S&P Global
Market Intelligence

W. R. Berkley Corporation NYSE:WRB

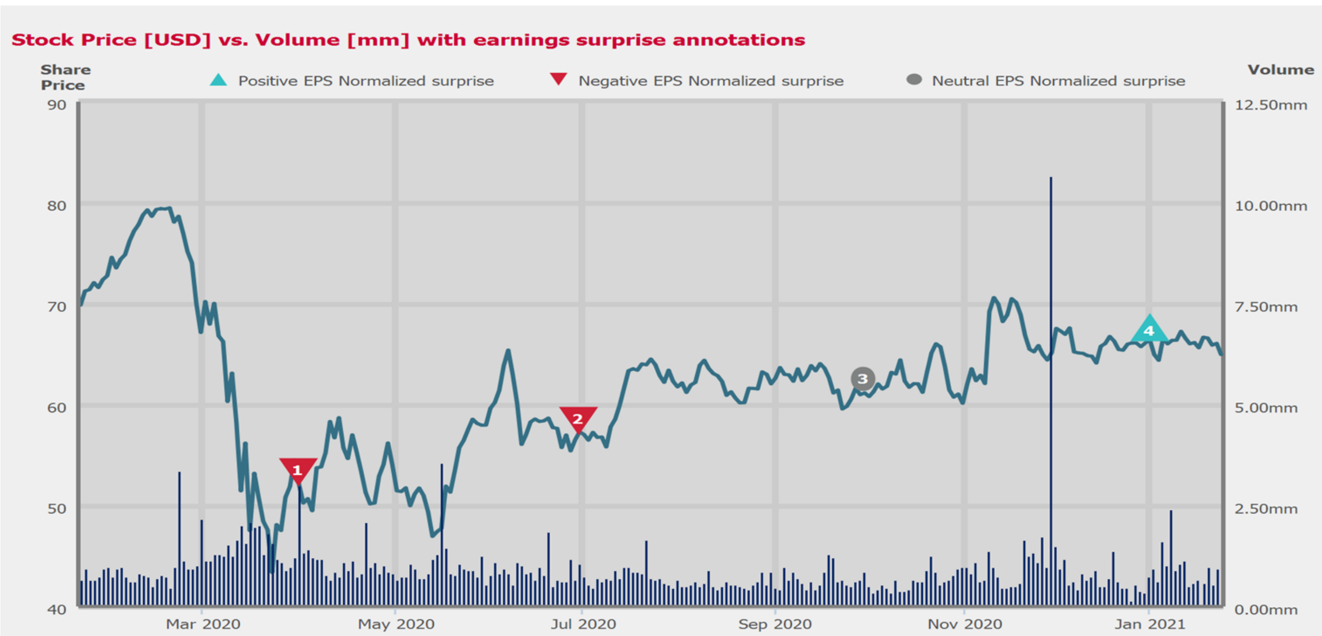
FQ4 2020 Earnings Call Transcripts

Tuesday, January 26, 2021 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.78	0.92	16.46	0.89	2.18	2.32	6.42	3.48
Revenue (mm)	1801.89	1813.59	0.65	1831.67	6913.48	6930.84	0.25	7539.24

Currency: USD
Consensus as of Jan-27-2021 5:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	0.73	0.69	1 (5.48 %)
FQ2 2020	0.09	0.06	2 (33.33 %)
FQ3 2020	0.65	0.65	3 0.00 %
FQ4 2020	0.78	0.92	4 16.46 %

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Call Participants

EXECUTIVES

Richard Mark Baio
Executive VP, CFO & Treasurer

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

William R. Berkley;Executive Chairman of the Board

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Good day and welcome to W. R. Berkley Corporation Fourth Quarter 2020 Earnings Conference 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 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, 2019, 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

Christine, thank you very much, and welcome all to our fourth quarter call. I think we are well on our way to our safe harbor statement being the longest component of our call, but perhaps that's just a reflection of the -- a sign of the times.

On the call, in addition to me, you also have Bill Berkley, Executive Chairman; as well as Rich Baio, Executive Vice President and Chief Financial Officer. We're going to follow a similar agenda to what we have in the past, where Rich is going to lead us through some highlights for the quarter. I will follow with a couple of observations on my end, and then we will open it up for Q&A, and the 3 of us are available to answer your questions to the best of our ability.

So with that, Rich, do you want to lead off, please?

Richard Mark Baio
Executive VP, CFO & Treasurer

Absolutely. Thanks, Rob. Good evening, everyone. The company reported record quarterly net income of $312 million or $1.67 per share. Despite the heightened catastrophes experienced by the industry and slowdown in the economic environment due to global pandemic, our financials significantly improved in the quarter. This improvement was evidenced in our current accident year combined ratio ex cats of 88.8% and strong investment income and net investment gains, which contributed to an annualized quarterly return on equity of 20.6%.

Starting first with our top line. Growth in our gross premiums written accelerated through the year with fourth quarter representing growth of 9.3%. Similarly, net premiums written grew by 8.2% to approximately $1.8 billion in the quarter. All lines of business grew in the insurance segment with the exception of workers' compensation, increasing net premiums written by 7.2% to approximately $1.6 billion.

Professional liability led this growth with 29.6%, followed by commercial auto of 20.6%, other liability of 10.6% and short-tail lines of 2%.

Growth in the Reinsurance & Monoline Excess segment was 16.8%, bringing net premiums written to $205 million. Casualty reinsurance led this growth with 21.2%, followed by 9.3% in property reinsurance and 6% in monoline excess. Rate improvement, along with lower claims frequency and noncat property losses contributed to our improvement in underwriting income of 44.2% to $165 million. Offsetting this improvement were higher catastrophe losses resulting from natural cats and COVID-19-related losses. We recognized $42 million of total catastrophe losses in the quarter or 2.3 loss ratio points, of which, 1.5 loss ratio points relates to COVID-19. You will see in our earnings release supplemental information that the cat losses for the Reinsurance & Monoline Excess segment is negative due to a reclass of COVID-19 IBNR to the insurance segment.

The current quarter's natural cat losses compare favorably with the prior year quarter of $20 million or 1.2 loss ratio points. The reported loss ratio was 61.3% in the current quarter compared with 62.4% in 2019. Prior year loss reserves developed favorably by $4 million or 0.2 loss ratio points in the current quarter. Accordingly, our current accident year loss ratio, excluding catastrophes, was 59.2% compared with 61.4% a year ago. Rounding out the combined ratio, we benefited from an improving expense ratio of 1.3 points to 29.6%. We continue to benefit from growth in net premiums earned at 5.6%, which outpaced an increase in underwriting expenses of 1.2%.

In addition, the expense ratio is benefiting from reduced costs impacted by the global pandemic, including travel and entertainment. This contributes a benefit of more than 50 basis points to the expense ratio.

Touching on investments. Net investment income for the quarter increased 32% to approximately $181 million. The increase was driven by investment fund income of $53 million due to market value adjustments and arbitrage trading income of $26 million, in large part coming from investments in special purpose acquisition companies. Investment income from the fixed maturity portfolio declined due to lower reinvestment yields compared with the roll-off of securities due to maturities, calls and pay downs. In addition, we continue to maintain a cash and cash equivalent position of approximately $2.4 billion, enabling us to maintain a relatively short duration of 2.4 years and significant liquidity. Pretax net investment gains in the quarter of $163 million is primarily attributable to realized gains of $127 million and changes in unrealized gains on equity securities of $36 million.

As previously announced, the realized gain was largely driven by the sale of a real estate investment in New York City, which resulted in a gain of $105 million. Foreign currency losses in the quarter were driven by the weakening U.S. dollar. Two items of note: first, you'll see that on a year-to-date basis, we were about breakeven; second, the loss in the quarterly income statement is offset considerably by the increase in stockholders' equity.

In the quarter, our unrealized currency translation loss improved by $66 million, resulting in a net equity pickup of approximately $47 million. As a reminder, expenses included a nonrecurring cost of $8.4 million relating to the redemption of our $350 million subordinated debentures in the quarter. Stockholders' equity increased 5.3% in the quarter, and book value per share before share repurchases and dividends increased 6.1%. We ended the year with more than $6.3 billion in stockholders' equity after share repurchases of approximately 6.4 million shares for $346 million at an average price per share of $54.43 and ordinary dividends totaling $84 million. That brings total return to shareholders of $430 million in the year.

Finally, the company had strong cash flow from operations in the quarter of $480 million, and more than $1.6 billion for the full year, an increase of more than 41%.

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

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

Okay. Rich, thank you very much. Very complete, you leave me nothing to say, but I'll come up with something to babble on about for a relatively brief amount of time. So from my perspective, and I believe from our perspective, the market is clearly in the throes of firming. When we look at the marketplace, is it what we saw, at least at this stage, in '86? No, clearly not. There is not a vacuum when it comes to capacity. But clearly, there is a recognition within the industry amongst carriers that capacity is not going to be built out in such a casual manner as it has been done in the past. And when it is provided, it will be with a lens towards a more appropriate rate associated with that. When we look at the marketplace over all, we think this is very appropriate. And whether it will prove to be similar to what we saw in sort of late 2001 and into 2002 and '03, we'll only see with time, but the reality is no cycle looks like any other cycle.

All that being said, when we look at Q4 and when we think about our own business, every product line at this stage with the exception of workers' compensation, we believe, is achieving rate in excess of loss costs And quite frankly, that is appropriate and necessary. When you think about where trend is and in addition to that, when you think about the realities of what one can expect from the investment income portfolio, particularly around the fixed income, we do need to be pushing full rate and driving down the combined ratio further in order to achieve a sensible risk-adjusted return.

[indiscernible] different product lines to go. At this stage, we are seeing meaningful firming continuing in the much of PL market, also, the excess and umbrella market is quite firm as well. Property continues to be notably hard, and auto, I would suggest, is also quite firm. One of the laggards has been primary GL, and we've been pleased to see over the past couple of quarters, it seems to be building some momentum. And we think that's really important given what's going on, on the social inflation front and again as well as the realities of investment income. And as mentioned in prior calls and just a couple of moments ago, workers' comp does continue to be the outlier. Having said that, we continue to believe that's in the early stages of bottoming out and would expect that to be reversing direction by the end of -- or later part or end of -- '21, excuse me.

Just on the topic of rate. From our perspective, we think that there are many market participants that have a good deal of catching up to do. When we think about the past several years, there have been moments where, quite frankly, it's been a little bit lonely when we've been pushing for rate. As you may have picked up in the release, ex-comp, we got 15.5-ish points of rate in the quarter. If you go back a year earlier to Q4 '19, we were getting just shy of 9 points of rate; Q4 '18, 4 points of rate; Q4 '17, 2.3; Q4 '16, we got one point of rate. We think that there are many parts -- market participants that have not been pushing for rate for an extended period of time. And again, we are going to see them needing to catch up, and they are going to need to catch a moving target.

One other comment that I would just make on this front related to rate and loss costs and how people think about rate adequacy. It would appear as though there are some market participants that may be thinking about loss costs slightly differently than how we think about loss costs. When we look at the current circumstance, I think it's very clear that severity is on the rise for much of the liability market.

And recently, as a result of COVID-19, there are certainly many parts of the market that have experienced somewhat of a benign period when it comes to frequency. And our observation is that some may be in for a little bit of a rude awakening hopefully, sooner rather than later when COVID is somewhat behind us, we see frequency return to a more traditional normal, and that severity trend continues to take off like a rocket ship for the foreseeable future as we've been discussing.

Turning to our quarter. As Rich referenced, pretty healthy growth on the top line, the gross was up about 9%, the net was up about 8%. And obviously, the rate increase that we mentioned earlier is a big contributor to that. We've gotten the question from time to time, from our folks just saying, "Hey, help me do the math. So you're getting 15 points of rate in this quarter or so, but you're only growing a smaller amount. What's going on? Are you shrinking your business from an exposure perspective?" And the answer to the question is yes and no. What I mean by that is our policy count is actually up a bit. But what's actually going on is that our insurers, while we may be selling more policies, and that number is growing, many of the insurers' business activity and -- particularly measured in their revenue, which we place the policies off of, is down as a result of this economic activity in the industry.

So when we look at the situation, here's sort of the short version. Policy count is up a little bit, rate is up, but the number -- the amount of revenue or number of widgets, if you will, that our insurers are producing is down. So what does that mean? That means that we are reasonably well positioned for growth when the economy starts to open back up, and you will see in all likelihood, from my perspective, a notable catch-up in audit premiums as the revenue begins to pick up even with those policies that we've already issued because, again, there is a catch-up in our audit activities.

Just a couple of other things quickly on the expense ratio. Again, Rich covered this pretty thoroughly. I would just offer a couple of quick [indiscernible]. One, the 15 basis point benefit, if you will, that the expense ratio is getting as a result of the reduction of activity on our end with travel and entertainment and so on that will one of these days come back. But we are actively looking at what does return to work look like for us. We certainly expect that people will be back in the office, but will the travel be the same, or were there opportunities to learn through this period of time where maybe travel will not have to return to what it once was? That all being said, the reality is that we envision the business growing considerably more and as the economy opens back up, and in addition to that, these higher rates, which will also contribute to the higher earned premium coming through will help out on that front.

On the loss ratio front, obviously, there was some improvement there. We also have heard some commentary from some really asking, "Given all the rate increases why are we not seeing more improvement in the loss ratio?" Short answer is that we're trying to be, as always, very measured and not declaring victory prematurely. As we've shared with some in the past, the simple reality is we do not know what the legal system is going to look like and what that is going to mean for loss cost activity once the economy opens back up and we see the legal system, particularly the courts, operating at more of a traditional level.

Having said all this, let me share with you just a quick observation. If one were hypothetically to look at our loss ratio that we had in 2020, and one were to apply a healthy level of trend, just to pick a number arbitrarily, a handful of points, and then one were to apply the type of rate increases earning through that we have been achieving, I think that gives you a reasonable indication as to what the math may look like.

One other piece that one could factor in, hypothetically speaking, would be it is perhaps reasonable to, a reasonable assumption I should say, that a pandemic will not happen every year, and obviously, there is significant loss associated with the pandemic in our 2020 numbers. So some might suggest that we're being a little bit optimistic, but quite frankly, when the day is all done, it's pretty simple, straightforward math.

Just on the investment portfolio, again, I'm not going to repeat what you already heard from Rich, but again, it was a strong quarter, both as far as the gains we have shared with people in the past that on the realized gain front, it's going to be lumpy. And quite frankly, our alternative returns are going to be lumpy.

Hence, going in, on average, give or take, $25 million a quarter is what we've suggested to people in the past. We still think that's appropriate, and there are going to be moments in time where it may feel like there's a bit of a drought, and there are going to be moments in time where it feels like it's raining money. But on average, we think we get great risk-adjusted returns.

And again, the same thing applies to the funds. As we have suggested to people, there are going to be moments when the funds do great. They're going to be moments where the funds are lagging a little bit. But on average, we've suggested that pencil in high teen probably $20 million a quarter.

Rich mentioned, and I know we talked about this last quarter, how the duration is sitting there at about 2.4 years. We continue to have a view that one does not get rewarded for taking the duration out or going out on the yield curve. When we look at -- when we do the math, when we look at the numbers, yes, we could take it -- the duration back out a bit, but the simple fact is that if you move rate up, call it, or model in 100 basis points or so, the impact on a quarterly basis, we will pick up after tax, give or take, maybe $5 million. But if you move rate up 100 basis points, the impact on book value will be approximately $160 million. So we are, at this stage, prepared to live with the slightly lower book yield and maintain the flexibility, the high quality and the liquidity, and we think that makes sense.

One last topic for me is Lifson Re. You may have picked up the announcement we made just in time for the [indiscernible]. This is a vehicle that we created to sit side by side with our traditional reinsurance partners. We remain very committed to traditional reinsurance, but we felt as though that this was a good platform to sit side by side.

We're very fortunate to have 2 outstanding partners in Lifson Re. And while there certainly are plenty of people to partner with, these 2 institutions, not only are financially well healed, but they are 2 organizations that are both thoughtful, sophisticated with tremendous expertise in the insurance industry, and they are truly partners.

In addition to that, it was very important to us that there is a shared view around the topic of risk-adjusted return and a shared sense of obligation and duty to capital.

So since people tend to unplug right after the Q&A, I'll just tuck-in my parting comments now. And that is while some might suggest that I sound a bit -- excuse me, optimistic. And some might even suggest that it is a genetic flaw of being overly optimistic. I think the simple reality of the situation is all you need to do is look at the facts and do the math. And if one were to go down that path and look at the facts and do the math, I think it paints a pretty clear picture for what the next several years look like for this organization.

So I'm going to pause there. And Christine, at this time, we would like to open it up for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Rob, first question, I saw in the release, you talked about the paid loss ratio being 51.9%. Do you guys have offhand what last year's was? Feels awfully good.

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

Rich, do you have that handy? If you don't -- Mike, can we just follow up with you? Or Rich, do you have it at your fingertips?

Richard Mark Baio
Executive VP, CFO & Treasurer

I do. The full year for 2019 was 55.2%.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Okay. So it's lower. And so I guess, Rob, you've -- you've been telling us pretty loud and clear that there's uncertainty about whether the recent frequency dip kind of comes back to normal levels in 2021, and severity has been a big part of the problem for the industry. Just curious, is severity, currently or in 2020, is severity also running at improved levels versus pre-pandemic?

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

No. At least from my perspective, and I'm using a very broad brush here. So there are going to be pockets that would not fit under this response. But generally speaking, when we look at 2020, we think severity continues to be an issue. This whole sort of topic of social inflation, we think, remains very real. And honestly, given how the courts were at best brought to a crawl during the COVID-19 period, I'm not sure if anyone really fully appreciates how ugly it is. But certainly, I think without a doubt, we can all assume that frequency has been for many product lines, remarkably benign during COVID-19. And once the world returns to a more traditional circumstance, you will see frequency return to a more historic level. Or there is certainly nothing to -- not to think it will.

Michael David Zaremski
Crédit Suisse AG, Research Division

And switching gears to one of your comments earlier about the top line growth lagging pricing. I guess I had thought one of the main reasons was when you were giving the pricing figure, it includes comp -- but it doesn't include comp, which is more flattish to negative pricing. But I guess my real question was, you talked about audit premiums potentially being a plus, hopefully, in '21. But any color you can give us on how audit premiums impacted Berkley's income statement in 2020?

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

I don't have those numbers, and can perhaps follow up with whatever we are able to share. But what I can tell you is this: For policies that were written during '19 that were providing coverage during 2020 or policies that were written early in '20, obviously, the expectation that many of those insurers had was that their revenue in all likelihood would be significantly above what it turned out to be when much of the economy shut down. And obviously, that had an impact on their revenue.

So what I'm suggesting is if you assume that at some point during 2021, the economy begins to more meaningfully open up in this country and other economies around the world, I think what you will see is when people go out to do audits, the economic activity was more than they had estimated for 2021, and there will be a lot of premium catch-up through the audit process. I.e., if I own a store and I buy a policy today, I'm probably estimating that my revenue is going to be considerably less perhaps than it was in 2019. But if the economy opens back up, my revenue, in all likelihood, will open -- will pick up considerably. And when the insurance company goes out and does an audit to see what your revenues were, you will owe the insurance company considerable premium. And there will be a catch-up.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful. And lastly, a numbers question, if you have it. The -- sorry, the COVID charges you've taken to adjust '20, what percentage is sitting in the IBNR bucket still?

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

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Sorry. The COVID-19 charges you've taken in 2020. What percentage are sitting in IBNR, roughly?

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

The total amount that we have put up, somewhere between 45% and 50% is still sitting in IBNR.

Operator

Your next question comes from the line of Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

My first question is around the severity trend. Rob, I just want to clarify on your comment that it continues to take off like a rocket ship after COVID. Are you expecting further deterioration in the trend once COVID normalizes?

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

It is my view that social inflation is a moving target, and that it continues to tick along. And I think that there are some people that have underestimated that. And we have worked very hard as an organization not to get caught behind. But -- so my view is that -- when I say a rocket ship, I think that there are a lot of people that were disproportionately consumed by what was a benign period for many, many years, and it really wasn't until maybe the past 3 -- 2, 3 years or so that we started to see it really rear its head.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

But it's not necessary that this trend gets worse. It's just that others may have been slow to wake up to this realization?

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

I think the others may be slow to wake up to it. And I think in addition to that, that it continues and you get a compounding effect. And if you haven't been keeping up with it, you will continue to fall farther behind.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Got it. And then my second question is, so for a company that has recognized this trend early and has also shown duration on the asset side, is there the opportunity to perhaps take the foot off of the rate pedal in order to take market share and what is potentially much more accretive business today, considering that you have recognized these trends already?

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

So we look at each product line by operating unit and try and strike the balance between rate versus growth. And there certainly are parts of the business where we are very satisfied with the margin, and we are actively growing policy count.

And then there are other parts of the business where given where rates have gone, workers' comp, as an example, where there are pockets of the workers' comp market, where we have no problem whatsoever shedding policy count.

Operator

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

Ryan James Tunis
Autonomous Research LLP

So I guess my question is just it looks like in the insurance segment, the past 3 quarters have been underlying loss ratio pretty steady kind of 59.5% to 60%. It doesn't look like we're really seeing that much positive margin impact from this relationship between rate and loss trend. I was just hoping maybe wanted to just quantify at this juncture how much is that dynamic, if at all, helping your margins on a quarterly basis?

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

I think that you -- when you say, well, how much of -- what dynamic is helping our margins on a quarterly, I just want to make sure I'm understanding.

Ryan James Tunis
Autonomous Research LLP

I'm sorry. I just mean -- so the relationship between earned rate exceeding loss trend [indiscernible] margins by how much this quarter relative to a year ago?

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

So I'm trying to think about how I can answer it. Our margins, we believe, the impact of rate increases will become more visible in 2021. I would suggest to you over the past several quarters, obviously, we have had an impact with COVID-19, as both Rich and I have discussed, and that has been disproportionately weighted towards the insurance segment. So I think if you talk about the insurance segment and you moved COVID-19 out, you might see it a little differently or if you looked at insurance segment accident year loss ratio ex cats, you might see a different picture, too.

Ryan James Tunis
Autonomous Research LLP

So Rob, in your mind, what impact has COVID had on the attritional loss ratio in insurance in 2020?

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

Well, when you say attritional loss ratio, we view COVID as a cat.

Ryan James Tunis
Autonomous Research LLP

Okay. I'm sorry. I meant how about on the ex cat loss ratio in terms of things in our direct losses, but whether it's lower frequency of various things versus...

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

Yes. As far as benefit stemming from COVID on the frequency front, we have been very reluctant to come off of our loss picks. Yes, maybe we've gotten a little bit of benefit on the physical damage front of auto. But other than that, we are thinking that one needs to be very cautious around reaching its conclusion on the frequency front. And the reason for that no one really knows for sure when COVID is behind us and the legal system opens back up, what the catch-up is going to be. So when you look at our loss ratios for the past couple of quarters in the insurance segment, you're seeing the impact of COVID as far as claims that we've had to deal with. But as far as the reduction in frequency, you're seeing a very modest recognition of that.

Sorry, it took so long to understand the question on my end.

Operator

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Rob, another one may be on, I guess, my question gets into the heart of your need for a continued rate versus the industry's. When you say some will be shocked with frequency and severity takes off, you won't be shocked and you've already contemplated, and you said a lot here with social inflation and your concerns, so you've already kind of built things in for that. Take that with the backdrop of [indiscernible] combined, appear to be your need for continued rate is significantly less than the industry's. And I guess that's the question. And if so, then I would assume that bodes well for competitive position for you going forward?

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

Yes. We share your observation that we think we are in a good place. And we have been pushing for rate for a while, which is one of the reasons why we probably have a little bit -- we don't have to catch up the way some others do. And as far as our positioning, we think we're in a good place because we don't have the kind of legacy issues that others may need to deal with. At the same time, we think our margins, not every place but in many places, are quite attractive.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Yes. I guess when I read your commentary in the press release, and you talked about a need for additional rate, I assume you're saying there more for your peers than for you? Is that it?

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

I think the marketplace needs additional rate, and certainly, to the extent that rate is available, we will be taking the rate.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's perfect. I guess, it's unrelated question. With the new administration in place, anything you want to share on how you might want to manage potential changes in tax with maybe something in Bermuda or whatever else? Anything you can share on how you think about managing that?

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

Obviously, we are conscious that the new administration is likely to be raising taxes in any way it possibly can. And corporate taxes are likely a piece of that. We are conscious of that and

trying to analyze it appropriately.

Operator

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

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

Rob, if we go back to your comments on the difference between rate and premium growth. You mentioned I guess that exposure units are down. Does that itself have any impact on your underwriting results?

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

So just to make sure that we're clear. What I'm suggesting is that the exposure units maybe down, if you will, but the number of policies is up and the rate is up. And does that have an impact on what -- so an impact on what?

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

So when you've got that decline in exposure units or a smaller increase, does that itself have any impact on any elements of the combined ratio?

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

Well, certainly, when we calculate our rate, we think about the number -- the exposure to come up with the rate that we are achieving, right? So it impacts how we think about our loss ratio.

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

Okay. Understood. The second question, I guess, now that we've gone through at least January 1, is it reasonable to expect growth in reinsurance, either for property casualty, to be in line with the growth that we saw in 2020? This is on the reinsurance side.

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

None of us know exactly what tomorrow will bring. I think there's clearly more discipline in the reinsurance marketplace than there has been in an extended period of time. Kudos to our colleagues that run our reinsurance businesses for exercising tremendous discipline, which came undoubtedly at great frustration and pain at times, but they did it and they did it very well.

And I think as long as we see an attractive market, that team will -- people will look to capitalize on it, and they will utilize the shareholders' capital when they think they can make a good risk-adjusted return. There is nothing that leads me to believe based on everything I know that the reinsurance market is going to lose momentum in the 2021 year. But again, no one knows for sure, but tomorrow will bring.

Operator

Your next question comes from the line of Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Sorry. I was on mute. A couple of follow-up questions, I guess. One, can you maybe talk about the sources of COVID losses this quarter?

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

The lion's share of our COVID loss activity as a group has stemmed from event cancellation. Not just this quarter, but from inception.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And this quarter specifically, I'm assuming that's from policies that had yet to be renewed in the COVID environment?

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

It is from exposures -- so it's a whole mismatch. But the biggest piece of what we saw in the quarter related to COVID was we are constantly looking at the exposure, and as we -- and one -- the big assessment is how long is it going to go on for, how severe is it going to be and to what extent are people going to come up with a plan B as opposed to having to cancel the event, if you will, altogether when it comes to event cancellation.

And what we did here, again, for the most part was we're spending a lot of time trying to look forward, think about how long do we see this going on for and what adjustments do we need to make to take that into account.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

And my second question, I know in the insurance segment, there's a bit of an increase in ceded premiums. Is that just a function of change in business mix? Or are you actually purchasing more reinsurance kind of dollar per dollar?

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

It's primarily a shift in business mix. And to a certain extent, some reinsurance pricing has gone up. I think one of the things you may likely see as the year goes on and quite frankly, reinsurance pricing is firming further, you may see us revisiting what our net retentions are and perhaps keeping more net.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Rob, quick question for you. So if I take a look back at kind of the 2000 through 2004 time period for you all, you had 24 points of this attritional, call it, combined ratio improvement and just as much on kind of reported. Can you maybe compare and contrast a little bit today's market versus back then granted, I understand, that rate is not as high as it was back then? But then again, loss trend is not as high as it was back then.

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

Yes. So my take on it. And then maybe our Chairman may have a view. But my take on it is it's not nearly -- it's ugly right now, and it may prove to be uglier than we even realized. But it's not in all likelihood as ugly as it was in '99, 2000 and 2001. And there is a general rule of thumb that the farther the pendulum swings in one direction, the farther it will swing back in the other. So I don't think we know for sure how much pain is going to come out of the cat's several years. I don't think that has fully come into focus for many industry participants, to be perfectly honest. But clearly so far, there are parts of the market that have firmed considerably, and there are opportunities, from our perspective, to make very healthy returns.

As it relates to our numbers, I think in the late '90s and sort of in 2000 and 2001, there were parts of our business that had maybe drifted a little farther off course. I think it is highly unlikely that you will see that type of circumstance rear its head again.

William R. Berkley;Executive Chairman of the Board

Brian, I think one of the things you need to remember, there's something else. And that is you're seeing companies report substantial reserve issues. And the market is just ignoring them. Back in the lats '90s, early 2000s, when people really had big reserve problems, their stocks and their ability to raise capital got really punished. And the cost of raising capital increased dramatically. So the availability of capital was quite different.

So I think that these things take their own lives. But I think, if I had to guess, that the results are worse than we're seeing in a number of cases. And the companies who've done a good job will continue to benefit, and the companies who have not will suffer more.

Operator

There are no further questions at this time. I'll turn the call back over to Mr. Rob Berkley.

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

Okay. Christine, thank you very much, and thank you to all for dialing in. I think by virtually any measure, it was a great quarter, and that's really a result of the efforts of the whole team, and that's thousands of people. So we thank them for their efforts on behalf of all stakeholders. And we think, again, we are very well positioned, and we look forward to the coming years. Have a good evening. Thank you.

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