

W. R. Berkley Corporation NYSE:WRB
FQ3 2026 Earnings Call Transcripts
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Wolfe Research, LLC

Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to the W. R. Berkley Corporation Third Quarter 2026 Earnings Call. This conference call is being recorded. [Operator Instructions]

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 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, 2025, and with our 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.

Chairman, Chief Executive Officer & President

Christine, thank you very much, and good afternoon to all. Welcome to our Q3 call. Thank you very much for your time. Thank you for your interest in the company. Along with me on this end of the phone, you also have Rich Baio, our Chief Financial Officer. And we are going to follow our typical agenda where I'm going to offer a couple of very brief macro observations, and I'm going to hand it over to Rich to do the heavy lift, and he'll walk through highlights from the quarter, and I will trail behind him with a few more observations on our quarter, and then we'll be pleased to open it up for Q&A.

So before Rich runs with it, I think those without saying it was another strong quarter for us. But that's not really where I wanted to focus my comments at the moment. We can get to that in a few minutes. I really wanted to spend a bit of time just taking a moment to acknowledge the pace of change. And we see a great deal of change certainly in the industry, but we are seeing a great deal of change in society overall. The trajectory of that change is steep. The velocity is increasing. And before we get into the details of how the technologies that are driving this are being adopted by us. Maybe more macro, it's something that we are looking at as to how society is evolving and the risks that we are potentially taking on how they are changing. Fundamentally, our value proposition to society is helping it manage risk and our value proposition to capital is, yes, accepting that risk from society, but doing it in a controlled manner.

From our perspective, we are seeing a variety of the parts of the economy that face a great deal of risk evolving considerably. There has been a lot of discussion around autonomous vehicles. What does that mean for private passenger auto, what does that mean equally for commercial auto, and what will the consequences of that be. How will those risks remain within the auto space? How will they potentially be shifting over to product's liability and other parts of liability.

In addition to that, we can all see it coming, AI, and in particular, its relationship with robotics. What will that mean for the workers' comp lines, and how will that unfold? These are the types of questions that we and presumably others are actively grappling with and trying to make sure that we are not just thinking about them for how we position ourselves going forward, but ensuring that we have the knowledge and the expertise to underwrite and accept these risks in a thoughtful and controlled manner.

In addition to that, technology, obviously, isn't driving the broader economy, but it's even having an impact on the sleepy insurance industry, and how we operate. Fortunately, for us, as an organization, my colleagues many, many years ago, recognized the importance of data, and how that role was going to become ever more greater. We have been on a data journey for many, many years at this stage. And fortunately, for us, we are reasonably well positioned as we see many of the technology tools that are being brought to bear AI related, in particular, data is the fuel that drives those engines.

When we think about some of these tools, and how we are utilizing them, we are finding ways to apply them to a variety of activities within our organization as we have discussed in the past. At this stage, the advantages are primarily coming or rearing their head in a manner that some might equate to speed. We are able to intake and respond in a more speedy manner than we could in the past. This certainly applies to the underwriting activities as well as the claims front. That having been said, while we are making our way well up that mountain, the next mountain that is before us is not just the benefits of speed but the insights that we will be enjoying or further insights that we'll be enjoying as it relates to decision-making.

From our perspective, this without a doubt, already is a competitive advantage and will continue to become an increasing competitive advantage for us. So maybe to put a little bit more data around that. Some of the activity that we are doing on the intake side is

allowing us to become more efficient to the tune of 20% plus, and we're also seeing opportunities on the claims front as we have flagged with some of you in the past. While we are a specialty writer and much of our claims activity is highly complicated. At the same time, more than 50% of our claims are settling for \$5,000 or less which would invite the idea that we should be able to have a lower and lower human touch when it comes to this. So long story short, I understand that we are here to discuss the quarter. Rich is going to lead us through that part of the discussion momentarily. But given the world that is changing at an ever-increasing pace, I thought it was worth noting our efforts to make sure that we are appropriately keeping up with that in both how we engage with the marketplace, how we think about Lyft, and how we operate day to day.

So with that, Richard, if you would, please.

Richard Mark Baio
Executive VP & CFO

Of course. Thanks, Rob. Appreciate it. And good evening, everyone. Our strong results in the third quarter were driven from both underwriting and investment performance, contributing to an annualized operating return on equity of 18.8% for the quarter and over 20% year-to-date. Record third quarter underwriting profit of \$296 million, combined with double-digit growth in the core investment portfolio resulted in operating earnings of \$456 million or \$1.17 per share.

Drilling down first into underwriting income, the current accident year loss ratio, excluding catastrophe losses, improved 40 basis points to 59.5%, along with a relatively flat expense ratio of 28.6%, brought our accident year combined ratio ex cats to 88.1%. Pretax current accident year cat losses were \$86 million or 2.7 loss ratio points. Despite almost twice the number of storm events named by PCS quarter-over-quarter, our cap losses only increased \$7 million or 20 basis points. That brings our calendar year combined ratio to 90.8% in the current quarter. Both of our segments reported terrific underwriting results in the third quarter.

The insurance segment's current accident year combined ratio ex cats of 88.3%, improved 1 point over the prior year, representing growth in the pretax underwriting income of 10.6% to \$238 million. The improvement was primarily attributable to changes in the mix between our 60 businesses and improved non-cat property losses. As it relates to premium production, the insurance segment's gross and net premiums written grew 4.9% to a third quarter record of \$3.6 billion and 3.2% to a third quarter record of \$2.9 billion, respectively.

Our reinsurance and monoline Access segment reported a very strong current accident year combined ratio ex cats of 86.9%, resulting in pretax underwriting income of \$58 million. As the reinsurance market remains competitive, we've been steadfast in maintaining our underwriting discipline. Accordingly, you will take note that the segment's net premiums written declined 11.6% to \$369 million, driven by casualty and to a lesser extent, property.

Turning to investments. Pretax net investment income increased to \$384 million in the current quarter, driven by growth in the core portfolio was 12%. Income from fixed maturity securities increased 10.3% over the prior year's quarter attributable to both higher domestic yields and a larger base of invested assets. Income from investment funds was \$2 million and as shared during prior calls, can be inconsistent quarter-to-quarter. On average, we expect each quarter to generate between \$10 million to \$20 million. And as seen year-to-date, we're above the high end of that range.

On the duration of invested assets, it has increased to 3.3 years at the end of the third quarter with a very strong credit quality of AA-remaining below the average life of our insurance reserves. And finally, as of September 30, 2026, stockholders' equity was more than \$9.6 billion, relatively flat to year-end 2025, reflecting significant capital return to shareholders was \$729 million year-to-date and an increase in unrealized losses on investments of \$800 million due to rising interest rates. We generally hold our fixed maturity securities until they mature and as such, expect the unrealized loss on investments to reverse favorably into stockholders' equity.

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

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

Rich, thanks. Anthony, here are we on time. I don't like to use up all the time with me [blabbing,] 5:15. Okay, good. Okay, so just following on Rich's comments, a couple of observations. First off, the comment that people would have perhaps picked up in the release under the highlights as well, ex comp -- the rate popped back up a little bit to the 4%. Also would offer the observation that the renewal retention ratio, it just doesn't move. It's sitting at 80%. So hopefully, that gives people insight that the book is not churning, so to speak.

A couple of other observations and if people had a chance to flip through the release, you would have seen on Page 7, going through a couple of the different product lines there. The other liability, yes, it's up just shy of 4%. People might say, "Oh, well, they're just

churning it with the rate that would be not the right view. Actually, there's a bit of a shift that's going on there, 2 smaller accounts. That's by design. No surprise. There tends to be a bit more competition with larger accounts. We like the margin in the smaller accounts, and we have the platform to be able to handle it efficiently. Shorter tail, we lump a lot in there, and that could be confusing as well. Included in that is commercial property, which is down considerably.

On the other hand, we are pleased with the continued growth that we're seeing in our private client business on the personal lines front as well as our A&H business. On the auto front, again, you may be scratching your head looking at the 5%. Please understand the exposure is coming off at this moment at a reasonable healthy rate. So speaking of the rate increases that we're taking are a multiple of that with our determination and commitment to keep up with trend.

Comp, I would -- the only thing I would call out there is we are pleased to see the bottoming out and incremental firming in California. The rest of the nation is still trying to keep up, but they are lagging professional liability, as we've talked a little bit about in the past, D&O is in the process of bottoming out. That having been said, there are several pockets within the professional space that we find very attractive. And no, I'm not going to go into the detail of where we find things attractive Rich touched on the reinsurance front. I guess there's no point in crying any further over the spilt milk. But when the day is all done, as you have heard us we've talked about for some number of quarters now, a dissatisfaction with market conditions within casualty reinsurance, and property, quite frankly, we are waiting with bated breath not in a happy way to see what happens at 1/1 and what will follow. And that in all likelihood will prove to be a challenging time. A little bit on the forward-looking front, so taking advantage of the safe harbor from as best as we can tell, we think the insurance business is going to be able to continue to grow all in on the unforeseen event at mid-single digits or better. And we think the reinsurance business is likely going to continue to shrink for the foreseeable at a 10% rate, somewhere between 10% and 20%, and that's fine with us. That's just the realities of the business, and we accept that.

Rich touched on the expense ratio. I would tell you that I think we sit in a pretty attractive place. The utilization of technology along with other disciplines that we are employing, I think, are helping us manage that. I would tell you that given the amount of business that we produce through the wholesale channel and the acquisition costs associated with that. I think it speaks well to the work that my colleagues, in particular, have done to manage the expenses. So on the underwriting front, from my perspective, it was basically right down the middle and exactly what we would have anticipated I would tell you that if you looked out, at least through our lens, some of the shorter tail lines, property, in particular, over the coming quarters and perhaps next couple of years. Will prove to be particularly challenging. And as we've discussed in the past, the liability lines tend to have more staying power, at least based on our historical experience.

Quickly shifting over to the investment portfolio. We did have a little bit of noise in the funds as perhaps people had taken note Rich touched on that as well. Our expectation, as we flagged the sort of \$10 million to \$15 million a quarter. It was a little shy due to that. We can get into more detail what people want later on, but we expect it to return towards a more typical historic norm. I think the only other piece that is worth flagging, and we've talked about in the past as it relates to the investment portfolio, but I do want to pull it back to the center of the radar screens here is the domestic fixed income portfolio, which is where the growth has been, and it continues to be as it relates to our overall portfolio. The domestic portfolio sits at just inside of \$24 billion, Richie. Is that correct? And today, it has a book yield of about 4.7-or-so percent.

Our new money rate today is probably between 80 and 100 basis points above that. In addition to that, you would have taken note that, yes, the duration nudged out incrementally from 3.2 to 3.3. But life of our loss reserves is just a hair inside of 4 years. So we have lots of room, and we will be thoughtfully taking advantage of that room to push out the duration and capture the yield environment. In addition to that, this is a data point as far as how the portfolio rolls over. The portfolio every year role shortens, if it's just -- if you don't do anything, this left to its own devices, mats every year it shortens by this thief the year. So the point is that the combination of how we've managed duration in addition to how the portfolio rolls over, we are particularly well positioned capitalize on the rate environment that we see before us today, and we have every intention of continuing to do that. So that's sort of the state of play. I think we can pause there. Rich, did you have anything else you want to flag, and we can open it up for Q&A, please.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Rob Cox with Goldman Sachs.

Robert Cox

Goldman Sachs Group, Inc., Research Division

So I wanted to go back to some of the comments you made last quarter around potentially revisiting recently favorable claim trends just based off of the comments from Rich there, it seems like the underlying loss ratio improved a good amount this quarter. So I'm just curious if you could share with us any further detail on the core loss ratio, and maybe if you have any early insights into how you're thinking about the design loss ratios for next year?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

So as you can appreciate, it's something that we are looking at very regularly and continuing to reflect and refine as we see appropriate. I would tell you that as far as trend goes with auto and auto-related being perhaps the exception by and large, other product lines, we are seeing trends, again, early days starting to quiet down a little bit. So it would be premature to declare victory at this stage, but aside from the auto line, we are seeing signs that the steepness of that trajectory is perhaps abating somewhat or certainly not becoming ever more steep. So that's something, Rob, that we're taking into account. To the extent that we are in a position to give you some math to put to that comment, not really at this stage. That having been said, we'll have to see how it unfolds. As far as the specifics in the quarter, it was a combination of non-cat property on the risk front running well. Thanks to the thoughtfulness of our colleagues and their discipline. And also we are gaining, as I just alluded to in some of the more recent years, a bit of incremental comfort on some of the liability lines.

Robert Cox

Goldman Sachs Group, Inc., Research Division

Got it. That's super helpful. And then I just had a follow-up on reinsurance. You guys are exercising cycle management there. Can you just talk about the ROEs you think are embedded in some of the business that you're passing on? And just any general way to think about rate adequacy, especially from a property perspective.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Well, I think that at 1/1, it's going to be very telling around the property front. So there's not a huge amount of visibility at this stage. We're going to have to see what comes of it. Certainly, we are hearing commentary that people are expecting rates using a very broad brush to be off between 10% and 20%. So that certainly takes a lot of the fun out of it for many people. That having been said, for us as an organization, we buy more reinsurance than we sell. So we have a pretty good hedge on that front. But we'll have to see how it unfolds.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

In the past, you were talking about that you guys would probably in insurance, right, give up some on price for growth, right? In the quarter, right, you said price got marginally better, and it sounds like you guys are guiding, right, for premium growth, that's kind of more or less consistent with the second quarter, right? I am sorry, with the third quarter, you said mid-single digit from here. So as anything [indiscernible] you around giving up price and growth changed?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

I missed the second part of that. This -- can you repeat the last sentence, what, Elyse?

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

I just wanted to know if anything related to your view about price. Sorry, I wanted to know if anything related to your view around price and growth [indiscernible] has changed since last quarter.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

No. The answer is that we look at it with a very, very fine come. And from our perspective, we're looking at the rate need by product line, by territory. And as far as the rate moving around between Q2 and Q3, that certainly mix can have a play a role in that. So again, from our perspective, there are certain pockets that we find particularly attractive. Generally speaking, we think it's going to prove to be a more challenging time for the reinsurance market, hence, the comments that we offered earlier. We think that if you look at the commercial property market, that is going to get uglier before it gets prettier. And we think that much of the liability-related lines are going to prove to be the opportunity for the foreseeable. And when we put that all together, that's what led to how we were speculating around growth.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

And then I guess my follow-up is on, I guess, the development in the quarter. I think if I backed into it, there was probably double digits maybe within the range of \$15 million adverse in insurance, right? It seems like it was offset by the same amount in reinsurance. So within insurance, was there anything kind of within certain lines or years that you saw some that, I guess, drove the movement in reserves in insurance in the quarter?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Yes. It was primarily commercial auto, both in the primary as well as excess and how that can bubble up to excess and umbrella, but that was not the only culprit but it was the majority of it. And as far as the years go, I don't have that, but if you want to follow up with Karen or Rich, we can try and give you more insight.

Operator

Your next question comes from the line of Tracy Benguigui with Wolfe Research.

Tracy Benguigui

Wolfe Research, LLC

So capital returns were notably light in the third quarter with modest buybacks, special dividends and maybe less growth opportunities like we saw in reinsurance and monoline excess I would assume you would have undeployed capital. I'm curious, are the negative marks on security book weighing down, how you're thinking about deploying capital?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

No.

Tracy Benguigui

Wolfe Research, LLC

Okay. So was there something else in your calculus that was...

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Sure. I mean, the answer is that we are not of the view that we just come up with a number, and it doesn't matter where the stock price is, and we just go out and buy stock. We are -- we operate like owners, and we have a view that every now and then you get somebody's algorithm that does something that doesn't make sense to us. And when that happens, we step in as we see opportunity, or we'll see someone offer a perspective on the company that for whatever the reason, spreads like wildfire and that creates an opportunity, and then we will look to buy. So do I -- do we still have what I suggested in the past, a 9-figure -- or excuse me, a 10-figure number of excess capital? Yes, we do. Do I expect that we will continue to be thoughtful on how we return it to the people that it belongs to without a doubt. I would suggest that it would be a mistake, in my opinion, for you to read too deeply into what went on in the quarter.

Tracy Benguigui

Wolfe Research, LLC

Yes. I fully understand that. If I look at your insurance underlying loss ratio, and you mentioned improved 100 basis points year-over-year. So that -- now it looks like it's a touch below 60%. We haven't seen that level in a couple of years. I'm not sure if you're willing to answer this, but it might be worth asking what would have looked like under your former framework, just to get a sense of how much of that improvement was from your new methodology as you're looking at loss picks.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Sorry, I missed -- I'm not sure I'm fully understanding the question. What...

Tracy Benguigui

Wolfe Research, LLC

Yes. You mentioned last quarter -- sure, I'll just rephrase. You mentioned last quarter that you were rethinking your approach towards loss picks. And I'm just curious if you could contextualize how much of that year-over-year improvement might have been under a new methodology. If you're willing to answer that.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

The answer is similar to what I suggested earlier, the majority of what you were referring to came through as a result of our property risk book or non-cat exposed loss activity. So the short answer is, no, it wouldn't have a consequential impact. It would be incremental. Rich, do you want to add?

Richard Mark Baio

Executive VP & CFO

The other point I would just highlight, Tracy, is that when you look at the composition of our portfolio, we've got 60 operating units. Some of those operating units are growing and others are shrinking at the same time. So the composition overall could shift from quarter to quarter. So it's not inconceivable to see that the accident year loss ratio could move some number of tens of basis points from quarter-to-quarter as well. So that is like a business mix, if you will. But those operating units obviously are very focused on particular things, whether it's an industry, geography, et cetera.

Operator

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

Andrew Scott Kligerman

TD Cowen, Research Division

Rob, in your prepared remarks, when you were talking about AI, you touched on workers' comp and robotics and then you didn't elaborate. So I'm kind of curious, how do you see AI affecting workers' comp over time?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

I think that, well, the reason why I stopped was because Rick started to own. But to make a long story short, I think that the advancements in robotics, which much of it is being driven off of AI, not all of it, but much of it, I think, undoubtedly, is going to have an impact on the workforce. And I think that there are a lot of people that are viewing AI is just having an impact on aspects of the white collar labor force. And I would suggest to you that I think there is material impact potentially over time beyond that.

Andrew Scott Kligerman

TD Cowen, Research Division

I see, I see. And meaning that the workforce might decline a little bit?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

I think that ultimately, the labor force in this country and around the world is going to be a challenge as to how quickly we can retool people's skill sets. And there are certain jobs that are going to go away, not just because of AI in an office environment but robotics can play an ever-increasing role, and we've seen it to a certain extent in manufacturing. And I think that there is likely the potential for it to go beyond how we typically think of that. And there could be implications for the workers' comp line as an example, at least some part of the economy.

Andrew Scott Kligerman

Got it. And my follow-up is around agility. It was interesting in other liability, it inched up a little bit in insurance and or not for commercial auto per your comments, it may have been up materially more. And then in reinsurance at \$144 million, it was off pretty sharply year-over-year. So what is it about the reinsurance area that that you don't like, and what are you liking a lot in other liability and insurance?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Well, I think what we're not looking, as we've chatted about for or commented on for probably not this quarter's maybe years at this stage as it relates to casualty reinsurance of the ceding commissions. We just don't think it makes economic sense. We think that other people are willing to rent their capital for a lower price than we are prepared to rent our capital for. And we think that there is more opportunity at this moment in time on the insurance front as it relates to other liability quite frankly, there's an opportunity for you to be less of a commodity in the insurance space than there is and particularly the treaty reinsurance space.

Andrew Scott Kligerman

TD Cowen, Research Division

I see. And it's pretty broad in other liability?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

The opportunity, look, we are grateful for what we have in front of us, and we think that there is an opportunity to continue to grow that business for the foreseeable.

Operator

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

Michael David Zaremski

BMO Capital Markets Equity Research

First question on the excellent loss ratio on the insurance segment. Rich called out in his prepared remarks, checking it. improved non-cat property losses. So fair to assume you're calling it out to hit us maybe not to run rate the current underlying loss ratio because there was some good guy and there's obviously moving parts.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Yes. That's Rich being a measured CFO trying to measure -- manage your expectations.

Michael David Zaremski

BMO Capital Markets Equity Research

Okay. Got it. Maybe just switching gears, higher level. Good to hear. I guess kind of if you double down or say again this quarter that you're seeing loss trend maybe come down a bit, just curious maybe to prepare us for the overall pricing power environment. Is it fair to think that at current kind of very healthy interest rate levels the downward slope in pricing power rate is still probably moving south over the coming years in most lines of business that are longer tail at this stage, sorry.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Look, at this stage, excuse me?

Michael David Zaremski

BMO Capital Markets Equity Research

Excluding property, just kind of focusing on the casualty lines.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

At this stage, we are pleased with the rate that we're able to achieve by and large and how that will maintain or enhance margins. So we feel like we're in a pretty good place. What will that mean for tomorrow? I don't know. Will the reinsurance market continue to be very aggressive and create more competition in the insurance marketplace possibly, but I think it's probably pretty soon, in my opinion, to begin with. So look, the other reality is that different folks have taken different approaches to their investment portfolio

and to what extent they're able to capitalize on a higher interest rate environment that varies by operation. When we look out at what people's duration are and give or take, given their mix of business, how that compares to where they can take duration I think many of

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our peers are somewhat stuck. They're not likely going to be taking it out much further, and it will be hard for them to reposition. So ultimately, I think that you should assume in my opinion, yes, will property maybe become a bit more choppy. Yes, I believe it will. So I think much of the liability market is going to be pretty stable for us, and there are some pockets where things could improve a bit here and there. Yes, I do. Do I think the big headline for us is learning with \$24 billion that can get reinvested at 80 basis points to 100 basis points above where we currently are, yes, I think that, that is a lot of leverage in our economic model to be had. Hence, also the comment that I made about how the portfolio turns over and how quickly we are able to take advantage of the higher rates just with the existing portfolio, let alone the new cash flow. So do I think everything is perfect? No, sir, I don't. Do I think we have more of a tailwind than a headwind? Yes, I believe we do. And I think given our mix and how the business is positioned, that will likely be the case for a longer period of time than some of our peers that have a different mix and have positioned themselves for investment portfolio wise in a different manner than we have.

Michael David Zaremski
BMO Capital Markets Equity Research

That makes sense. And maybe just sneaking one quick last one in. This past winter, I believe is on the 4Q call, you kind of talked about Berkley's expanding distribution to kind of more alternative means for the first time, I think you were referencing some MGAs or MGUs maybe now that some time has gone by, you could further unpack or comment on how that's going and whether you expect that to continue to be a bigger source of distribution going forward.

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

So the MGA, MGU thing that is not cornerstone of our distribution, though we do have some of that. Generally, I think what you're referring to is alternative distribution where we may not be going through traditional distribution. So we have some operations that are taking traditional wholesale products, taking it direct to retail. We have some operations that are dealing directly with customers. I think we may have also flagged our efforts around the area or the effort of embedded or point of sale, if you like, where we sell insurance along with another product that is the primary transaction that's occurring. If my recollection is correct, it was perhaps a comment that from our perspective, we are very committed, and we are very dedicated to traditional distribution. We are grateful for those partnerships, and we will continue to support them. At the same time, we are conscious of the fact that in the end, the customer is queen or king, and that we, as an organization, have to be willing to meet them where and how they wish to be met. So we will continue to partner and work in a traditional manner. But as customers may look to engage in a different way, we feel it is our obligation to meet them where they want to be met and not turn our back on them.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Rob, you had talked a bit at the beginning of this call, just some of the changes that technology and AI is having on some of the risks out there. And I was surprised you didn't mention some of the risks that are there from -- or out there now from your clients who are using AI in their own operations and potential liability there. I'm assuming you guys are insuring the labs, obviously, but -- and I think you guys had an exclusion out there. So I'm wondering if you could just talk about how you're thinking about that AI liability risk from your clients using the models and harm as a result of that. And maybe any sort of silent coverage that might be working or sort of floating around in some of your recent casualty vintages?

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

So long story short, we have a view that AI is a real exposure, and our colleagues are running the various businesses, particularly on the front end are actively grappling with that exposure and making sure that they understand it, they are comfortable with it and see that they are getting paid appropriately for it. We have done a lot of work, thanks to many colleagues and making sure that we have the appropriate wordings, and we are not just taking whatever is being served up by the industry. We need to make sure that it makes sense for what we are doing through our lens. So do I think that there is a severe latency exposure. I think that we are on it and we are focused on making sure that, that is not the case. Can I promise you that there is nothing out there, Mike. Absolutely not. But we are working very diligently to make sure the exposure, as I suggested earlier, is identified, understood, controlled, and we're getting paid for it. And yes, we were one of the companies that people were bitching about that we had exclusionary language that we were applying when we feel is appropriate. And quite frankly, we think that is our responsibility. And some people may like it, some people may not. But ultimately, that's part of our responsibility in managing capital.

David Kenneth Motemaden

Evercore ISI Institutional Equities, Research Division

Got it. No, that makes sense. And then maybe just switching gears, just on the insurance growth. And the growth, if I look at it, including comp, excluding comp, it decelerated a bit, still not huge numbers, but it did decelerate despite you guys you've had at slightly lower rates in the market now for a couple of quarters. Are you guys contemplating to sort of get to that mid-single digit or greater additional sort of easing on the pricing front? Maybe just comment a little bit on how you're thinking about that.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Yes. When our colleagues are forming views of how the next quarter quarters will unfold. There certainly is a component of that around rate. And that can evolve over time. Obviously, as we have more data, we're able to refine our view. But yes, growth and rates are not one and the same, but they're not exclusive of one another in our book.

Operator

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

Joshua David Shanker

BofA Securities, Research Division

Bonds are trending at discount to par because interest rates have gone up, you wouldn't pay par value and you can buy it cheaper in the market. How does it make you feel about your own stock when you have a mark-to-market loss in the portfolio. Is the stock worth anything less when you're holding that loss?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Is the stock work anything less when we have an unrealized loss in the bond portfolio? Is that the question...

Joshua David Shanker

BofA Securities, Research Division

[indiscernible] different, we think how to purchase your own stock...

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Look when the days are...

Joshua David Shanker

BofA Securities, Research Division

[indiscernible] loss position.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

So if I'm understanding your question correctly, as Rich flagged in his comments, we're holding this stuff to maturity. It's super high quality, the average quality is a strong AA minus. And as you can see, the duration is quite short to say the least. So when you look at our organization, our portfolio and you think about it from a valuation perspective, no, I do not think that it would be appropriate to discount the bonds per Richard's comments earlier or when you think about what does it mean for book value? That's how we think about it for all the reasons that we just referenced. In fact, I think a different way to think about it is what is the opportunity for this organization to put more money to work at higher rates, push out the duration, lock those rates in and what does that mean for the earnings power of the business. That's how I would suggest would be an alternative view.

Joshua David Shanker

BofA Securities, Research Division

And do you have the ability to find some capital gains in your system that would cause you to want to offset it with the losses on some of these bonds, neutralize them in put that capital to work at a higher yield?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

There are things that we look at all the time. And Josh, as we've shared with you in the past, from our perspective, we think that there are meaningful off balance sheet, if you like, gains or not fully reflected gains that could be had through some of our assets that we hold that we carry at something less than what we believe market value is. So is there something we could do?

Joshua David Shanker
BofA Securities, Research Division

You can liquefy them when you want it to, I suppose.

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

That's correct.

Joshua David Shanker
BofA Securities, Research Division

Yes. Yes. And no, those are just my questions trying to understand this time. If interest rates go up higher, how that might change your investing ambitions. That's what I'm trying to get at.

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

I think you might think about it that given where interest rates are and given what our duration currently is and given the average life of our reserves, there's a reasonable chance we will continue to nudge out that duration and capture. And I think the higher you see rates go, the more that opportunity could present itself.

Operator

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Rob, the smaller account growth you described a little earlier, how material is that? What's been the catalyst for that? I assume maybe some of the technology advances you've talked about improved efficiency. Could you just give a little more on what you're doing with the smaller accounts?

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

Sure. It's really twofold, Mark, and thank you for the question. First off, larger accounts as the market becomes incrementally more challenging or competitive larger accounts, more zeros turn into [eye candy,] compromises people's discipline. We're a very disciplined shop to my colleague's credit. So that's one reality. The other reality is because of the investments that have and continue to be made on the technology front, we are able to be more responsive than many of our peers in turn quotes around. And speed is a huge advantage in the small account space, responsiveness in differentiating 1 cell.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Very good. And then the cash flow in the quarter was down from last year. Maybe just a couple of the key drivers of that decrease in the quarter?

W. Robert Berkley, Jr.
Chairman, Chief Executive Officer & President

Rich can give you more detail on it, but one of them had to do with a very large tax payment. So I guess that was taxes, when you have to pay more, I guess that's supposed to be happy news, but it doesn't always feel like when you send the money. And then there were a couple of other items. But Rich can unpack it, I would suggest that I would not read too deeply into it. There are a couple of onetime items, but the tax piece is the biggest. But give us a call, and we can go through a chapter and verse, if you like.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

So Rob, you made this comment about being 20% plus more efficient, given some of these technology investments that you've been implementing here. Where are we going to see that in financial results? Are we seeing it already? Is it going to drive lower expense ratios, lower LAE. How should we think about it from an outsider's perspective?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

I think one of the ways to think about it is that, that contributes in our ability to be able to get to a lot more small accounts. So we are able to touch more business more easily than we could in the past. The comment that I was making and perhaps I should have been more specific is our ability to take in submissions and quote them, is up by that 20%. So we're getting that many more at bats, if you will. And that is allowing us what historically, when we lose the large accounts, we would struggle to make up for it with the small accounts. Right now, because of this efficiency, we're able to keep up and then some. So that would be an example just on the front end of being able to leverage that technology, and we have it in a couple of spots, and I think you'll see us push that out more and more across the organization. And we have a few different solutions that are able to do on this. So we are always trying to internally through different organizations create a little bit of a horse race between solutions and then we call less around fewer and leverage it.

Brian Robert Meredith

UBS Investment Bank, Research Division

Makes sense. And then, Rob, second question, I'm just curious, and you may have talked about this before, but this higher interest rate environment we're hearing the interest rates or your treasures are higher they've been in 20 years, right? How does that affect your, call it, pricing decisions when you think about it, right? Are you running to an ROE, and you're pushing that down to your business units? And therefore, can they be a little more competitive if we're thinking that we're sitting here at 5-plus percent treasury yields?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

The answer is an element in the equation, but it is not sort of blindly introduced. So we have lots of conversations around with people where, quite frankly, the loss ratio or the combined ratio could tick up to a level that maybe some might be able to justify given where interest rates are, but we're not willingness to completely open that false it up. So it's really a combination. Are we conscious of the contribution of investment income to make? Absolutely. Does it play a role in how we think about loss ratio? Yes, it does. Does it drive it on its own? No, because when the day is all done -- when we write a piece of business, that piece of business is going to lock up capital for the life of that exposure, and we need to be mindful of that as well.

Operator

Your next question comes from the line of Katie Sakys with Autonomous Research.

Katie Sakys

Autonomous Research US LP

Follow-up on the answer to the previous question about AI and where it shows up in financials. I think previously, Rob, you guys had discussed seeing an uptick in the expense ratio this year versus full year 2025. Are you still expecting that to be the case as we get into the end of the year here? Or is there a potential for some early realization of cost saves here at the end of the year?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

I think the efforts of many colleagues throughout the organization to have the foresight, to invest in technology and the data that powers it for some number of years will not necessarily keep the expense ratio undoubtedly from ticking up, but it will help mitigate it from picking up. So as our earned premium may begin to slow due to market conditions, the technology will allow us to maintain a level of efficiency that will contain that expense ratio from moving up as it perhaps would have in the past. It does not mean it won't move up. It certainly doesn't mean we won't be potentially making other investments that could move it up, but all things being equal, we are more well positioned to control it today and even more so tomorrow than we could yesterday.

Katie Sakys

Autonomous Research US LP

Got it. And then perhaps another follow-up to your discussion of robots and their impact on workers' comp. What kind of time frame are we looking at here in your view? And are you guys seeing any early signs yet of a change in workers' comp loss cost trend from automation or other use of AI?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

So the short answer is, I don't know. Change is a funny thing. It doesn't feel like much changes from day to day. But when you look over -- back over a 2-year or 3-year 5-year, little on a 10-year period, it's shocking how much things actually change. When you travel to other parts of the world, particularly in parts of Asia, it's noteworthy as to how there are certain environments. There are fewer people and more robotic activity that's going on. I would think that over time, we will see more of this here. How quickly that will come to be? I don't know. But do I think it is on the horizon and getting closer every day, yes, I believe that's very likely. Are we seeing any specific examples impacting the business that we operate not through the lens of our -- the clients that we serve.

Operator

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

Meyer Shields

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

Curious as to whether or what the house view is in terms of the historical relationship between interest rates and inflation outside of social inflation because I think that really it has broken down over the last few years. But as you anticipate higher interest rates if -- should we expect higher inflation on the non-casualty lines on the short-tail lines?

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

On the short-tail lines, we've quite frankly been pretty surprised over the past several years. How there wasn't more of an impact on loss costs even during that period coming out of COVID where there was financial inflation, we just didn't see the pop. Additionally, it's been surprising to us the tariffs along the way did not play a greater role. Do I think that there could be a greater impact that is more visible tomorrow than today, yes, that is certainly a possibility. But quite frankly, with market conditions as they are, it's starting to look for commercial property. It's rapidly looking reasonably unattractive even without that happening.

Meyer Shields

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

Understood. That makes sense. And the second question, this is more long-term thinking, but it seems from some of the news in the reinsurance world, like third-party capital is starting to break its way into casualty, and I was hoping to get your thoughts on how that plays out over the next few years.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

I think that one needs to unpack those models and really look at where the capital is coming from whose paper it is, who's in control and really understand particularly some of the ability to force communication. So I would encourage folks as they are -- while I appreciate the point and agree that there is more activity. I think one needs to unpack it and really lead the fine print and understand what type of risk transfer is going on and what type of security is associated with it.

Operator

We have reached the end of the Q&A session. I will now turn the call back to Mr. Rob Berkley for closing remarks.

W. Robert Berkley, Jr.

Chairman, Chief Executive Officer & President

Okay. Well, thank you very much, everyone, for your time and your interest again in the company. From our perspective, it was a very solid quarter. And equally, if not more interesting, that we think the business is particularly well positioned to continue to deliver outstanding returns. We will look forward to catching up with you all sometime in January. Thank you very much, and have a good evening.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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