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WRB - Q4 2016 W. R. Berkley Corp Earnings Call

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PRESENTATION

Editor

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Unknown Speaker*

Please stand by for realtime transcript.

Unknown Speaker*

Unknown Speaker*

Good day, and welcome to W.R.

Berkley Corporation's fourth-quarter 2016 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 limitations, believes, expects, or estimates.

We caution you that such forward-looking statements should not be regarded as 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, 2015, 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, Jr. Please go ahead, sir.

Unknown Speaker*

Thank you Andrew and good afternoon everyone and welcome to our fourth quarter call.

As usual on this and we have Bill Berkley executive chairman vice president and chief financial officer.

In addition the perfectly Frank we have I don't know how many other people the scene to be will poised in position to try and censor the four of us but we will see how they do. The agenda for the call is ongoing to kick it off with some macro industry comments and I'm going to share with you Dotson our quarter and following that I will handed over to rich Mac and he will run over some of the numbers and highlights from the quarter as well and then over to all of you to answer any questions you may have.

So on the macro front it is clearly an interesting moment in some ways things RS expected and in other ways it is not so clear.

As far as under the category of us expected commercialized insurance market continues to be incrementally more competitive.

Comp is aligned it is probably seeing the greatest level of erosion at the most rapid pace.

In some ways this is an completely surprising given the margins that have been available there for some period of time.

Any action that many rater bureaus are taking across the country.

Property remains very competitive to a certain extent this behavior continues to be empowered or enabled by the reinsurance market.

Professionalized it is a very broad line with so many different classes it is different does difficult to use a broad brush having said that there are some parts of the professional market that are exceedingly attractive and there are other parts were people need to be quite cautious.

Commercial auto while it does continue down a path of improvement from our perspective much of that marketplace still has a ways to go. Casualty remains the bright for at least the moment.

And finally the reinsurance market remains as irrational as ever from our perspective.

And quite frankly it is a bit disappointed because every now and then you see some gleans popping through and then in relatively short order it would seem as though somebody comes along and stomps those out.

Other thoughts beyond the immediate market conditions that I will raise and I'm just going to run through these pretty quickly to the extent of a note or nerve with anyone I'm happy to pick it up further during the Q&A.

I guess number one would be frankly we continue to be quite surprised one might refer to as the resistance that the insurance industry particularly the PNC space continues to have towards change.

Specifically the struggles around embracing analytics and technology as well as what would seem to be a lack of recognition for the change in consumer behavior.

Another area but that we are certainly paying attention to is the role of federal regulation.

We have seen that on the uptick over the past several years . Clearly it is unclear as to what the position that the new administration is going to take as a relates to federal regulations role and involvement in the PNC space.

We will have to see on that one but that is something again that we are focused on. Interest rates and directionally where they are headed we have seen some movement . Certainly there is good reason to believe that we will see them moving up from where they are today.

Obviously for some this creates a bit of noise in their book will use coming from the impact on their bond portfolio for organizations such as ours that have gone out of their way to manage their direction and quite frankly keep it somewhat short but also have a fair amount of leverage so that investment income when you look at our economic model we think that we are particularly will position.

One more topic that I will put out there which is a topic that I think is getting an increasing amount of attention recently.

And is near and dear to my bosses heart is the topic of tax.

Clearly there is a lot of noise or a lot of discussion around the lower corporate tax rate in this country.

We along with many others would benefit from that.

I think the other component which is perhaps in some ways a little less clear is what is the impact as result of tax reform companies in the marketplace that are not domiciled in the United States.

Many companies that participate in the US PNC market have benefited from being outside of the United States and the question will be whether that benefit will continue going forward or whether that is something that perhaps may change or be impacted by decisions that actually come out of Washington.

I'm going to turn it over to the quarter and again I will keep this pretty high level.

Rich will get you into the weeds as far as the numbers go. Top line of the growth float was really driven by a spike in competition in the fourth quarter.

It is hard to say for sure some might speculate as a result of many market participants trying to hit their budget . Early returns on January and we don't have perfect visibility for January let alone the quarter let alone the year.

From our perspective if there is a reasonable chance that we are going to see it our insurance grow start to recover and having said that as far as the re-insurance component of our business we do not see that quite frankly growing at 2017 and there is a better-than-average chance that we see fall off further from where it is. As I have suggested the reinsurance market continues to be astonishingly competitive and we are not going to view that marketplace through rose colored glasses.

3Q is adversely impacted by tax to approximately the tune of $37 million in the quarter.

Matthew and Tennessee wildfires were big contributors there.

Again Rich will give you some detail on that that was partially offset by positive reserve development of approximately $17 million and my understanding is that this is the 40th quarter in a row of net positive development and I think again that speaks to our approach being measured when we set our laws and as they season out and we are prepared to adjust our views.

Briefly on the expense ratio as well as corporate expenses they did take up in the quarter.

It was not surprising to us given some of the new initiatives.

Some of which we have announced in some we have not announced at this stage.

As a reminder as far as expenses go, businesses that are in their infancy and have not started to write business we hold those expenses at the corporate expense level.

Once businesses are operational and our definition of operational or writing business and that comes into the expense ratio.

And then finally a quick soundbite on the investment portfolio.

Terrific quarter.

Fired on all cylinders.

Both with the bond portfolio by and large weathered pretty well in addition to that our funds performed particularly well and finally one of our private equity investments, HealthEquity we recognized some gains in that position and in addition to that Richard will talk to you about some other impact on our balance sheet as a result of our holdings down below 20%.

As people know, we have made efforts over the past couple of years to expand our activities in the alternative investment area.

In many cases I think some have struggled with it from a modeling perspective because it doesn't model is easy.

It's a little bit bumpier and having said that folks that are responsible for that part of the business have done a great job and the fact that it is a little lumpy are clearly the risk-adjusted returns have been great.

So I am going to pause there.

I'm going to handed over to Rich and once he is through you have all four of us to answer any questions that you might have.

Which, if you would please.

Unknown Speaker*

Thanks, Rob.

For the fourth quarter we reported net income of $153 million or $1.20 per share compares with the prior year's net income of $110 million or $0.85 per share.

The growth of 39% and net income was due to an increase in relies pretax gains $86 million primarily from the sale of a portion of common shares in HealthEquity and to an increase of $32 million in pretax income.

Those increases were partially offset by few items including lower underwriting income which was impacted by the catalog alluded to earlier.

Lower income for noninsurance business is largely due to the sale of Aero Precision's operations in August this year higher startup costs associated with new operations once again Rob alluded to this earlier where certain of our operations are included in the corporate expenses like or high net worth as many of us refer to. Another yet to be announced companies higher interest expense due to the repositioning of our capital structure we undertook earlier this year which we had alluded to on some of our earlier calls.

And finally to a decline in insurance process.

Our operating income for the fourth quarter was $104 million or $0.82 per share compared with the prior year's operating earnings of $115 million or $0.89 per share.

Overall our net premiums written increased 0.7% to slightly more than $1.5 billion.

The insurance segment grew about 1% to approximately $1.4 billion while the reinsurance segment decline 1.2% to $145 million.

The growth in the insurance segment was led by a 12% increase in our professional liability business offset by a decline of commercial automobiles due to continued inadequate rate environment and certain areas of the market.

The reinsurance segment the increase in property's net premiums written largely offset the decline in casualty business as Rob referenced in his comments the reinsurance market continues to be competitive and we have maintained our disciplined approach of capital on a risk adjustment basis.

Our overall pretax underwriting profits decreased $24 million order over quarter from $106 million-$82 million due to Hartl -- hire cat losses in the quarter.

Cat losses increased $26 million over the prior year's quarter $37 million.

The accident year loss ratio before cat losses was 60.1% compared with 60% a year ago.

The cat losses represented 2.3 loss points and fourth quarter 2016 compared with 0.7 loss points in 2015. The two significant events were hurricane Matthew and the Tennessee wildfires as Rob referenced they totaled $18.5 million and $15 million respectively.

Loss reserves developed favorably by $17 million representing a $2 million increase over the same period a year ago that gives us a calendar year loss ratio of 61.3% an increase of 1.5 loss points from a year ago.

Our overall expense ratio for the fourth quarter was 33.6% compared to 33 compared to 33.3% in the fourth quarter of 2015. The insurance segment expense ratio was 33% which is an increase of 4/10 of a point from the fourth quarter of 2015 the increase in expense ratio for the insurance segment due to the new operations in particular Berkeley cyber risk solutions in Berkeley transactional were added to the insurance segment in the quarter these are preannounced.

We expect these operations will develop further in the near future and begin to contribute underwriting profits for the company.

We are also expanding business in international geographies as well as domestic opportunities that are still early stage of development and also contributed to the elevated expense ratio.

Examples include expansion in Latin America and the Asia-Pacific region.

The reinsurance segment expense ratio decreased 0.9% to 38.5% which reflects the higher increase in earned premium relative to underwriting expenses the underwriting expense was increase by 10% will net increase by 12.7% quarter over quarter.

This decline reflects the increased net premium earnings from prior quarters.

That brings our combined ratio to 94.9% in the fourth quarter of 2015 which compares with 93.1% for the same quarter a year ago.

Investment income increased approximately 25% or $32 million Investment income increased approximately 25% or $32 million-$159 million resulting from a few main contributors.

First, income from fixed income securities was up about $8 million-$109 million with an annualized yield of 3.2%, the most significant contributor to the growth larger investment base second income from the investment fund increased $27 million compared with the year ago quarter which was primarily attributable to energy and real estate fund.

And finally earnings from loans receivable declined $4 million resulting from the maturity and payoff of certain loans in the portfolio.

At September 30 120 16 after tax unrealized investment gains were $427 million representing an increase of $246 million from the beginning of the year or approximately 136%.

The average rating was unchanged at AA minus and we shortened the portfolio from 3.3 years at December 2015 to 3.1 years at December 31, 2016. The overall tax rate was 33.7% which increased primarily due to the significant net investment gains in the quarter and hire state income tax.

The realize gains in the quarter primarily related to the sale of a portion of our common shares and equity which is a reminder was not previously reflected in stockholders equity.

That gives us net income of $153 million an overall return on 13.3% on an annualized basis.

And for comparison purposes pretax return on equity is 20.2%.

Book value per sheet does share increase $1.17 to $41.55 in the quarter representing an annualized increase of 11.6% and avoid your growth and book value per share of $4.34 or also 11.6%.

In the quarter we also returned $109 million to our shareholders a special and ordinary dividend as well as repurchase approximately 575,000 shares of common stock in addition book value significantly grew due to the realize gain in the partial shut are still and HealthEquity and unrealized gains on the remaining interest which change to an available-for-sale security.

This growth is partially offset by a reduction in net unrealized gains in our fixed income portfolio due to the rise in interest rates during the quarter.

Thank you.

Unknown Speaker*

Thank you, Rich Andrew, at this time we would like to open it up for questions please.

Unknown Speaker*

Thank you.

(Operator Instructions).

I first question for the day comes from the line of Kai Pan, Morgan Stanley.

Your line is open.

Unknown Speaker*

Thank you and good afternoon.

The first question Rob the tax reform.

The tax rate were to go down 20% how much of these earnings do you think would be retained and how much do you think would be either reinvested in the business or away.

Unknown Speaker*

No different than how we manage our capital account people have asked about our approach to repurchasing stock.

The dividends and so on. We try and look at what our needs are to operate the business what RR needs for capital and ultimately it is additional earnings and the question is do we need to hold onto it or give it back is there an opportunity to return it to shareholders.

I think we're hoping that we have the problem where we have a lower tax rate and we have more earnings to either grow the business or return to shareholders

Unknown Speaker*

Okay.

In the following question is really on your core loss ratio as well as expense ratio.

Given you said the market becoming more competitive with inflation trend do you think of these underlying loss ratio will maintain current levels or could it be some deterioration and on the expense side it looks like this quarter is higher than the prior three quarters in 2016. Should we start looking for it to be on a full-year basis for do you think the current run rate is a good number 420 17?

Unknown Speaker*

Yes.

The two pieces there, let me touch on the laws pick first.

As far as the loss ratio I think on an apples to apples basis in the industry certainly for much of it rates are going down.

Having said that I think the one variable that you did not touch on which we are very focused on every day at every level is selection.

So I don't envision generally speaking that just because we are seeing what I would say moderate incremental growth and rate pressure that one should naturally just assume that we will stay -- translate to hire laws pick.

Again, we are constantly combing through our book and making sure that we are optimizing as many of the things that we are working on internally I think will more than offset anything you see happening.

As far as the expense ratio goes, as Rich commented I offered a thought on as well, a lot of it has to do with what we have in the hopper.

What we have in the incubator.

And those are the big drivers as far as where the expense ratio came in for the quarter and the impact on corporate expenses.

So obviously for example as rich mentioned Berkeley One our entry into high net worth that is a meaningful component to corporate expense.

Some of the other growth that our new initiatives that Rich had mentioned that her up and going those are having a significant impact on our expense ratio.

So what I would tell you is that I think it is possible that by the end or towards the end of this year it is possible that you will see our corporate expenses coming down and maybe our expense ratio itself will be treading water or it might even take up ever so modestly from here.

So again, I appreciate what you are trying to do and the complexities in trying to get your head around and the lack of visibility.

But this is all driven by new initiatives that we think are going to bring value to shareholders over time

Unknown Speaker*

They could very much for all of the answers.

Unknown Speaker*

Thank you.

Our next question comes from the line of Arash Soleimani, Keefe, Bruyette & Woods . Your line is open.

Unknown Speaker*

Thanks and good after eating -- good evening.

Back to the expense ratio I know you mentioned things are in the incubator won't impact the expense ratio.

I guess one high net worth does go live what type of expense ratio impact should we expect at that point?

Unknown Speaker*

The answer is that we haven't really published it at this stage.

The impact we will have to see but it would certainly raise it. At the same time we do not know what some of the businesses sort of under the category of expense ratio how they will be maturing.

Our expectation is that many of the younger businesses or businesses that are operational but in their infancy will have gotten some traction and the earned premium will be kicking in. That will be moving the expense ratio down.

But if you are looking for a specific dollar amount or number of basis points, that high net worth is going to have on the expense ratio that is not something that we have to share today.

Unknown Speaker*

Okay.

That's helpful.

Thank you.

By other question, obviously interest rates have a way to go up. As they do go higher, does your investment appetite or your investment strategy change from where it is today?

Unknown Speaker*

Just given that you have obviously gone more into the capital gains approach.

Unknown Speaker*

This is Bill.

The answer is we have got into the capital gains which was a very limited amount of our portfolio.

And we don't buy things to own forever for the most part although there may be some things that we own forever.

We make decisions based on the environment and our examination of how we look ahead.

So that will depend on not just interest rates but inflation and certainty.

So for example, more money into the real estate marketplace when real estate was not particularly attractive.

We may choose to be less involved in real estate.

We moved into certain industrial areas when that wasn't exactly maybe less or more.

So it is a judgment we are constantly making.

At this point in time, we think inflation is going to be modest and interest rates are going to go up modestly.

And we will continue to try and find opportunities that are attractive.

But industrial opportunities will become more attractive if interest rates and taxes go down.

So obviously that is the offset to that.

So bottom line is we will probably continue with their current balance.

We may move our nontraditional bond portfolio a little bit butts we do expect tax rates to go down a little and interest rates to go up a little and inflation to move up a little which we -- we are not likely to increase our fixed income investments.

Were likely to keep the balance we have.

Unknown Speaker*

Thanks very much for that answer.

My last question is an extension of Kai question on taxes.

I guess to what extent would you expect your underwriter appetite to change ? Are they evaluated on pretax underwriting incomes?

Are they evaluated on an after-tax basis?

What expense to tax rates make the more aggressive?

Unknown Speaker*

So from my perspective and I believe my bosses perspective first of all underwriters, we are focused on making a reasonable risk adjustment return and they are focused on making an underwriting profit.

We collectively with the management team of each operation figure out what the right level of margin or underwriting profit is. As far as the impact on tax and that changing our targets, I think it is more likely they are not going to be turning down (Inaudible) I think there's a real possibility you will see companies that are based outside of the United States that all of a sudden find themselves carrying a higher tax rate than they have historically.

And they examine what their underwriting margin is and whether they need more underwriting margin in order to make their economic model work because their tax benefit is eroded or eliminated.

Unknown Speaker*

Thanks very much for the answer.

Unknown Speaker*

Thank you.

Unknown Speaker*

Thank you.

Our next question comes in the line of Joshua from Deutsche Bank . Your line is open.

Unknown Speaker*

Good evening everybody.

I wanted to talk a little bit about the commercial auto market IC premiums pulled back it's obviously probably the place are getting the best rate.

If you talk about where rate is and how much volume you're using I guess intentionally and why now maybe this is the time to grow commercial auto given there's pricing there.

Unknown Speaker*

So I think there were a couple of questions in there, Josh.

If I miss a couple of them let me know.

First of all, it is true that our business has shrunk in the commercial auto space.

I would suggest to you the from an exposure perspective we have shrunk even more than it appears in the release because you got to remember we are getting significant rate increases and we are still shrinking.

So that perhaps as an indicator to you as to actually the exposure is down even more than you might think at first blush.

As far as the market goes and apologies if I gave the wrong impression, our view is that it has finally touched bottom and it is moving in the right direction.

We certainly do not believe that by and large the commercial auto space is a hard market or anything approaching that.

Having said that, it is one of the few lines we are seeing that rate increases are outpacing trend as opposed to some other lines of business where rate increases are treading water with trends or maybe in some cases a product line is losing altitude.

So from my perspective and I think my colleagues perspective it is by and large for primary commercial oriole better than it was yesterday but not attractive enough from our perspective that we want to open up the speak it yet.

We will have to see if it gets to that point . Quite frankly we saw a lot of momentum in the commercial auto space as far as people willing to push for rates.

Up until December.

And then we looked at December and we were surprised by the level of competition that seemed to step back into the market.

So we are cautiously optimistic.

Unknown Speaker*

Has the market maximized over the market yet?

Unknown Speaker*

I don't know the answer to that.

I cannot speak for others but it would seem as though -- I can't put myself and other people shoes, Josh.

I don't know what's going to other people's minds.

Literally for much of 2016 there seems to be a recognition that things need to tighten up. People need more (Inaudible).

Hopefully that will continue to to 2017 we have to see what happens.

Unknown Speaker*

In the exposure that you are using is that because it's being bid away or because you're walking away?

Unknown Speaker*

Both.

Unknown Speaker*

Both.

Unknown Speaker*

Often times those go hand-in-hand we say this is the rate we need is someone else will come along and look for something material less.

Sometimes we will look at the exposure and we will say we don't like the exposure period.

Unknown Speaker*

Thank you very much.

Unknown Speaker*

Yep . Thank you.

Unknown Speaker*

Our next question comes from the line your line is open.

Unknown Speaker*

Thanks and good afternoon.

Maybe just a couple of questions first of all just going back to the discussion on US corporate tax rate.

I guess what you're trying to figure out is if the tax rate goes down does the benefit get competed away based on your comments regarding the competition.

And I guess what you are saying is that might be a more blended outcome.

Is that a fair way to look at it or how are you thinking about that?

Unknown Speaker*

Will you know what I'm going to yield to our chairman here who has strong views on the topic.

Unknown Speaker*

I think the answer is we believe we have a president and legislature who is very conscious of the fact that we should not have a tax law that gives preference to nine US entities.

Because that is what it's doing at the present time.

To companies one offshore and one domestic the company offshore pay substantially less to no tax.

So we think that will benefit us because we think this president and his legislature will recognize that sometime over the next 12 months and level the playing field.

So that will not -- that part will not lower our taxes.

Excuse me one minute.

[Indiscernible -- loud coughing] Will raise the tax of our competition.

The overall US tax rate we think will go down.

Which will benefit us. So we would expect there will probably be continuing the same amount of competition at a lower tax rate.

Unknown Speaker*

[Indiscernible -- loud coughing]

Unknown Speaker*

Yes.

In the past you were involved , there was a coalition for domestic insurance industry and then there was I think a Council for competitive insurance rates.

Would you be playing a similar role this time around?

Unknown Speaker*

We continue to have an American coalition or competitive insurance rates.

And this group of Americans domestic companies continue to work hard to slick legislative solutions to having level taxes and we are confident that is something that the current administration and the current Congress is much more receptive to than in the recent past.

Those jobs, those people and the capital paying a fair rate of taxes to the US is the objective so yes I expect that we will continue, I will continue and we think we have substantial support the United States property-casualty industry will work with us in this process.

Unknown Speaker*

Got it. And then the final question I will make this quick just going back to the discussion on Berkeley One obviously were not getting close to the launch date in the second half of 2017 I know we talked a lot about this in June 2016 with this is being set up. None of this is clearer -- closer to being launched.

How should we think about the mid-and the short-term and long-term opportunities?

Should we expect an immediate ramp-up for the product or is there a slow slow which will last for a few quarters before the premiums are more apparent to us?

Thanks.

Unknown Speaker*

The answer is that it is going to be a gradual build as the business rules out.

And it will build momentum over some number of quarters as we said in the past over time it can be a meaningful part of the business.

But this is not a situation where one flips a switch so to speak and all of a sudden a large business pops out of a box.

So there will be a ramp-up period of time as it scales.

That will take quarters and ultimately years under growth and develops out.

Unknown Speaker*

Got it. Thanks for all the answers and good luck for the future.

Unknown Speaker*

Thank you.

Unknown Speaker*

Thank you, and next question comes from the line of Jay Cohen, BofA Merrill Lynch . Your line is open.

Unknown Speaker*

Good evening, Jay.

Unknown Speaker*

Good evening Rob and Bill and the rest of the team.

Several questions.

Rob you had mentioned an increase over the past several years in federal regulation.

We generally think of this industry is being state regulated I'm wondering if there are any regular -- regulatory issues at the federal level that have been burdensome and will potentially go away or go down with the new administration?

's the Mac you know, Jay from my perspective I think that ultimately it is a question for the industry trying to figure out who is regulator is or who they are.

Who is master is to a certain extent.

And two sets the rules and that is fine.

I think over the past several years as (Inaudible) got some momentum there were certain situations such as equivalency that popped up that created a little bit of confusion for market participants as to who was doing what and what would be managed at a state level/by the NAIC and what was the rule for Washington.

Obviously with a new administration we will have to see what the view is as to again the role that Washington should play in the property and casualty insurance industry.

Unknown Speaker*

Got it. Next question.

Given the rise in interest rates, I am wondering if you can tell us what your new money yield is relative to your portfolio yield at this point?

Unknown Speaker*

The new money yield is still probably 50 basis points under our average portfolio yield.

So even now our new money is not going to get us where we are but that is also in part because we're keeping a short duration.

If we were more confident about inflation interest rates and we pursed our duration out to the longer side of our liability ratio, it would be closer to a max on it is right now.

But right now even with that three, 3.40 -- 3.4 year duration we are coming up short offsetting is both are capital gains in our portfolio which is giving us more investment income.

Unknown Speaker*

That's really helpful.

And the last question I guess back on the tax side maybe a potential benefit for your reinsurance business, if US companies are going to be obviously by reinsurance from offshore entities do you see the border adjustment playing a role and possibly making it more expensive to buy from offshore reinsurance companies for domestic insurance companies?

Unknown Speaker*

First of all, I don't think anyone at this point knows what the tax posture is going to be. I think if you go to a border adjustment plan most likely in our opinion would be most of the major insurers would open US subsidiaries.

And that would take care of the problem.

But US represents give or take 40% of the property-casualty business.

And I think that that will probably make the real outcome.

But I think we are a long way at this point from knowing what the tax equalization structure will be for these kinds of things.

Unknown Speaker*

Got it. Thanks for the comments.

Unknown Speaker*

Thank you.

Unknown Speaker*

Thank you.

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

Unknown Speaker*

A couple of questions here for you.

Rob give me a comment about the competitive reinsurance environment particularly on the economy side are you seeing any opportunities to see more business away?

I think other companies are starting to do that.

Unknown Speaker*

We certainly are acutely aware from the perspective how competitive the market is so we are conscious of that as far as the specifics around the reinsurance purchasing strategy.

That's generally speaking not details that we get into.

But we are aware of the market conditions.

And we try and take advantage of that at the same time we are conscious of the fact that these insurers are our partners and we are not looking to treat them as anything other than a partner.

Unknown Speaker*

Gotcha.

I was wondering if the opportunity to pump your expense ratio as you got some of these --

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Unknown Speaker*

No. It is certainly something that we look at. Having said that, some of the commissions are attractive but we think the businesses that we are building a growing we think they are pretty attractive to the we look at structures to give us a little bit of relief.

Unknown Speaker*

Great.

And the next question, for you and Bell, can you talk a little bit more about what you were seeing prospective laws cost inflation into the reason I bring it up as we've seen more more companies buying these adverse development covers which are starting to happen back in the late 1990s.

Maybe your perspective on that.

Unknown Speaker*

Well my two senses both kind of funny that you bring it up because we were just chatting about that the other day.

Are the signs of something else to come?

Clearly if you look at the accident year loss ratios there are a lot of challenges that exist in the market.

We have and continue to believe that there are a lot of pain that this hasn't come into focus potentially.

And if you actually back down or normalized for cat activity and people stop living off of value development which eventually it will seem as though they're going to need to there are a lot of issues.

So do I think that this is going to turn into a situation like the late 90s?

No. But do I think that there are some organizations the got a little ahead of themselves, yes.

I think that there is some pain and some of those companies that have some pain, I don't think that there is a lot of patience for volatility amongst the shareholders.

Unknown Speaker*

Got you.

The last question for you, back on tax but more from the market perspective.

Do you think if we do get a reduction in the US income tax rate that some of not all of that were ultimately be away with perspective price?

Unknown Speaker*

No.

Unknown Speaker*

I think quite frankly at this stage it could go the other way, Bryant.

And I can't speak to the whole market but I can tell you from our perspective the number of competitors that we are in the ring with every day, that are based outside of the United States, it is a significant percentage of the population.

So a lower tax rate for us at a higher tax rate for them I think is just going to force them again to really focus on their underwriting results.

And the core economic model.

And quite frankly I think if anything it is possible it could be a double positive for our shareholders.

Unknown Speaker*

And Brian, I think if you look historically at the change just like when portfolios changed, companies haven't changed their underwriting strategies when their taxes have changed.

They have continued underwriting either brilliantly or terribly but not because they haven't changes their attitude because of taxes.

Unknown Speaker*

Great.

Thanks for the interest.

Unknown Speaker*

Thank you and next question comes from the line of Ian Gutterman, Balyasny Asset Management LP . Your line is open.

Unknown Speaker*

My questions were largely covered but maybe if I clarify a couple of things.

Bell, just to clarify on offshore tax.

Hell I read the bills the are out there.

It is very unclear how financial firms will be treated with things like a border tax and some of their other proposals.

I guess what gives you confidence something will be done about offshore financial companies as opposed to just for rent manufacturing and retailers and things like that?

It seems some people think that financials will be excluded from some of the stuff and maybe not a whole lot changes a remake of the neo-Bill.

Unknown Speaker*

Well I think that certainly there are lots of people especially those people located in Bermuda and Ireland and other places that will like to put forth the view that that is the case.

I think that if you look at what the administration has put forth, they don't want US business enterprises to be at a disadvantage because you are located from illegal enterprise structure offshore.

There is no enterprise that would be more suited to their concerns than the property-casualty insurance . We have been able to persuade almost every when we see although one never knows where the world goes.

And we believe that it is obvious the US would not have written their tax laws to benefit non-US insurers.

So we think whether they include all financial companies or not all financial companies, we believe it is most likely the property-casualty insurance companies will be included in any bill that is put forth because so obviously designed the current status to give non-US companies a benefit and a competitive advantage.

All you have to do is look at where all of the money, the finance companies that are located in Bermuda and Ireland's and wherever.

The money all came from the US goes off shore and then they pay no tax under the United States business over there

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Unknown Speaker*

I definitely agree I just didn't know of Congress understood is what I was trying to ask.

Unknown Speaker*

I believe they do and I think we have more people in support of the neo-Bill.

But whether it is to border adjustment we think this administration understands that it is billions of dollars of revenue that will come and how it is introduced maybe even tens of billions of dollars

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Unknown Speaker*

Understand than the other place I'm trying to understand would be Lloyd's.

Not so much on the tax rate being all that different but we do have a border adjustment and a lot of that emanates in the US. What happens to Lloyd's and that with all the risk?

Unknown Speaker*

I cannot give you the answer because I don't know.

I don't know how the border adjustments tax rules would work.

And in fact, a US trust fund is really a very special entity so while Lloyd's might have business that emanates in the US in many ways Lloyd's business goes into the US trust fund.

Lloyd's might in fact not be stuck in the same with everybody else.

I don't know the answer.

That was purely a hypothetical issue.

Unknown Speaker*

Okay understood and then lastly the other thing going around, obviously this administration is against is very protectionist.

China I think is come out and advocated against Chinese firms buying US firms without extra clearance.

Doesn't feel like some of the M and a maybe start to slow down at least because our president doesn't want and the Chinese don't seem to want it in your taking on a major source of buyers?

Unknown Speaker*

I'm going to make a brief comment and Rob has been much more involved will give you a better comment.

Regulations and oversight of these things have been around now for a long time.

Has really changed the direction of the economic factors dictate.

So I think everyone may have a view for the short-term but it wont change the dynamics of the economy.

Rob?

Unknown Speaker*

I agree.

I don't have a better answer

Unknown Speaker*

All right thank you appreciate it.

Unknown Speaker*

Thank you.

We have a question from the line of Ryan Tunis, Credit Suisse your line is open.

Unknown Speaker*

Good evening guys.

Unknown Speaker*

Good evening

Unknown Speaker*

Just a few to clean it up. The first one in the insurance segment.

If you guys could help us a little bit more just understand what drove the slow down in premium growth there.

Was it new business opportunities retention and I guess along those lines quantify the impact the negative impact of rate.

Unknown Speaker*

A couple of things.

First of all the renewal retention ratio give or take was hanging around where it has been I think it was just a tick shy of 80% for the group overall but it was sort of in that neighborhood.

What might be helpful, what pages this rich in the release?

The growth on page 5. I'm sorry six you will see at the top line of business which will give you a little bit of insight as to where is growing and by and large new business is tough to come by. There are a lot of people out there with a pretty big appetite and they want to grow and they are willing to do at a price level and they will still -- it don't make a lot of sense to us.

Unknown Speaker*

Okay that's helpful.

Unknown Speaker*

I think you should understand a lot of people have budgets and run their business by budgets which is not really how we run our business.

So you get to the fourth quarter and people are going to get their incentive compensation.

That always happens in the fourth quarter.

Unknown Speaker*

Understood.

So maybe the fourth quarter growth rate is not necessarily run ratable.

Unknown Speaker*

Yes.

As I suggested earlier we will have to see.

Tell us what the competitive environment is going to be for 2017 and we can tell you what we think the top line is going to look like.

Having said that as we touched on earlier we don't have perfect visibility into January and if we did that's not a perfect proxy for the first quarter of the year but early returns in January for encouraging.

Unknown Speaker*

In the insurance business as it relates to the reinsurance business that is a pretty tough environment.

We are being very selective as we have been and we will continue to be going forward we think there is a better than average chance you're going to see that business shrink in Q1 of 2017. I think there's a good chance you will see a shrink for the whole year.

Unknown Speaker*

Okay.

And then thinking about catastrophes.

Obviously there have been some pretty well-known events.

The last few quarters you guys have been seeing a little bit more on taxa we would've expected historically and I've noticed premiums have been up . Is there anything about your Profile as we look into 2017 that you would say is different than it was potentially headed into this year?

Unknown Speaker*

No. When we looked at our portfolio it hasn't shifted.

We have a become more inclined to accept cat risk on a net basis.

I think what's happened is the series of events they have from our perspective been in no man's land zone if you like.

And what I mean by that is they were big enough to be aggravating.

But not big enough to meaningfully go into our reinsurance structure so in some cases touched it. It hasn't really been a big enough event that it is a notable industry event and piercing through the towers that we buy.

Unknown Speaker*

Okay.

And then one last one maybe for Bill on capital management looking into 2017. Is there anything I guess about this no man's land with tax reform that makes you want to take a pause in terms of managing capital?

Is there any way we should think about the mix being different in 2017 versus 2016?

Thanks

Unknown Speaker*

I think you so we paid to dividends last year special dividends instead of one dollar special dividends.

It is because we are trying to get a better assessment and the world is changing ever more rapidly and there is more uncertainty.

We will continue to be cautious trying to see where it goes.

And we will continue to search for opportunities.

And we are going to make those judgments as capital is balanced with what we can do with the money and what the price of our stock is. We are truly a company that is run with what we think is the best interest of our shareholders.

And we make those judgments every day just as though we own the whole company and we are thinking about it in those terms. So I don't think were going to make a change or a strategic reconsideration.

Every day we get up and we say what can we do that is best for our shareholders and that is how we manage the business and I expect it will continue that way.

Rob's feelings are exactly the same as every other senior officer here because every one of our people are 60, 70, 90, 100% of their worth is tied up in's our stock

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Unknown Speaker*

Thanks for the answers.

Unknown Speaker*

Ladies and gentlemen one more call for questions.

(Operator Instructions) I am seeing no other questioners in the queue at this time I would like to turn the call back over to management for closing comments.

Unknown Speaker*

Thank you, and true and thank you everyone for calling in. From our perspective it was a good quarter.

Obviously this top line Wallace slowed down a little bit in our opinion certainly the insurance business where our margins are more attractive at this station the reinsurance business we think you are going to see potentially an uptick in the growth in 2017 from what we saw in the fourth quarter.

Having said that we will have to see how much of that is offset by the reinsurance operation.

When the day is all done we are very focused on risk return and underwriting margin and if that means the margin isn't there we are prepared to shrink the business.

I think the other piece that is worth mentioning also is we continue to focus around total return for shareholders and that is very much included in our approach on the investment front.

There are from our perspective there is rather I should say from our perspective a meaningful pipeline of other gains that we will be harvesting and as we take those gains and we have visibility as to how that will unfold under the next few quarters we again think that is going to have a meaningful impact on the result of the organization and in addition to that while the gains are coming through we continue to plant seeds and create new opportunities which we think will create gains in the more distant future.

And lastly we went through the laundry list of macro issues in particular I think the tax question has a lot of people's attention while no one knows with great certainty exactly how that's going to play out again as we discussed earlier clearly a lower corporate tax rate in this country.

It will work to our benefit and by extension our shareholders benefit but in addition to that I think it would be a mistake for anyone to gloss over or brushoff the potential impact for companies that are based outside of the United States and at least the apparent focus of the current administration that was suggested earlier level the playing field.

So again thank you for calling in. We look forward to speaking with you in about 90 days.

Good night.

Unknown Speaker*

Ladies and gentlemen thank you again for your participation in today's conference this now concludes the program and you may now disconnect at that time.

Everyone have a great day.

Unknown Speaker*

[End of realtime transcript.

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