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W. R. Berkley Corporation

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Earnings Call

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Call Participants

EXECUTIVES

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Executive VP & CFO

W. Robert Berkley, Jr.

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Executive Chairman of the Board

ANALYSTS

Andrew Scott Kligerman
TD Cowen, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

David Kenneth Motemaden
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Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

Mark Douglas Hughes
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Michael David Zaremski
BMO Capital Markets Equity Research

Robert Cox
Goldman Sachs Group, Inc., Research Division

Ryan James Tunis
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Barclays Bank PLC, Research Division

Presentation

Operator

Good day, and welcome to W.R. Berkley Corporation's Third Quarter 2024 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, 2023, 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.

Krista, thank you very much and echoing Krista's comments, a welcome to our Q3 call.

In addition to me on this end of the phone, you also have our Executive Chairman, Bill Berkley; and Chief Financial Officer, Rich Baio. We're going to follow a typical pattern, and that is Rich is shortly going to walk you through the highlights. I will then follow up with a few comments. And then, of course, we're very happy to open it up to Q&A and address any questions participants would have.

Before I hand it over to Rich, two points that I'd like to make. One, obviously, the third quarter and then more recently, even in the fourth quarter, there has been a significant amount of nat cat activity. And oftentimes on these calls or any industry discussions as we've flagged in the past, people start talking about estimates and models and numbers and those are all important and real to consider. That having been said, from our perspective, this has impacted countless people's lives, and that is not lost on us.

So while we are certainly focused on the numbers and the economics, my colleagues and I are also acutely aware of the challenges that many people in this country are facing as a result of this cat activity. Further, in addition to extending our concern to all those impacted, I'd like to thank our claims colleagues that are going above and beyond to ensure that we deliver on our promise to all of our policyholders that have been impacted by these events. So again, thinking of those impacted and sending thanks to those that are doing their job and making sure that we deliver on our promise.

The second topic I did want to flag and it really stems from a subject matter that has been getting greater attention more recently. And that is the growth in the specialty space and in particular, the E&S market. I don't think it's lost on any of us the pace of change in the world, how it seems to be accelerating. The level of complexity and risk continues to be on the rise. And certainly, there are many contributing factors, but amongst those contributing factors without a doubt be climate change as well as social inflation. Both of these items are playing an important role in having a meaningful impact on the insurance industry. And quite frankly, as these two items are impacting loss cost trend, I think much of the standard market and specifically the admitted market is having a difficult time pivoting. That is creating opportunity for, in particular, the non-admitted market.

One of the pinch points that is not discussed as actively in the commercial lines market space as it is in the personal lines market space is the challenges on the regulatory front. There are many insurance departments that are struggling from a staffing perspective. And also we -- in addition to that, we see the impact of politics creeping in as well.

So as we look at the circumstance and we see this pinch point on the regulatory front, we think that that is likely to continue. That is likely to continue to drive more business into the specialty and in particular, the E&S market. And by extension, we think that that is going to bode well for an organization such as ours with a particularly large footprint in the specialty space overall, and in particular, the E&S marketplace.

So with that as a bit of a backdrop, I'm going to pause there. And Rich, I'll hand it over to you, please.

Richard Mark Baio
Executive VP & CFO

Great. Thanks, Rob. Good evening, everyone.

Our record third quarter net income resulted in an increase of almost 10% over the prior year to $366 million, also contributing to a 9-month record net income of approximately $1.2 billion. We continue to generate outstanding returns on equity of 20% in the quarter and more than 21% year-to-date. Both strong underwriting and investment income contributed to our operating earnings of $374 million or $0.93 per share.

Despite the above-average catastrophic activity experienced by the industry, we've once again been able to demonstrate our careful and prudent underwriting discipline and in particular, stability in earnings. Our calendar year combined ratio was 90.9%, inclusive of 3.3 loss ratio points from several cat events and 87.6% on an accident year ex-cat basis.

During the quarter, there were 4 hurricanes that made landfall with Helene being the most destructive across several states and continuing SCS activity that contributed modestly to the total amount of cat losses. Our net premiums written grew above $3 billion for the second consecutive quarter and continues to benefit our record net premiums earned, which increased 10.8% over the prior year. Current accident year underwriting income, excluding cats, increased 13.4% to $362 million pretax, adjusted for cat losses of $98 million and prior year favorable development of $1 million. Our current accident year loss ratio ex-cat improved quarter-over-quarter by 0.5 point to 59.1% driven by business mix.

We continue to invest in the business to drive efficiencies and better experience for our customers, combined with new start-up operating units that we've announced before. The combination of these items, along with the changes in business mix and reinsurance structures have contributed to the increase in our expense ratio by 20 basis points to 28.5%. As previously communicated, we continue to believe that our expense ratio should remain comfortably below 30%.

Turning to investments. Pretax net investment income increased 20% to $324 million. Fixed maturity securities grew by more than $50 million with the Argentine inflation-linked securities normalizing to an amount commensurate with the prior year quarter. We do not anticipate much change on a prospective basis regarding these securities. However, do remind you that when modeling out 2025, you should factor in the elevated nonrecurring income in the first and second quarters of 2024.

Record operating cash flow in the quarter of $1.25 billion contributes to the record year-to-date cash flow of almost $2.9 billion. Combining the increase in investable assets with a new money rate that's higher than the roll-off book yield on our fixed maturity securities, we remain well positioned for further investment income growth. The credit quality of the investment portfolio remains at AA- and the duration is 2.4 years for the quarter.

Foreign currency losses in the quarter of $25 million related to the U.S. dollar weakening relative to most other currencies. As mentioned in the past, we actively manage our foreign currency exposure and you'll note an improvement in our currency translation adjustment in stockholders' equity, which offsets the amount in the income statement.

The effective tax rate remains elevated relative to the prior year and has been the case in the first half of the year due to the contribution of foreign earnings taxed at rates greater than the U.S. statutory rate of 21%. This quarter was 23%, and we expect the fourth quarter will likely revert to the high 23% to 24% area that we saw earlier in the year.

Stockholders' equity increased above $8 billion for the first time to more than $8.4 billion. Strong earnings of $366 million, coupled with an improvement in after-tax unrealized investment losses of $381 million and currency translation gains of $49 million fueled the increase. The company also returned total capital of $138 million, consisting of $95 million of special dividends, $31 million of regular dividends and $12.5 million of share repurchases at an average price per share of $52.30. Our total capitalization remained strong and our financial leverage ratio of 25.2% is at its lowest level in almost two decades. Book value per share before share repurchases and dividends grew 10% in the quarter and 20.1% year-to-date.

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

W. Robert Berkley, Jr.

Rich, thank you. That was great.

Let me just offer a couple of quick sound bites. I think Rich did a really thorough on job covering that. But couple of thoughts from me. One, on the rate, the rate ex comp for the quarter came in at 8.4%, a little additional context. Auto liability is leading the way and closely followed by excess and umbrella. As we've been talking about for some number of quarters, perhaps at this stage, it can even be measured in years, just the loss trend on the auto line is something that we have been focused on. We feel good about where we are. But assuming this trend continues, we're going to need these additional dollars to make sure that we're well positioned for claims getting settled tomorrow.

Rich obviously covered the loss ratio. I think 62.4% with 3.3-ish points of cats, not a bad outcome given the frequency of severity for those that are part of the [Bud 4] club, that's the 59.1%. That having been said, we've talked about this and talked about it, and I suspect we'll continue to talk about it. In our opinion, it's all about building book value with an eye towards risk-adjusted returns and the concept of backing out cash as if they don't exist you would have thought that would have run its course by now, given every year we seem to have cats as an industry. So again, from our perspective, when we measure the business, it is a 62.4%.

Rich also covered the expense ratio, just a couple of quick comments from me. One, at this stage, we have a couple of businesses that are not at scale but are in the process to scaling over time. I expect that as they grow, you're going to see the benefit of that increased earned premium, and that will enure to the overall benefit of the group's expense ratio. That having been said, we are actively making investments as you would expect on the technology and data front, in particular, and that's not cheap, but we believe we will get a good return on the investment as well. Obviously, Rich talked about mix of business, that can have an impact.

I think the other -- or the last piece that I would flag is the topic of reinsurance. By and large, we are a low limits player. So our need to buy reinsurance is not the same as many of our peers that are far more dependent on reinsurance. We have absolutely no problem with our reinsurance partners making a profit. In fact, we expect and respect their need to make a reasonable risk-adjusted return. But every now and then, if you find oneself in market conditions where people are looking to take a more aggressive position or even gouge, we have the optionality to change our approach to reinsurance buying, and that can impact the expense ratio as well.

Lastly, Rich, touched a lot on the FX piece and the various ways that it's impacting our P&L, but the punchline for me as far as FX goes, Rich, you'll correct me if I'm wrong, but it was about $0.05 to us on the per share.

Let me turn to investments for a moment, and I'm going to take a brief trip down memory lane. So I apologize in advance for that and thank all for indulging me. I think everyone recalls what was going on during the financial crisis, and then again, during COVID, there was massive amounts of economic stimulation rammed into the system. When we saw that occurring, we had a view that there was no way that you were not going to see some level of inflation following that activity. It took a while to come through, but it did come through and it came through in spades. Ultimately, the government took the action one would expect and interest rates moved up particularly on the short end. We found ourselves with an inverted yield curve. And we, as an organization were rewarded for the decision to keep our duration short. Our investment income increased dramatically over a relatively short period of time.

From our perspective, looking forward, it is likely, in our opinion, more likely than not, that yes, while inflation may be coming down, we don't think it is going to fall off a cliff. And our expectation is that short-term rates will come down, but they are perhaps not going to come down as quickly or as aggressively as some have suggested.

In addition to that, regardless of who you expect will be in the White House, there is no doubt if you take them at their word, which is a hard thing to do, but for purposes of conversation, if you take each candidate at their word, they are looking to grow the deficit by what would be measured by the trillions of dollars. So with that as a reality, from our perspective, it is inevitable that the federal government in this country, not dissimilar to other parts of the world, but certainly in this country will be growing its deficit and there is a real question about supply and demand for government debt going forward.

So what does this all mean? It means from our perspective, we think you're going to see the yield curve take more and more of a traditional shape. We think that that is going to create, as we've discussed in the past, an opportunity for us to be nudging out our duration and simultaneously our book yields picking up.

So speaking more specifically to our numbers today, as Rich mentioned earlier, the duration is sitting at 2.4 years. Our domestic book yield is 4.5%, our new money rate today on that is something north of 5%. We do not believe that we are going to have to give up much on that new money rate rather than what you will see is we will be taking that 2.4 duration and nudging it out. As a reminder, for us, if you look at the average life of our loss reserves, it is just inside of 4 years. So given that reality, we have a lot of room to take that duration out. And that, again, will allow us to maintain or actually improve the book yield from where it is today and, quite frankly, maintain that new money rate at levels that I was referring to earlier.

So let's get to the punch line, if we will, and then we'll turn the conversation to anywhere participants would like to take it. So what is the story? What is the, I guess, the punch line? The punchline is this: The business continues to grow, the rate increases that we're getting, we believe is keeping up with trend, actually probably exceeding trend. So all things being equal, our underwriting margin is likely to continue to improve.

In addition to that, when you look at the contribution of the other part of our economic model, that being the investment portfolio, the fact of the matter is our new money rate is and will likely remain above our current book yield. Our cash flow remains exceptionally strong, hence the portfolio is growing. And so what does that mean? That means investment income is going to continue to increase from here. So more underwriting income, more investment income is ultimately going to mean more earnings for the foreseeable future. And quite frankly, we think the business is as well positioned today as it has ever been. So let me pause there. Krista, we will ask you to please open it up for questions.

Question and Answer

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, just on the reserves, I think the movement was negligible in the quarter. Was there any movement within insurance versus reinsurance in terms of prior year reserve development?

W. Robert Berkley, Jr.

To tell you the truth, Elyse, it was reasonably uneventful between the segments. I think, Rich, it was a couple of million going in...

Richard Mark Baio
Executive VP & CFO

$3 million favorable on the insurance and $2 million adverse on the reinsurance and monoline.

W. Robert Berkley, Jr.

So not overly noteworthy.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then the premium growth did slow within insurance in the quarter. I believe it went from ex workers' comp from around 13% to 14% to 9%. So it looks like the implied impact from exposure went from something in the range of 5% to 6% to flat given that you gave us, right, that 8.4% ex comp pricing. Just looking to just get some color on the exposure piece or just what went on within the premiums within insurance ex comp in the quarter?

W. Robert Berkley, Jr.

Yes. I mean, as you can -- I know I appreciate, Elyse, there's a lot of moving pieces, maybe just to call out the big ones. It would really be just referencing my comment earlier around the Auto line, in particular, and to a meaningful extent, the Excess and the Umbrella line. But those product lines are really, no pun intended, being driven by our view on Auto. So we have a view as to what rate adequacy is to my colleague's credit. They have drawn lines in the sand and they've been waiting for the marketplace to catch up to them and to share the view.

So that had a meaningful impact on the quarter for what it's worth. And this is like way under the safe harbor comment. When we look at October, there is evidence that would suggest that the world is increasingly coming to the conclusion that we had already come to and is in the process of catching up. So when I look at the growth in the quarter, I would caution you not to assume that that's a new normal given the evidence we're seeing in October. I think it's likely that, again, the world is quickly catching up to us.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

So given that comment, Rob, would you expect, I guess, you've kind of steered us in the direction of expecting 10% to 15% topline growth based on how you see October as well as your view for next year or would you expect to be back in the Q4 and then in 2025?

W. Robert Berkley, Jr.

I don't have a perfect crystal ball, but I continue to believe, given the breadth of our offering and the -- I believe that we, as an organization, on an annual basis, should be able to grow between that 10% and 15%. As I think I've suggested to you and others, there could be a quarter where we exceed that. There could be a quarter where we come in below that. But yes, on an annual basis, I continue to believe that we, as an organization, should be running at that level.

Operator

Your next question comes from the line of Rob Cox with Goldman Sachs.

Robert Cox
Goldman Sachs Group, Inc., Research Division

So I was hoping to dive into loss trend a little bit. I think looking back a few years ago, you guys might have noted that or implied that it was in sort of the 5% to 6% range. So I was just curious any thoughts or any color you could provide on the loss trend in insurance today? And is financial inflation coming down a reason to maybe loosen the loss trend assumptions in some places at this point?

W. Robert Berkley, Jr.

Well, Rob, I don't remember exactly what we may have said some number of years ago. I don't even remember what I had for lunch today at this stage. But let me give you a little color as to how we think about it. As I said earlier, ex comp, we got 8.4%. I believe that we are comfortably in excess of trend at that level. Obviously, it varies greatly by product line. But we're very focused on making sure that rate adequacy continues to be the priority for us. So we're not in a position to be able to start giving you what do we use by -- for trend by product line or even give you a blended number at this stage. But I think you hopefully can take comfort as I do that at 8.4%, we are clearing the hurdle by a margin.

That having been said, as we've also said in the past, and this I have a pretty clear recollection of, is that we understand and have a respect for the unknown. And while I think there are others perhaps in the marketplace that have a firm view on what loss trend is and to the extent that they are coming in in excess of that, they will be dropping their pick. And obviously, it's for them to decide how they operate their business. But from our perspective, given the uncertainties of the insurance industry, we are not going to get ahead of ourselves. And one would have thought given what has transpired and how the industry has been impacted by social inflation, people would have learned from that and elected to err on the side of caution.

As far as shorter tail lines in your question, clearly, financial inflation was one of the big drivers for short tail lines. We saw and obviously, property and there was a meaningful impact on the auto physical damage line as well. Without a doubt, a lot of the pressure that was stemming from a more inflationary environment has subsided and that is giving a bit of a relief.

That having been said, I would suggest to you on the social inflation front, particularly impacting many of the liability lines, I think that, that is as challenging as ever is probably the right way to characterize it.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Maybe just as a follow-up on hurricane -- on the hurricanes this quarter and into 4Q. Clearly some really unfortunate losses there in a number of levels from the recent storms. Do you have a sense of how the market might react from a pricing perspective kind of across admitted E&S and reinsurance? And any impacts outside of the Southeast?

W. Robert Berkley, Jr.

I think it's a little bit early to reach a conclusion on that. I think we're going to -- at this stage, the outcome of both storms you referenced, and particularly, Milton, I don't think that has really come into a very sharp focus, and we're going to just have to see where things settle out. I think the reinsurance marketplace is doing what it can to position itself as I understand it, for flat and my expectation is that unless Milton proves to be uglier, it is going to be a challenge for them to actually achieve flat. As far as the insurance marketplace goes, we'll see how it unfolds, and we're going to have to see what the losses are.

I think with Helene, the real challenge there was much of the loss occurred in ZIP codes where this type of natural catastrophe isn't supposed to happen. So you have a lot of people that's taking a very big step backwards and trying to grapple with. What does this mean for exposure? What does this mean for adequate pricing? So that was a long-winded answer, the short answer is I think it's still in the process of coming into focus.

Operator

Your next question comes from the line of Andrew Kligerman with TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

So back on the net written premium element. So overall, you came in, I think, close to 8% in insurance, a little shy of the 10% to 15%, but as you mentioned earlier, it could bump around Q-to-Q. What I'd like to get a sense of is kind of the outlook. Am I understanding it right? So short-term premium was up low double digit. It seems to me...

W. Robert Berkley, Jr.

Sorry. When you say short-term premium, are you referring to tail?

Andrew Scott Kligerman
TD Cowen, Research Division

I meant short tail. I'm sorry. So short-tail is up low double digit. And my sense there is you're seeing a fair amount of PIF growth where, in contrast, other liability, auto, professional liability with those lines being up in the low single digits premium-wise, net written premium, it would strike me that PIF is going backwards. Am I reading that properly?

W. Robert Berkley, Jr.

You are correct. On the auto line, our exposure is shrinking at a pretty healthy pace during the quarter for the reasons that I suggested. And our hope is between now and the end of the year, maybe spilling over into early next year, you're going to continue to see more discipline coming in, and we were -- early signs were somewhat encouraging during the month of October.

In addition to that, the workers' comp line, which was pretty much flat. Please understand part of the exposure is not as -- being payrolls and wage inflation is playing a role in that as well. So in many cases, our exposure is coming down there as well.

So as always, we are looking for where we believe the margin is, and we are leaning into that in places where we have a view that a more defensive posture is appropriate. We are not going to compromise on our underwriting. And sometimes there's a lag for the world to catch up to you. And I think that's what we're seeing in the auto line. But again, we're encouraged in this month, at least that the world seems to be waking up to that reality.

As far as the reinsurance front, pivoting over to that segment, the growth that you're seeing in, particularly on the property is just a reflection of market conditions, and we still like the trade there. The flatness that you're seeing on the casualty lines is really just a reflection of our -- and we've commented for some number of quarters on this, our dissatisfaction with the economics and quite frankly, the ceding commissions, they need to come down and that's what's led to our position there.

Andrew Scott Kligerman
TD Cowen, Research Division

And just rounding that out, Rob, it sounds like you like the short tail lines? That's a PIF grower. And then the other liability and professional are kind of dipping a little bit in line with auto with the discipline you're showing. Is that fair?

W. Robert Berkley, Jr.

I think I would characterize it -- Rich, the other liability was...

Richard Mark Baio
Executive VP & CFO

I have it in front of me, 9%.

W. Robert Berkley, Jr.

Yes. I think that there's just a lot of pieces that are moving around. The E&S in particular, is growing quite a bit. On the other hand, some of the things that we talked about as it relates to the admitted casualty, that is more challenging.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. And then just lastly on prior year developments. Anything of note in the 2020 to '23 accident years?

W. Robert Berkley, Jr.

Rich, anything that is noteworthy during those years that you wanted to flag?

Richard Mark Baio
Executive VP & CFO

I would say it's consistent with what we've been communicating previously and what you've said in terms of the commercial auto liability being an area that is a key focus for us.

Andrew Scott Kligerman
TD Cowen, Research Division

Key focus meaning that you had maybe a bump or an unfavorable or just pretty steady?

W. Robert Berkley, Jr.

I don't have the numbers exactly in front of me, but we had a little bit of noise coming out of the commercial auto liability, nothing particularly overwhelming but certainly evidence of that product line is positioned for a need of change.

Operator

Your next question comes from the line of Mike Zaremski with BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

First question, Rob, when you talk about the non-admitted market, E&S, are you speaking specifically to the kind of the statutory U.S. definition, we can kind of track on a yearly basis, what you're -- how much U.S. stamped, I guess, E&S you have? Or do you also kind of include the way you guys think about it kind of non-U.S. that might not be able today to run or see on paper?

W. Robert Berkley, Jr.

So certainly, a meaningful percentage of what we write in non-admitted is through Lloyd's. So Mike, I guess, to your question, you're seeing the U.S. carriers, but I don't think you're picking up the Lloyd's piece would be my guess.

Michael David Zaremski
BMO Capital Markets Equity Research

And just -- I don't know if we don't have -- this has to be that educational. But is the Lloyd's business, is it very different than kind of the U.S. E&S business that makes up the majority of what you do? Is it on a large account versus a small account or anything notable there?

W. Robert Berkley, Jr.

The vast majority of what we do in Lloyd's is U.S.-centric. And while there is some, if you will, shared and layered a huge percentage of it is smaller accounts as well. So it's generally speaking, a reflection of our overall philosophy, but they do participate in some shared and layered.

Michael David Zaremski
BMO Capital Markets Equity Research

And I think it was clear, your answers to kind of your view of revenue growth going forward. But just curious Marsh McLennan, for example, releases an index of pricing by line of business and excess casualty/umbrella has accelerated meaningfully quarter-over-quarter to maybe plus 20% levels. Maybe that's more of a large account phenomenon, which you don't play in as much. But I just kind of get -- trying to understand whether you feel like there's more potential to play offense, specifically in social inflationary lines to the extent you do continue to see pricing move north?

W. Robert Berkley, Jr.

The way I would answer that, Mike, is we pay attention to different parts of the market. We have a view as to what the margin is and where we think the opportunities are, we're going to lean into it. And where we think, again, a more defensive posture is appropriate, we will do so. So do I think that there is meaningful opportunity in the excess and umbrella space to capture the additional rate? Yes, I do. Do I believe my colleagues are executing on that? Yes, I do. But please keep in mind, while we participate with some of the larger accounts, Again, the vast majority of what we do is on the smaller end of town. And there is plenty of opportunity there to get more rate, and we're doing it.

Operator

Your next question comes from the line of Mark Hughes with Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

I think you had mentioned that the improvement in the current accident year was business mix. I wanted to make sure that I heard that properly. And then Rob, I thought you might have said that with the rates exceeding the loss trend, the underwriting margin should continue to improve. How should I think about those two statements?

W. Robert Berkley, Jr.

I think -- well, two things. First off, as far as the business mix, we were pleased with the progress that has been made on the property ex cat front or the attritional loss ratio. I think that's something we talked about, I don't know -- probably lose track of time a year, 18 months, two years ago, and my colleagues have done a great job in getting us to a better place and that is coming through on the loss ratio. I think as far as the rate increase and how that's going to come through, look, we have a view on trend, and we have an understanding of how much rate we're getting and the delta between the two in theory should ultimately enure to the benefit of the margin. But we are not in a rush to declare victory prematurely.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then the tax rate for next year, what should we think about that?

W. Robert Berkley, Jr.

You should think about it being too much. Rich, do you want to comment on it?

Richard Mark Baio
Executive VP & CFO

I would say that based on where our foreign earnings are today, if we continue down that path, I would think you'd expect -- we would expect a rate that's commensurate with what we're showing this year, which I would say would be somewhere in that 23.5% to 24% area. But as Rob alluded to, we're certainly looking at ways to try and keep that rate down as much as we can.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Rich may have said it, where is the new money yield on purchases going on right now for the portfolio?

W. Robert Berkley, Jr.

I think it was me and guess slightly over 5%. I'd use more than 5%, less than 5.25%. Those are the bookends for you.

Joshua David Shanker
BofA Securities, Research Division

And is that being purchased at a different duration than that [indiscernible].

W. Robert Berkley, Jr.

Just to be clear, that's on the domestic. So you would compare that to the 4.5% that we flagged earlier. And is the duration...

Joshua David Shanker
BofA Securities, Research Division

Is the duration -- are you choosing to -- is there a lengthening going on given the changes in the yield curve behavior?

W. Robert Berkley, Jr.

Incremental. Yes, it's incremental so far. But we'll see what comes over time.

Joshua David Shanker
BofA Securities, Research Division

That's exactly what I mean. What would we need to see for you to say that longer is better?

W. Robert Berkley, Jr.

I think, Josh, we probably don't have a specific answer, but what I can tell you is we're playing close attention to it, watching it every day. And we'll see how the story unfolds, but I don't have a specific road map that I'm in a position to share with you at this time. .

Joshua David Shanker
BofA Securities, Research Division

And is credit at all a concern -- I mean, it's always a concern, but given outlook for things, are you incrementally more concerned or less concerned about credit compared to where you were a year ago?

W. Robert Berkley, Jr.

I think we are always concerned about credit, and that's why as Rich flagged, we're maintaining a very strong AA- on the credit quality of the fixed income portfolio. And you will not see us compromising on quality just to try and fluff up the book yield, if you will. We saw colleagues doing that, quite frankly, during the financial crisis where they -- as well as in during COVID where they compromised on duration and compromised on quality, and that's just not something we're going to do.

Operator

Your next question comes from the line of David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Rob, I had a question just on the insurance business. So the 60.2% accident year loss ratio ex cat improved 50 basis points year-over-year. It sounds like all of that was mix and some of the progress you guys have been making on some of these fire losses from a bit ago. I guess I just wanted to see if there's anything unsustainable in the result as well that might be flattering things from maybe like a light non-cap property perspective or anything else that you'd highlight?

W. Robert Berkley, Jr.

So look, obviously, we'll know through the passage of time, but the biggest contributor to the improvement that you're referencing was the attritional loss ratio associated with the property. So do I think we just got lucky? My sense is when I look at it, I don't think that's necessarily the case. I think we have many colleagues that are working really hard and have improved the situation. And you're seeing it come through. But again, that's my sense based on what I have seen. We'll see more over time.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

And then I guess, is that something that -- I mean, is that like fully in the numbers now? Or is that something like we should continue to see that improvement going forward specifically on that attritional property book?

W. Robert Berkley, Jr.

David, not trying to be difficult, but they are what they are as we share them with you, and that's us being completely transparent. Could it get better from here? Yes, it could. Could it somehow take a step back? Yes. I mean, I can't guarantee or promise exactly what tomorrow will bring. But based on my look at it, I'm encouraged by the progress that has been made, and I think it's a reflection of the efforts of many of our colleagues.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

And then maybe I saw this in the 10-Q in the first quarter and the second quarter. It looked like there was some adverse that you guys -- adverse PYD that you guys have taken on the other liability line of business for accident year '21. And I guess I'm just wondering if that continued here in the third quarter and also just how accident year 2022 and 2023 are holding up?

W. Robert Berkley, Jr.

I think as opposed to getting into that detail, we'll have a lot of it in the Q and ask that once you have a chance to flip through the Q, if you have any questions, please reach out to us. But for what it's worth, there's nothing, as Rich suggested earlier, there's nothing concerning or alarming from our perspective.

Operator

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

Ryan James Tunis

Autonomous Research US LP

I guess just the first question, thinking about the 10% to 15% growth and trying to figure out if I'm thinking about this right. So is it what you're really saying is you think that Berkley is a 10% to 15% grower but you flagged some risk reduction or remediation or what have you in commercial auto over the next few quarters. And perhaps while you're doing that, it might be more of a challenge to do 10% to 15%. I'm just trying to understand, am I thinking about that right, that the 10% to 15% is sort of a longer-term view?

W. Robert Berkley, Jr.

Let me at least try to answer your question. I think what we have suggested and are trying to suggest today on an annual basis, we believe the business can grow at 10% to 15%. In addition, as we suggested in the past, there could be a quarter where we grow more, there could be a quarter that we'd grow less. Ultimately for us, while we certainly would like to grow, underwriting margin is king, queen, whatever label you'd like to use. When we look out at the marketplace during the quarter, we took some action as it relates to auto, in particular, and quite frankly, a few other lines related to auto. As a result of that, that slowed the growth.

One of the things that at least I was trying to suggest earlier is it would seem as though the issues that we have identified parts of the market are starting to more actively grapple with those in October, and that would provide some encouragement that you will see what I would view as a one-off quarter headwind maybe subsiding somewhat. So as I suggested earlier, long story short, Ryan, I am not of the view that we are changing the position that the business should be on annual basis able to grow 10% to 15%. I was merely trying to unpack the quarter a little bit and help you understand what that speed bump is which I believe is becoming less and less of an issue based on what we saw in October.

Ryan James Tunis
Autonomous Research US LP

Then just a follow-up, just a couple of quick ones on cat. First of all, I'd be curious what your loss was from Helene? And then second of all, I know you don't want to give a number for Milton. But if I look back to the Ian quarter a couple of years ago, it was about $100 million of cats. Can you say directionally like could it be that big again given the growth or probably from a dollar standpoint, this is...

W. Robert Berkley, Jr.

For Helene, I think you should assume about half of it, give or take, was Helene related. Then there were some other cat activity, as Rich referenced, though Helene obviously got all the attention, there were some other losses going on.

Switching over to Milton, I think it is premature for us or for that to really give you a specific number. But as I think whatever the outcome would be, it will be sitting within what you would expect from this organization as far as the size of the loss. And as you've heard from Rich, you've heard from my boss, you've heard from me, we pay very close attention to the topic of volatility, whether it be on the underwriting side or the investment side. So that's probably about as much color as I can give you on Milton, but I don't think that there's something that's going to come out of that, that's going to make anyone pause severely.

Operator

Your next question comes from the line of Alex Scott with Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

So I wanted to ask you a question about capital. You guys have been growing a little bit less as you're doing some work on some different lines. And externally, it's always hard to sort of judge how much dry powder a company may have in capacity to sort of lean in opportunities as they arise you have. And so I would just be interested in how do you think about that? And then maybe if you could just refresh us on sort of pecking order at this point with pricing getting better and some good signs but not putting it into growth as much right now. How do you approach share buybacks and special dividends and so forth?

W. Robert Berkley, Jr.

So from our perspective, the company has a comfortable surplus of capital plus. And again, anyone who has a real curiosity can go through the painstaking experience of perhaps taking the S&P model and taking our data and running it through, and you will get a large surplus or excess of capital, which is there to allow us to be opportunistic. Arguably, we have more capital than even one would need to maintain that position. And as we see opportunities, we will be returning that to those that belongs to specifically our shareholders. So long story short, we have an excess of capital and the company at this stage is generating capital more quickly than we can utilize it. So it's a reasonable assumption that we will continue to opportunistically look for ways to return the capital to shareholders while still maintaining a comfortable balance plus.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

As a follow-up, I wanted to ask about reserves. I mean, it's no secret that some external folks struggle with looking at the disclosures on more recent accident years and myself included in that. And it's hard from the outside. So I wanted to ask you like what are the some of the nuances to it? What are some of the things that when you all look at the more recent accident years? And maybe it's an update on the paid loss ratios you're seeing, I don't know. But what are some of the things that give you more confidence than I've had?

W. Robert Berkley, Jr.

Well, again, I'm not sure I fully understand all the reservations you or others have, but I would suggest that it's really a couple of things. We've talked about the paid loss ratio in the past, and we're happy to pick up that conversation anytime anyone wishes to. In addition to that, we've talked about the strength of our IBNR compared to total reserves as well as the strength of our IBNR relative to case, and you can see that trend. And then in addition to that, I think on the last call or two, we talked about our initial IBNR relative to our earned premium, Rich, which we brought back to people's attention because I think there were some question with the other metrics we were putting forth. Well, how is that impacted by the fact that the business is growing? So that's why we try to draw people's attention to the initial IBNR relative to earned, which should take into account growth.

In addition to that, I think that there are a lot of folks that before they reach conclusions, they need to unpack our mix of business with greater granularity. And there are some people that have offered a view on the more recent years and how we've thought about those reserves without having a full appreciation for, in some cases, where we're using a claims made form as opposed to an incurrence form or amongst other mixes of business.

So we look at our loss reserves very regularly. Every quarter, we look at it at a very granular level by operating business, by product line, and we look at it the aggregate and we look at it in between the two. And from our perspective, ultimately, we respect the fact that everyone is entitled to their opinion. At the same time, we're doing the best we can to try and help people understand but there's also a reality and it's going to be hard for us to prove it other than through the passage of time.

I think the last point that I would raise as it relates to the topic of reserves, I think the world oftentimes paints with a very broad brush. And when they see other market participants having to grapple with some challenging circumstances, they look at the product line particularly when it's casualty or liability exposure. And then they'll extrapolate and they'll say, "Well, this company over here had problems with this product line, so let's go out and look at who else would potentially have that exposure", and then they'll make this leap that that is going to be an issue for everyone. And I think that that can be a very slippery slope and would encourage people to invest the additional time and perhaps use a finer brush and recognize that there is a greater distinction than perhaps they appreciate at face value.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions here for you. First one, Rich and Rob, you talked about some of these businesses that are kind of new and incubating right now but should help the expense ratio as they kind of come online and you put them into your results. Is there any way you can kind of give us some quantification about how much premium is sitting in these businesses and what benefit they could potentially have from a premium perspective looking over the next 12 months?

W. Robert Berkley, Jr.

Rich, I don't know if you want to speak to that. I mean it will be back of the envelope. Brian, we can sort of explain now or if you want something more specific, you're welcome to give us a call. Rich, what was your comment? Go on.

Richard Mark Baio
Executive VP & CFO

There's four operating units that we've moved over from, I'll say, our corporate expense category into our underwriting expense category in the first quarter and round numbers, $25-plus million in net written premium in the quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

So that was the benefit in the quarter.

W. Robert Berkley, Jr.

That's the premium that they contributed to the quarter. But I think maybe picking up on the point and taking it slightly further. Those businesses, by and large, are very much in the early stages of scaling, Brian. So as they scale, you will see them become less dilutive to the expense ratio and hopefully, sooner rather than later neutral. And perhaps at some point, it will become accretive.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then my second question, I think you may have talked about this in previous calls, but your investment funds, they've been, for the last I would say, at least 18 months, kind of below what your historical kind of returns on those funds have been over time. Is that something we should expect going forward kind of lower returns there? Or is there something unusual going on right now? Should that kind of snap back here at some point?

W. Robert Berkley, Jr.

I think that we're going to -- these we book on a quarterly lag and actually, it's at times, surprising to me how long it takes us to get the visibility. But I think the number in the short run that I would encourage you to consider is probably $10 million a quarter. And hopefully, over time, you're going to see that make its way back towards $20 million a quarter. But in the short run, I would encourage you to pencil in $10 million. But again, Brian, waving my arms trying to offer all the qualifications. We believe in the returns over time, but in the short run, it can be lumpy, as you know.

Operator

We have no further questions in our queue at this time. I will now turn the conference back over to Rob Berkley for closing comments.

W. Robert Berkley, Jr.

Yes. So before we say goodbye, actually, I don't have anything to add at this time, but I think our chairman may have a few thoughts.

William Robert Berkley
Executive Chairman of the Board

I would just like to add one comment that went along with the investment income question and that is our goal is to take advantage of the changing shape of the yield curve and move the duration of our portfolio out. On the other hand, if you look at the level of leverage in the world, there's not a rush to do that. At the same time, we have no interest at all, as Rob said, of lowering the quality, if anything, the kinds of things we bought in the past quarter have been probably average of AA, not AA-. It's an opportunistic strategy that's geared to the view that we don't think rates are going to go down a lot, especially on the longer side. And therefore, we can continue to invest. And it's not only reinvesting the money, but we're going to probably have $4 billion of cash flow. That's a lot of money to invest. So we're quite optimistic about our investment income let alone our operating profit margins from underwriting. So we continue to see quality and duration improving as the yield concurrently going up.

W. Robert Berkley, Jr.

Okay. Krista, thank you very much, and thank you to our participants. As suggested earlier, we think the business is well positioned, and we look forward to catching up with you in about 90 days. Thank you. Have a good evening.

Operator
And this concludes today's conference call. Thank you for your participation, and you may now disconnect.