growing where the margin is, we're shrinking where we don't like it. Overall, rate was up give or take about 1%. Renewal retention ratio was hovering around that 80%, which is pretty consistent with what we've seen over the past couple of quarters.

On the loss ratio front, obviously, spiked up to 68.4%. That's what happens when you have a $119 million in a 90-day period of cat losses. The accident year, it was 61.3%. We did have about $7 million of positive development coming through in the quarter. And I'd like to spend a moment or 2 on this, and it may be a bit repetitive from what we touched on in the past couple of quarters or a few quarters ago, I should say.

We are observing what would appear to be out on the horizon, signs of an increase in severity beyond what we have seen over the past several years on the casualty front and on the professional front. We want to be our usual cautious self and make sure that we have a belt-and-suspenders approach. We are very comfortable with our reserves to say the least. At the same time, we want to be measured in how we declare victory and how quickly we declare victory given the signs that we see on the horizon.

Investment portfolio. Again, Rich is just going to touch on this. The duration shortened up a little bit on the fixed income. Return, book yield, if you will, was pretty flat. Obviously, you noticed the big game that came through. A lot of that was driven by the sale of a building that we had preannounced, I believe, it was back in July. We also had a couple of other gains in there. And yet again, touching on a topic that we have discussed in the past. And I know that this isn't particularly palatable to those that focus on trying to predict how we will perform in any 90-day period. We think the focus on capital gains is completely consistent with our total return approach and is very much in line with what our shareholders have asked us to do, and that's simply both from an investment perspective as well as an underwriting perspective, focus on building book value through making good risk-adjusted returns.

Couple other comments here. Unfortunately, you can't read your own handwriting. Tax. Obviously, it has been getting a lot of headlines. All of us read about it. All of us hear about it. Two big questions there from our perspective. One, being what is going to happen with general corporate tax reform or tax reform in general in this country, which seemed to be like it's building momentum. I think as we've discussed in past quarters, it actually would seem as though it's an issue as it relates to corporate tax that both Democrats and Republicans recognize that the U.S. needs to be more competitive on that front. On a different topic under the tax umbrella, certainly is an issue that is near and dear to our organization's heart, particularly our chairman, and certainly, other U.S. domiciled companies. And the question will be, are the planets and the stars going to completely line up where we are not only going to have corporate tax reform in this country, but in fact some of the situations, and our attorneys cringe when I say this, loopholes that were created that offshore companies benefit from, whether the ability to reinsure your own business from your domestic or U.S. affiliate to a foreign affiliate, whether that loophole will be closed off.

I think it's important to highlight, because it has been mischaracterized by some. We as an organization, and I believe others in the industry that are based in this country that take issue with this disconnect. We have no issue with any foreign jurisdiction. We have no issue whatsoever with any foreign-based company. Our issue is that Washington, D.C. has -- quite frankly, there was an oversight or an inadvertent mistake, and they unfortunately, through an extended period of time, have not been willing to address it.

So I guess, long story short, before I hand it over to Rich, 101% is the combined for the quarter, not what we strive for, certainly not what we target. But in light of the circumstances, certainly on a relative basis, we think it's not a bad outcome. In addition to that, it's unclear ultimately as to how the market is going to respond to the recent events, particularly in the third quarter, which has spilled over into the fourth quarter, again, with the California wildfires. Having said that, we are in position to take advantage of whatever market opportunity comes our way. We are of the view that we are there to provide service and capacity to customers at what we believe is a responsible rate and responsible form. So we have the platform, we have the people, we have the capital, so as the opportunities present themselves, we are well positioned to take --

[Audio Gap]

Refer to Rich. He is going to zip through the numbers, and then we will open it up for Q&A and a couple of last sound bites from me at the tail end. Rich?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Thanks, Rob. Appreciate it. We reported net -- net income of $162 million or $1.26 per share compared with the year-ago quarter of $221 million or $1.72 per share. The most significant difference between the comparable periods is the cat losses, as Rob alluded to, in the current quarter, resulting from several events impacting both the insurance and the reinsurance industry.

During the third quarter of 2017, we saw 3 Category 4 hurricanes make landfall in the U.S. and Caribbean as well as 2 earthquakes in Mexico. The industry has not experienced this degree of catastrophic events in over a decade. Despite the infrequency of severe events, we've continued to effectively manage our cat exposure and accordingly, have reported a low amount of cat losses on both an absolute basis and as a percentage of earnings or capital relative to most industry participants. These cat losses were very much within our expectations for such events. Consequently, our underwriting performance was adversely impacted by the accumulation of approximately $107 million of cat losses from these events on a pretax basis.

In addition, we had approximately $12 million of other pretax cat losses in the quarter. In total, cat losses impacted our results by 7.5 loss ratio points in the quarter or $0.60 per share after-tax. Continuing with our total return Investment strategy, we recognized significant pretax investment gains in the quarter of $184 million or $177 million after considering related operating costs and expenses, including performance-based compensatory costs. Much of this investment gain was not previously reflected in stockholders' equity.

To be more specific, the preannounced sale of a real estate investment in Washington, D.C. giving rise to a pretax gain of $124 million was not marked to fair value in our financial statements under the accounting rule. The sale of the investment triggered the recognition of fair value. Our current accident year underwriting results before cat losses were unchanged from the prior year, even as market conditions remain competitive. We have managed our risk selection and exposures based on areas in the market where we can achieve attractive risk-adjusted returns. Total net premiums written declined 2.3% to approximately $1.57 billion, driven primarily by a decrease in the Reinsurance segment. This decline continues to be attributed to the North American profit and casualty treaty reinsurance business.

Our reinsurance segment decreased $25 million to $139 million in the quarter. The insurance segment experienced a small decline in net premiums written of 0.8%, which was largely attributable to the exit of a few lines of business, certain operating units due to the inadequate opportunities to achieve targeted risk-adjusted returns. The accident year loss ratio before cats was 61.3% compared with 60.9% a year ago. Most of the difference relates to noncat weather-related losses. As previously mentioned, the increase in cat losses was primarily from Hurricanes Harvey, Irma and Maria, along with the 2 Mexican earthquakes, which represented 6.7 loss points in the current quarter over the prior year. Prior year loss reserves developed favorably by $7 million or 0.4 loss points compared with $13 million or 0.8 loss points for the same period last year. Accordingly, our reported loss ratio for the current quarter was 68.4% compared with 60.9% a year ago. The expense ratio decreased 40 basis points from the year-ago quarter and 1% from the consecutive quarter. The current quarter's expense ratio was favorably impacted by the reduction in commission expense relative to the change in net premiums earned. The commission expense has primarily declined as a result of the withdrawal from several of the structures and property transactions, which had high ceding commission, sliding scale commission income due to higher losses on assumed property business, and finally, lower contingent commissions payable to our distribution partners resulting from increased loss activity.

This reduction was partially offset by increased compensation expense, which includes the operating units recently added to the insurance segment. We anticipate the expense ratio will increase in the fourth quarter, as the commission expense stabilizes and the potential inclusion of the high net worth business in the insurance segment rather than in the corporate operating expenses.

This brings our combined ratio to 101% for the current quarter, compared with 93.9% for the third quarter of 2016. The core portfolio investment income increased $9 million compared to a year ago, led by fixed income securities with an annualized yield of 3.4% as well as real estate income.

Investment funds declined $10 million due to mark-to-market adjustments for energy funds. We highlighted the potential variability that may arise in the fund performance on a quarterly basis. Energy prices continue to be below last year's levels, and we anticipate the energy funds' performance in the fourth quarter of 2017 may approximate this quarter's energy funds results.

On non-insurance business earnings -- our noninsurance business earnings increased in the current quarter compared to the prior year. This is attributable to the inclusion of a textile solutions business we acquired earlier this year and the comparability of the aviation business, reflecting the sale of Aero Precision Industries period-over-period. Corporate operating expenses increased from the same quarter a year ago and slightly increased from the consecutive quarter, primarily reflecting our investment in new business opportunities like our high net worth business. We expect the high net worth operation to begin underwriting business in the fourth quarter. When we move the business to the insurance segment, these expenses will be reflected in the underwriting expense ratio.

The effective tax rate was 28% for the quarter. There are 2 elements impacting the rate this quarter. First, the realized investment gains, which increased the rate above normalized levels due to its disproportionate contribution at a 35% rate. And second, the benefit from equity-based compensation that reduced our effective tax rate. A change to the accounting rules that occurred in January 2017 caused the increase in the value of equity-based compensation to be reflected as a reduction to income tax expense rather than additional paid-in capital. Since the predominance of our equity-based compensation vests in August, you may see a lower effective tax rate in each of our prospective third quarter results reflecting this potential tax benefit. At September 30, 2017, after-tax unrealized investment gains were $454 million, an increase of $27 million from the beginning of the year. The average rating was unchanged at AA-, and the average duration for fixed income maturities, including cash and cash equivalents, decreased to 2.9 years compared to 3 years last quarter. Our return on equity for the quarter on an annualized basis was 12.8% on net income basis and 17.9% on a pre-tax earnings basis. Book value per share increased $1.01 to $44.60 in the quarter, representing an annualized increase of 9.3%. And finally, we purchased approximately 441,000 shares in the quarter at an average price per share of $64.33. Thanks, Rob.

William Robert Berkley
CEO, President & Director
Rich, thank you very much. Skyler, okay, we're going to pause on our ends here, and we would appreciate if you could open it up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Thank you so much for disclosing the [indiscernible] your commodity showed in the press release. That saved us a question on the reserve releases. So on that topic, you mentioned increased severity in casualty and professionalized, and could you discuss what's the reason behind it and are you sort of like slow the pace of reserve releases and also increase your -- be more conservative in your initial aspect in these lines?

William Robert Berkley
CEO, President & Director

So I wouldn't want you to read too much into this. So what we are seeing, and we've commented on this in the past couple of quarters is, there have been some awards that are coming out of the courts. The numbers are somewhat insulated compared to what one has seen over the past few years. So we continue to be very comfortable with our reserves. We think that we are in a very good position. At the same time, given the nature of our business, we want to make sure that we have our head fully around that.

Kai Pan
Morgan Stanley, Research Division

Okay. And then my second question on the sort of like the pricing outlook. I hope you can discuss maybe more on 3 specific areas. Number one, on the property reinsurance, which you have reduced underwriting a lot over the year. At what price levels that you would be becoming more interested? Number two, you mentioned the casualty reinsurance is equally impaired. I don't know what exactly you mean by that. And number three, is in your insurance business, you see growth opportunity in select areas. Can you expand on that?

William Robert Berkley
CEO, President & Director

Sure. So let me try and take those in order. So on the property cat front, the answer is considerably more than the market will bear today, and that's why you see us shrinking.

As far as the broader commentary about the reinsurance market around the casualty and professional, I think the reality is the reinsurance market, while the issue started some years ago in the property cat is spilled over into, as we've commented in the past, in the -- to the casualty and professional market. I think the pricing in those parts of the market have been challenging, to say the least. And I think for those that have not been cautious over the past couple of years are likely to be in for a rude awakening. I think the difference is, property cat, the wind blows or the earth shakes and it comes into focus very quickly as opposed to the casualty and the professional lines that takes time for that to come through. The problem with that is, it allows people to make mistakes for a more extended period of time, which then compounds the problem. As far as where we think the opportunities are in the insurance market, I don't think it's in the best interest of the people that we work for to get granular as to where our best margins are. I would suggest that if you have a look at Page 6 of our release, it gives you a sense as to where we are growing. So I think that clearly the insurance market and for that matter, I would define the specialty insurance market is a better place to be today, as it has been for the past few years than the reinsurance market. We'll have to see whether that's the case in the future.

Operator

Our next question comes from Arash Soleimani with KBW.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

So you had mentioned in terms of the building in D.C. was not recognized. It wasn't mark-to-market on the balance sheet. Can you remind us, as of the end of the third quarter, what the magnitude of gains is on your balance sheet that are not actually mark-to-market?

William Robert Berkley
Founder and Executive Chairman

Hi, this is Bill. We actually don't try. We don't try and mark everything to market to a quarterly date. What we'd said was we carried that building at cost and it was amongst the list of assets that we went through in a general sense to get people to understand why we valued our assets more highly than the marketplace or the balance sheet stated them to be. And therefore, we have a number of other buildings, we have other things just no different than our ownership in HealthEquity was suddenly mark-to-market when we owned less than 20%, because we no longer equity-accounted because at one point we owned a lot more than 20%. We were trying to get people to understand that difference. But it's not really something that we're going to try and do on a quarter-to-quarter basis and mark everything we own to market, so everybody can try and keep that track. We continue to have substantial assets that are carried very far under the fair market value if we were to sell them, and we expect that it will continue to generate realized gains. Or as we have said, we would expect that we'll have more than $100 million a year for the foreseeable future as we sell some of these assets and create, hopefully, additional investments to give us realized gains.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And that $100 million per quarter that you mentioned, is that...

William Robert Berkley
Founder and Executive Chairman

No, no, no, I didn't say quarter, I said $25 [indiscernible], $100 million a year.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Sorry, that's what I meant. My apologies. I meant, will that largely stem from items that are not mark-to-market such that the value basically becomes unlocked and [indiscernible]

William Robert Berkley
Founder and Executive Chairman

I can't give you an answer to that. It's going to come from various things. Because HealthEquity was not mark-to-market. Now, it's mark-to-market. Some of the gains will come if and when we sell shares in HealthEquity. They will be coming from various things. We have a fairly wide array of things that we own, and it will be a mixture of those things.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Sure, sure. And I think you mentioned the wildfires on the -- in your prepared remarks. Is there any kind of sense you can provide as to what the potential exposure may be?

William Robert Berkley
CEO, President & Director

Honestly, at this stage, I think it would be premature for us to even speculate as to what our exposure is. Having said that, given -- when we look at on maps where our rooftops are, we don't view this as being an earth-shattering event for us at all.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That makes sense. And then just the last question I had was. In terms of the realized gains, I don't think in the release you provided the after-tax realized. But can we just basically multiply by 35% and back that out? Is there any reason why it would be greater than that?

Richard M. Baio
Chief Financial Officer, Senior Vice President and Treasurer

Yes, that's correct.

Operator

Our next question comes from Jay Cohen with Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. I guess first, go back to one of Kai's questions. On your view of reserves, which really [puts with] how you've managed the business for a long time. And based on your commentary, is it safe for us to assume that the positive development we've seen over the past several years, probably comes down a bit going forward as well as it did in this quarter?

William Robert Berkley
CEO, President & Director

I would not -- I would think that, that is a leap that I would not make. I think we look at our reserves on a quarterly basis. I will tell you that we are focused on erring on the side of caution. And when we pick our lost pics, initially we err on the side of caution and as they season out, we then tighten them up. But no, I would not read into the comment or the number or assume that, that is trying to lead you in a direction that this is the new norm, one way or the other. I think that we are...

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's helpful. Yes, on the high net worth business, just really for modeling purposes. Can you give us a sense of what the operating expenses are, which will have to shift from one bucket to another?

William Robert Berkley
CEO, President & Director

I would -- at this stage, I would pencil in $5 million a quarter.

Operator

Our next question comes from Larry Greenberg with Janney.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

My questions have all been hit really, but just a follow-up on California. Would kind of nonthreatening loss maps, would that apply to the reinsurance business as well?

William Robert Berkley
CEO, President & Director

I'm sorry, the nonthreatening loss maps? When we look at our [indiscernible] on a map, it's to the best of our ability and, of course, we have loss ratio caps and things like that with much of the reinsurance that we write to. So again, from our perspective, while it's likely that this is going to be a $5 billion to $10 billion event for the industry, we think we will be notably underweighted as usual.

Lawrence David Greenberg

Janney Montgomery Scott LLC, Research Division

Great. And then just on taxes. I mean, have you seen anything recently on the foreign tax issue that gives you more or less confidence that will be addressed?

William Robert Berkley
CEO, President & Director

Well, I'll offer a quick comment and then I'll turn it over to my boss who is more in touch. I think the recent announcement of an inversion in our industry has gotten the attention of many, including one Mr. Paul Ryan. And he has -- or I don't know, his office has publicly expressed a view about that inversion and just the overall ability to do that. And actually they offered some comments beyond that as well. But I'll pause there and leave it to you.

William Robert Berkley
Founder and Executive Chairman

I think that we should understand that our argument is, it makes no sense for a company that's based in Dublin or Bermuda or the Cayman Islands to write the same business that originates from the United States, and a company based in Hartford or Greenwich or Des Moines or Dallas to write that same business and us to pay -- us domestic companies to pay full taxes, and those companies to pay little or no taxes. It was never the intention of tax writers. It was an oversight, not a plan. The argument the international companies put forth is we need that capacity. They are not here because they are offering capacity. They are here to make money. At some point, people in Washington realized they are not offering their capacity to be nice. They are offering their capacity to make money. They compete with us every day. Nothing will change when the tax laws change. I think the people in Washington are seeing it, and they're seeing the same thing in reverse happening to many of our technology companies in Europe, where Europeans are saying, "You got to pay tax here to get businesses here." So I think you're seeing it now. The same ideas are expanding in many industries. So I think that the tax writers in Washington are recognizing. It makes no sense if the business originates here, you should pay tax on a business that originates here, I think. We're getting a much more positive view about it having seen Chubb, which was one of our leading partners, effectively merge with an offshore company and get the benefits of that substantially lower tax rate. And now just last week, Assurant doing the same thing effectively in an inversion. They are watching billions of dollars leave the country.

Operator

Our next question comes from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Robert, I was hoping to go back to your opening comment about some of the parts not equaling the whole and it seems as if maybe half the losses or maybe more are missing. And you laid out what the possibilities could be, and I agree with those. I guess I wanted to ask you sort of the next part, which is what happens next. If this really is only 50, maybe 60, and not 100, how much does that dampen the pricing momentum? And if, let's say, it is 100 in everyone's lake -- we're used to seeing adverse development on these type of events but not by 2x. So it seems a little fishy, I guess, if that's really the case. But it feels a little bit like people are trying to have their cake and eat it, too. Report lower losses and still get pricing, and you didn't really think things worked that way.

William Robert Berkley
CEO, President & Director

Yes, honestly, it's hard for us to comment on what's going on in other organizations. We're no different than presumably others on the call today. We do the simple math based on public information and when the pieces aren't adding up, it kind of makes you pause. I don't know how people are thinking about it. I would be surprised if it turned out that the industry loss during the quarter was so much lower that somehow all of a sudden that was the variable that wasn't making sense. But again, I can't comment on other people. What I can tell you is in our case, we are carrying a very large amount of IBNR relative to case, as it relates to storms. And that again is just in keeping with our philosophy around claims and erring on the side of caution early on and tightening it up over time. But there certainly is evidence that would beg the question whether that is the approach that others are taking. I guess, there is also the possibility that there are some large participants that haven't announced a number yet, but even if you take that handful and you apply a big number to them, it doesn't fill the gap or anything close to it

So the short answer is, I don't know, but I think at some point something's going to have to give and it's going to come into focus. And in the meantime, I think as people may recognize the pain over time that may not be a bad thing from the perspective of a hardening market, because it's going to be a slow drip of pain, it's not just a quick shot. If you recall back after Andrew years and years ago, you saw a quick spike and then it started to erode quickly. Maybe that won't be the case here.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And do you have a view on Maria, because that's the one that, obviously, the modeling firms are way off on and for the people who have put out 5 storm estimates, it seems people are coming out losses on Maria less than the first 2. And I guess, personally that surprised me. I thought maybe Maria would have been higher. I don't know if you agree with that.

William Robert Berkley
Founder and Executive Chairman

Look, I'm not going to speculate as to what we think the industry loss is. I think anyone who pays attention like I am sure you are doing and others on the phone do, you look at the level of destruction and you hear the stories. And then you try and dial it down for the media component that tends to sensationalize things, it is still a horrific situation at best. I think that the scale of the loss, I think, we'll have to see with time. I think that there are a lot of questions around Maria, I think there are lot of questions around mortgage exposure in general. I think the mortgage insurance industry, I do not know what their exposure is to Puerto Rico, but certainly, their exposure to Texas is very material. I do not know how the movie plays out if you sort of roll it forward and you have someone who has a house worth $100,000 or so, and they did not have flood insurance, the house is trashed and they do not have enough money, because they don't have flood insurance to rebuild the house. I do not know what that means when all of a sudden they go back to the bank and hand them the keys. So there are a lot of questions and really quite frankly, there are no answers at this stage. I think the other big wildcard as we've talked about, stemming from these storms is business interruption, and it tends to be one that people tend to overlook. People tend to think of when there is a catastrophe solely on the property loss or what happened to the structure, but the BI is not something that some -- that folks should underestimate.

Ian Gutterman
Balyasny Asset Management L.P.

Absolutely, absolutely. And then as far as, specifically, your losses. Can give us some sort of sense on the insurance side? Are you into your reinsurance treaty? Do you still have if we saw loss develop...

William Robert Berkley
Founder and Executive Chairman

We are not -- we are very comfortable as to our numbers, as I suggested earlier. And in addition to that, if there was an unforeseen event between now and our renewals, we are as comfortable today as we were before these series of events.

Ian Gutterman
Balyasny Asset Management L.P.

Are you -- I guess...

William Robert Berkley
CEO, President & Director

I'm trying to answer your question by answering [indiscernible] your question.

Ian Gutterman
Balyasny Asset Management L.P.

No, no. I'm going to ask a slightly different question, which is about when you get to your reinsurance renewal, I mean, obviously, if you toasted your tree, that's a different issue and then we can punt on the question. But if you're sort of -- a lot of companies are suggesting they are slightly into their treaties. If you're sort of in a similar position, I assume if someone comes to you and tries to push up a big rate increase, the obvious response is, we didn't hit you that hard. Is that fair or is that not the conversation? Is it more understanding given the market losses?

William Robert Berkley
CEO, President & Director

Sorry, can you repeat the question?

Ian Gutterman
Balyasny Asset Management L.P.

Just on your outbound program, right. When your reinsurers come to you and say we want a healthy double-digit percent rate increase, I assume the natural response to that is, we didn't hit you as hard as other guys hit you, so why are you asking us for it?

William Robert Berkley
CEO, President & Director

I'd say that ultimately our reinsurers have supported us for an extended period of time, and our view is that they should acknowledge or recognize our results and how we have served them well by protecting their capital just like we protect our own, and that's demonstrated by the results.

Ian Gutterman
Balyasny Asset Management L.P.

And just real quick and then I'll hop off. Your reinsurance side, can you just -- the reinsurance is a little higher than I was modeling. I guess --the total, I guess, I had the right, but I just had the segments off. Was there anything specific on the reinsurance? Was it mostly from cat treaties? Was it per risk or [indiscernible] or anything that kind of stood out that you can call out?

William Robert Berkley
CEO, President & Director

As far as our loss activity?

Ian Gutterman
Balyasny Asset Management L.P.

Yes, the storm losses on the reinsurance segment?

William Robert Berkley
CEO, President & Director

Yes, honestly, it was give or take in line with our expectations.

Okay. Unfortunately, it would seem as though the fire alarm is going off in our building. And as a result of that, we are going to have to cut the call a little bit short. So please accept our apologies. Obviously, if you have further questions, by all means, feel free to reach out to Karen, to Rich, myself, and we'll be pleased to answer those questions. And again, from our perspective on a relative basis, we think the results were pretty good given the circumstances. And finally, we are well positioned if the market conditions change as we think they might, to take full advantage of it. Thank you, again, for calling in. Bye, bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.