

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WRB.N - Q4 2021 W R Berkley Corp Earnings Call

EVENT DATE/TIME: JANUARY 27, 2022 / 10:00PM GMT

OVERVIEW:

Co. reported 2021 operating income of \$952m or \$5.10 per share and 4Q21 operating income of \$284m or \$1.53 per share.

CORPORATE PARTICIPANTS

Richard Mark Baio *W. R. Berkley Corporation - Executive VP & CFO*

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

William R. Berkley;*Executive Chairman of the Board*

CONFERENCE CALL PARTICIPANTS

Alexander Scott *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Brian Robert Meredith *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Elyse Beth Greenspan *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

Mark Alan Dwelle *RBC Capital Markets, Research Division - Director of Insurance Equity Research*

Meyer Shields *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Michael David Zaremski *Wolfe Research, LLC - Research Analyst*

Michael Wayne Phillips *Morgan Stanley, Research Division - Equity Analyst*

Ryan James Tunis *Autonomous Research LLP - Partner of Property & Casualty Insurance*

PRESENTATION

Operator

Good day. And welcome to W.R. Berkley Corporation's Fourth Quarter and Full Year 2021 Earnings Conference Call. Today's conference call is being recorded. The speaker's remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that 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, 2020, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results. W. R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise. I would now like to turn the call over to Mr. Rob Berkley. Please go ahead, sir.

W. Robert Berkley, Jr.;

President, CEO & Director
Josh, thank you very much, and good afternoon all. And I would like to echo Josh's comment, welcome to our fourth quarter call. Joining me or cohosting with me is also Bill Berkley, Executive Chairman; and Rich Baio, Group CFO. We're going to follow a similar agenda to what we've done in the past. I'm going to hand it over to Rich in short order. He's going to walk us through some of the highlights from the quarter and the year, and then he'll hand it back to me. I'll offer a couple of quick thoughts, and then we'll quickly move on to the Q&A session.

But before I do hand it over to Rich, I did want to make a couple of very quick comments. I guess number one is, I think anyone who's has had an opportunity to have a look at the release, you would have recognized that it was a great year, and it was a great way to finish off with a strong quarter. This doesn't happen on its own, and I just wanted to take again a moment to both thank and congratulate my colleagues. This is very much a team sport, so the appreciation goes to everyone throughout the organization.

Let me pivot also to a couple of macro observations. We can obviously get consumed by the results of the past 90 days or the results for the year. But we also spent a good deal of time thinking about what the business is going to be doing going forward, how we are positioned for the environment that we see coming our way. And quite frankly, we are very encouraged on multiple fronts. If we start by examining the underwriting

side of the business, the growth that you saw throughout the year, including the fourth quarter, remains very robust. It's coming through in both exposure as well as rates. And we really do not see that losing momentum. And Rich and I will be talking a little bit more about that later on.

But again, as we see it, the growth will continue. And the rate increases, there's nothing that leads us to believe that we will not continue to be able to get rate increases that outpace trend by something that would be measured in the hundreds of basis points. So again, very promising on that front. Pivoting over to -- for a moment to the investment side of the business. Again, we have, in my opinion, taken a very disciplined approach for an extended period of time in keeping not just the quality high, but the duration short.

As we've discussed in the past, this has come at a price. But we think that we're going to be rewarded for that discipline going forward as you see interest rates moving up. You're going to see an opportunity for us to invest at higher rates, and you're going to see an opportunity for us to, under those circumstances, take the duration back out or extended. Both of these circumstances on the underwriting side and how we are poised there as well as how we're positioned on the investment side are going to have a very meaningful impact on the company's economic model.

And as this unfolds, I think it's going to be quite consequential of what it's going to mean for the earnings power of the business. So let me pause there, and I will hand it over to Rich. And I'll be back once he's through with his comments with a few other observations. And then we will, again, as promised, move it over to Q&A. Rich?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

Thank you, Rob. And obviously, I'll be focusing on the financial side here. So the company had another terrific quarter, as Rob had alluded to, with a number of areas reaching record level on a quarterly basis as well as on a full year basis. Operating income increased 64% over the prior year's quarter to a record \$284 million or \$1.53 per share. On a full year basis, operating income reached a record \$952 million or \$5.10 per share. The key contributors are related to record underwriting results for the quarter and full year as well as strong net investment income.

The positive momentum in the business continued throughout the year with growth in quarterly gross premiums written of 24.5% to almost \$2.8 billion, bringing us to a record \$10.7 billion for the full year. Similarly, net premiums written grew 26.6% quarter-over-quarter to about \$2.3 billion and a record full year of approximately \$8.9 billion. On Page 7 of the earnings release, you'll see net premiums written by line of business for the comparable periods. All lines of business grew in the Insurance segment, including workers' compensation, albeit from increasing payrolls.

The total for this segment amounted to \$2 billion with a growth of 25.8% over the prior year. The Reinsurance & Monoline Excess segment also grew in all lines of business, totaling \$273 million and growing 33% for the quarter. The growth in exposure and compounding rate improvements in most lines of business will continue to earn through the income statement. In the 3 most recent consecutive quarters, total net premiums written had an average increase of almost 26%, which has contributed to the acceleration in net premiums earned of 17% for the full year. Pretax quarterly underwriting income was a record \$261 million, surpassing 2 other quarterly records this year.

On a full year basis, record pretax underwriting income of \$845 million was more than twice the next closest year, which occurred in 2019. The company continued to demonstrate its management to cat exposed business. And despite heightened cat activity, such losses did not materially impact our earnings. We reported cat losses of \$49 million or 2.2 loss ratio points compared with \$42 million or 2.3 loss ratio points in the prior year. The current accident year loss ratio, excluding catastrophes, improved 1 loss ratio point to 58.2%, primarily driven by rate improvement. Prior year loss reserves developed favorably by approximately \$1.3 million in the current quarter.

That brings our reported loss ratio to 60.4%. The expense ratio continued to improve over the prior year, representing a benefit of 1.8 points to 27.8%. The growth in net premiums earned continues to be a major contributor to the improvement in our expense ratio as it outpaced expenses by 7.4% in the quarter. Our newer operating units continue to grow their portfolio, adding scale to the business and moving closer to a more normalized expense ratio. We continue to make investments in the business as evidenced by the 3 newly formed operating units and we look into their future prospects.

We anticipate that our expense ratio for 2022 should be in the range of 28% to 29%. Closing out the underwriting performance, our current accident year combined ratio, excluding catastrophes, was 86% for the quarter compared with 88.8% for the prior year quarter. Turning to investments. Net

investment income was \$165 million for the quarter. The alternative investment portfolio, primarily investment funds, provided strong results. Our core portfolio improved despite the low interest rate environment. On a full year basis, our investment income of \$672 million is only a few million dollars lower than our record reported in 2018.

We continue to maintain a highly liquid portfolio with a duration of 2.4 years and maintained a high credit quality of AA-. Operating cash flows remained strong throughout the year with a record level of almost \$2.2 billion for the full year. Pretax net investment gains in the quarter was driven by increased unrealized gains in our equity portfolio contributing to the full year results of \$107 million. The full year realized gains included the sale of a private equity investment and real estate property sales.

The effective tax rate was 17% in the current quarter, which largely benefited from a lower foreign effective tax rate and investments in tax-exempt securities and dividend-paying equity securities, along with closing certain examinations with tax authorities and truing up our prior year tax accrual. Stockholders' equity increased to almost \$6.7 billion as of year-end after returning capital of \$200 million in the quarter and \$478 million for the full year. The company repurchased 1.75 million shares throughout the year at an average prior share of \$69.85.

Book value per share before dividends and share repurchases increased 3% in the quarter and 12.5% on a full year basis. The annualized return on beginning of year equity for the quarter was 18.7% and 16.2% for the full year. With that, I'll conclude my remarks and turn it back to Rob.

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

Rich, thank you very much. So just a couple of quick observations from me and as promised, we'll move on to the Q&A. But clearly, the top line continues to be very healthy by any measurement. We like the balance that we see between rate versus exposure growth at 1/3, 2/3. I would tell you that that's sort of what it all adds up to when we put all the pieces together. But we look at this at a very granular level. We're looking at it by line, by exposure, by territory. And again, we're trying to make sure that we have the right balance there. Long story short, really, essentially across the board, we have the -- it's all about specialty business these days.

And we have the right people, with the right expertise whether it's on the commercial line side, admitted or nonadmitted. Whether it's domestic or international or -- certainly would not want to leave out our colleagues on the high net worth side. We are firing on basically all cylinders. Also on the top line, Rich touched on this, I would just mention, we do have sensitivity to the workers' comp line.

We think there still are opportunities there, but one needs to be very cautious. The growth that you see in that line, as Rich commented, is really being driven by payroll growth. Across the board, everywhere else, it's pretty much just really healthy growth as a result of the broader environment. The loss ratio, Rich covered this, I would just add my two cents the 60.4% or the 58.2%, if you want to slip on the rose-colored glasses, that's fine. But I think one of the things that we work very hard at is making sure that we peel back a few layers and really understand what's going on in the business.

So one of the things -- and I know we've talked about this in past calls that I wanted to flag for people. And that is the paid loss ratio. And the paid loss ratio for the year of '21 was at 45.2%. And maybe to give you a couple of other data points. If you go back to 2017, that was a 56.9%; '18 was 57.5%; '19 was a 55.2%; '20 was 51.9%. And then, of course, you can see the meaningful progress in '21. And again, that was pretty stable quarter-to-quarter. The expenses, Rich touched on that. We still are getting some benefit, if you will, from the lack of travel as a result of COVID, though that is starting to pick up a bit.

I would say really what's driving it more than anything else is the growth in the earned premium. And as the business continues to grow, we're going to see the benefits on multiple fronts, including the expense piece. So long story short, the underwriting is looking really good. And as I commented earlier, there's a lot of momentum. And as we look at January, and we're looking at submissions and where it looks like things are coming out, there is nothing that leads us to believe that the environment is not stable or perhaps improving. And we're very encouraged by that.

We touched on already, and Rich offered a few comments on the investment portfolio, but I would just again flag for those that are interested, not to underestimate the leverage that exists in our economic model. We have, again, been very disciplined on many fronts, including the investment

portfolio and the duration. As rates move up and we take that duration out and the book yield moves up, I think one should not underestimate what that means for the earnings power of the business.

And of course, that alongside with the underwriting margin and the health of that and the scale of the business overall, I think, bodes well for the foreseeable future. So I'm going to pause there. And let's pivot over to Q&A and talk about what you all would like to talk about. Josh, if we could please open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

My first question, just going back to the rate versus trend discussion. It seems like the rate increases in '21 surpassed your expectations, but you guys were pretty conservative sticking with your design and loss ratio throughout the year. So as you go through the budget process for '22, does that give you some room to bring down those design loss ratios more significantly when we think about the underlying loss ratio improvement you could see over the coming year?

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

Look, from our perspective, we think there are a lot of variables out there. Obviously, I think, we talked on these calls in the past and that we've talked offline, if you will, about our sensitivity around social inflation and then, of course, financial inflation. So do I think we are in a comfortable spot? Yes, generally speaking, I do. But do I think those trends continue to move up and one needs to be very careful not to take their eye off the ball? Without a doubt. So I think that we are paying close attention to it. We're comfortable with our margins today.

If you do the math, arguably, we may be being, some might say cautious, others might say measured and thoughtful to the tune of 1 point plus or minus? Yes. But given the level of uncertainty and the leverage around those, we think it makes sense to be measured. But yes, we are comfortable with the rate that we have been achieving, and we look at it through the lens that trend continues to move up, and we have every intention of keeping up with it or more.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

Okay. And then my second question. The corporate expenses, I think they're around \$64 million in the quarter, which is pretty high relative to where they had been trending. Was there something one-off in that? And then could you just help us think about how to model that line going forward?

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

Rich, do you want to offer a thought on that, please?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

Of course. Elyse, the biggest contributor to that is on the compensation side, in particular, as it relates to the special dividend that we paid out in the fourth quarter. So for those folks that have received RSUs that are vested, they receive dividend equivalent and that winds up going through compensation expense as opposed to through a reduction in equity.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

So we could see this trending back down, I guess, in the first quarter?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

Yes.

Operator

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

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Maybe we can touch on the paid loss ratio that you talked about earlier. I think it's not just Berkley. Although I -- maybe Berkley's paid loss ratios are down more so than others, and we'll be able to unpack that when others report. But it feels like peers have also been showing lower paid loss ratios. Maybe you can kind of unpack what's driving that. I know we've talked in the past about kind of some core closures, but is there also kind of business mix shift that's driving your paid loss ratios lower? Or is it just simply a lack of losses coming through the pipes and some conservatism?

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

Well, I think what it really is, is just the impact on higher rates and other underwriting activities that we have taken over the past years, and it's coming through, and we're seeing the benefit of again higher earned premium or more premium per unit of exposure as well as underwriting actions that we've taken that are leading to better outcomes. And certainly -- go ahead, I'm sorry.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

No. I guess that's what I meant by conservatism. Is that what you mean? Is that giving you kind of the confidence in your answer to Elyse's question about maybe you're being a little bit more cautious to the tune of 1 point or so? Is the paid loss ratio...

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

I think we're being measured. I think we acknowledged the fact that social inflation is real. I think we acknowledge the fact that financial inflation is here. And we are in the business of selling our products oftentimes years before we actually write the check or the product. The cost of the product is fully known. So we are being, I think, thoughtful about it is how I would characterize it.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Okay. Great. Maybe touching on social inflation. Do you at Berkley kind of bifurcate between frequencies and severities? I guess, some participants in the industry have said that the frequencies haven't been as high as expected, but severities continue to come in hotter, which is leading them to be...

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

Yes. So we -- absolutely, we're looking both frequency and severity. And quite frankly, we look at it at other dimensions, if you will, of the situation as well. I would tell you that there is no doubt that severity continues to tick up at a notable rate. As far as frequency goes, I think that the industry needs to be very careful that they do not lose sight of what the consequences were of COVID and how that created a pinch point in the legal system. And that could lead one to believe that frequency dropped and perhaps it did. But one needs to understand that was likely a temporary phenomenon as opposed to something that's more permanent.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

That's helpful. Lastly, based on your commentary, it sounds like still plenty of momentum on the top line yet the guidance is for kind of the expense ratio, I know. Elyse rightly pointed out that there were some higher corporate expenses. But expense ratio is still the kind of -- probably not improve further and it's improved a lot. So is there also some potential conservatism in the expense ratio if the market conditions...

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

Well, there are a couple of pieces there. First off, I think you need to understand that, as Rich pointed out, the expense ratio was impacted by special dividends. And as you may recall or be aware, a component of compensation for senior officers is restricted stock that gets deferred. And as a result of that, the dividends, as Rich said, we expense those. So the onetime special dividend. In addition to that, there is certain -- there are other aspects of deferred comp like our long-term incentive plan that is driven off of the return of the company.

So obviously, as the performance of the company improves, there is more expense associated with remuneration. That all having been said, from my perspective, as I suggested, I think -- and we've talked in the past, there's probably 30 to 50 basis points of positive impact as a result of people not traveling as much as they do in normal times. We certainly see the earned premium will continue to grow, and we have a variety of other moving pieces. I think we should also mention that we have some new businesses as we referenced in the release, and Rich touched on that.

Obviously, when they are brand new, they don't have a lot of earned premium, they have expense. So long story short, we talked about it. And Rich being the good measured CPA that he is, came up with the 28% to 29%. Do I think that there's a chance that we can do better than that? Yes, I think there is.

Operator

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

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Yes, just, I guess, digging a little bit more on the expenses. One thing I'm a little bit curious about is what -- so we're in a hard market. I mean, how much -- if we're going to take a look inside the organization, what does investment look like over the past year or so? Have you guys like hired? Is headcount up a ton? Or are you, in a lot of ways, kind of doing all this on the chassis that you had built coming into this in 2020?

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

So it's a little bit of both. Certainly, are we always looking for talent? Without a doubt. And are we certainly constantly, and this moment, there's no exception, making what I would define as meaningful investments in particularly data and technology? Yes, we absolutely are. That having been said, as we also discussed in the past, a lot of the growth in the business over the past couple of years, much of it has come from rate. So as we are charging more for a widget, and it's the same work as before, there's meaningful leverage in that.

In addition to that, we have many business that have not fully scaled. To their credit, they maintained the level of underwriting discipline. And when market conditions weren't there, they did not lean into the marketplace. But now that there are a meaningful number of pockets within the industry or the broader market, quite frankly, ex comp, that is providing more attractive market conditions, those businesses are scaling, and we're seeing the expense ratios as they scale drop. So we're seeing growth across the board. And it's not that we're not investing in the business, both in people and technology. We are, and we're doing that heavily. At the same time, there's a lot of leverage in the model.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Yes. Just good to see that operating leverage. And then I guess from others, we've heard that comp pricing has softened maybe a bit this quarter. You've been cautious in the past, I think, on severity. And now we're seeing a little bit of inflation. Just any updates to kind of what you're seeing from a loss trend standpoint on the comp side, Rob?

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

Yes. And look, I think that we have, as you pointed out, been watching the comp line very closely for some period of time now. The action that state rating bureaus have been taking for what would be measured in years, I think, has been pretty heavy handed. I think there are some people that may have lost sight of the, if you will, onetime benefit around comp claims activity that occurred during COVID perhaps. And we don't think that people are paying an appropriate level of attention to severity trend. And if that's not enough, not only are we seeing some folks being very aggressive on the pricing, in addition to that, to add insult to injury, we're seeing people starting to lean into it through commissions where they're raising commissions on the product line, both regional players as well as national carriers. So we're watching very carefully. We continue to like the line of business. But like in all of our activities, we like the exposures at rates that we think make sense.

Operator

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

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

First one I had is maybe just a follow-up on workers' comp. I'd just be interested in any commentary you could provide on sort of where we're at with the exposure recovery from payrolls and workers' comp. My understanding is it's somewhat lagged. But I mean, are we most of the way through that at this point? Or do you still have quarters a head?

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

Well, I think that a lot of it depends on the health and robustness of the economy and how we see payrolls expanding. So I mean, that's what's really driving it and certainly driving our growth, as Rich had touched on and I echoed. So if you -- it's really all about the workforce and how employers are bringing people back based on the needs that they see to meet their customers' needs.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. And then my follow-up question is, I guess, just in terms of the admitted specialty lines, it seems like that's a pretty nice opportunity for you all. And we hear a fair amount about the E&S market and the volume growth that's being seen there. But could you help us think through some of the admitted specialty lines that you're growing in? And how the outlook for that is looking in 2022?

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

Yes. Look, we -- obviously, we are a very meaningful player in the E&S space as well as the admitted specialty space. And the growth that we are experiencing on the nonadmitted side is, again, quite robust. But our admitted specialty business is running right alongside of it at a similar clip. As far as the particular products or types of exposure on the admitted specialty side that we see the best opportunities in, with all due respect, that's just not the detail that we typically get into.

Operator

Your next question comes from the line of Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle - *RBC Capital Markets, Research Division - Director of Insurance Equity Research*

Just a few that haven't been hit on already. Could you provide, within your catastrophe total, what portion of that might have been COVID as compared to just regular natural catastrophe losses?

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

\$12 million, I believe, Rich, right?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

That's correct. And it's 0.6 loss ratio points of the 2.2 that we have.

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

Our sense is that that's -- I wouldn't -- I don't want to say anything that I'll live to regret, but I think that that's pretty well digested at this stage. There could be a little bit, but likely not much more.

Mark Alan Dwelle - *RBC Capital Markets, Research Division - Director of Insurance Equity Research*

Okay. I appreciate that. The second question. I know this isn't a very big line item, but the revenues from your noninsurance businesses increased pretty substantially. I was curious whether that was just something seasonal. The earnings did as well. Was that just something seasonal? Or did you acquire something additional in that segment?

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

Generally speaking, it's a wholly owned entity that are part of our investment portfolio, and they're just -- they're doing very well. And as the economy has been opening back up, they're benefiting from that. And in addition to that, they're just very well-run businesses.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

Small item. They did have a couple -- \$0.02 or \$0.03 a share compared to normal. So good news on that. The last question that I had -- go ahead.

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

Go ahead. I'm sorry, Mark. Excuse me.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

Anyway, the last question that I had, setting aside for a moment, social inflation, which other people have asked about, where are you really impacted by ordinary financial inflation, the cost of goods, wages, et cetera? Wages obviously on workers' comp, but I would think that you're not actually terribly exposed to most forms of financial inflation.

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

Well, certainly, as the cost of things go up, we have that, particularly on some of the shorter tail lines. And on the liability front, damages, quite frankly, can be impacted by that as well as to how the legal system calculates damages.

I think the last thing, Mark, is that obviously, it impacts, again, when people are thinking about damages, just their state of mind.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

Yes, I would agree. I guess I, in my mind, would put that as to being more ultimately kind of a social inflation. But I do understand where you're coming from on that.

Operator

(Operator Instructions) Your next question comes from Brian Meredith with UBS.

Brian Robert Meredith - UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist

So a couple of ones here for you. So Rob, a large admitted carrier had some pretty good growth this quarter and talked about kind of an optimistic outlook for growth. Are you seeing any impact yet from standard carriers trying to kind of creep back in and take some of that E&S business?

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

Not yet. I mean, honestly, the submission flow is pretty overwhelming at this stage, to tell you the truth. And again, I don't have all the data at this stage, but there's nothing that we saw in the fourth quarter that led us to believe that it's not healthy, to say the least. And even more recently, January seems particularly strong. So I can't opine on what other people are seeing, but I can tell you that we are not seeing the opportunity erode at this time in any way, shape or form. And quite frankly, it's basically across the board.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Great. And then second question, Rob. There's been a lot of talk at the 1/1 renewals that you saw ceding commissions on casualty reinsurance up a couple of hundred basis points. I'm wondering if you could just talk about how -- what impact that could potentially have on you, on your obviously, insurance business because you do buy some reinsurance. And then on the other side, any impact on your Reinsurance business?

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

Well, as you point out, and thanks for raising it, on the reinsurance side, you would have seen the growth in that segment of our business. And as we find the rate environment attractive, we're very happy to increase our participation. On the insurance side, where we are a cedent, certainly, we are aware of the market conditions and the cost of capacity. And we are a meaningful buyer of reinsurance. But something to please keep in mind, we are, by and large, a small account writer. So we are not as compelled to buy reinsurance as many of our peers. I think, as we have shared with people in the past, approximately 90% of our policies have a limit of \$2 million or less. So we are not as captive to the reinsurance market as others. We're very happy to partner with some people throughout the cycle, but we have the flexibility for those that are looking to take full advantage. Some might even suggest gauge to be a buyer when it makes sense. So that's how we think about it. In addition to that, we created vehicles, one internally called Lifson Re that we've talked about in the past that obviously also gives us some flexibility around how we buy reinsurance.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Got you. And then just last question here and just maybe some clarification and making sure I understand it. So as we look at the first quarter coming up here, it's my understanding that that's when you and a lot of other casualty companies set your loss picks kind of for the year-end casualty. Is that correct? And that's kind of when we should kind of expect to see the kind of do the math to really have an effect?

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

Look, we are -- we look at our loss picks on a regular basis because we're not the kind of organization that is so fixated on this magic date. That's the only time we move our picks. We look at the information, we look at the data regularly at a macro level, at a micro level and try and make sure that what we're doing makes good sense. So we certainly have our picks in place for the '22 year, and it's based on a lot of knowledge and expertise from colleagues. That having been said, we are constantly looking at the front windshield for new information that might lead us to want to refine our view.

Operator

Next question comes from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

I actually was dropped for a while, so I apologize. I'll ask one at the risk it was not -- if anybody else -- if this was asked, and it's on your professional liability book. Growing -- like other lines, growing quite substantially, but that's the line we hear some concerns about with some other carriers. And so could you just remind us how your book there is different and why those concerns maybe wouldn't apply to you? And I guess it could be some of your prior answers with the size of accounts and limits and everything else. But that line comes up a lot with concerns. So maybe just kind of speak to how your book is different there.

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

Well, thanks for the question. And quite honestly, it's a complicated one for a variety of reasons, but probably most importantly, professional liability is, as you can appreciate, a very broad space. So there are pockets within professional liability that we find exceptionally attractive. And there are pockets of the professional liability space where we are clearly as a result of our underwriting discipline, watching business move away from us.

So look, when the day is all done, there are parts of the business that we find attractive, and we think that this is a great opportunity to grow. I don't know exactly what -- when you talk about other people and how they're thinking about professional liability, I don't know how their book is put together. But I would tell you that we feel very comfortable with what our colleagues are doing in the space. And we have a great deal of confidence in their skills.

Operator

Your next question comes from the line of Meyer Shields with KBW.

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

I wanted to dig into one comment you made because I just want to make sure I understand it. You talked about being cautious in workers' compensation at this point in time. And I'm wondering, is there a difference in underwriting when you're looking to avoid what would be sort of an external problem? If medical inflation broadly gets worse or the impact of wages going up, is that a different underwriting process than when you just defined the better performing risk in a more stable environment?

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

Well, I think that they both get factored into the analysis by our colleagues. Ultimately, our colleagues look at all the information, both historical as well as what they see out on the horizon. And they try and put it all together to come up with a view as to what loss costs are going to be. And some of the things that you referenced, obviously, get factored into that. And as we -- I think we've mentioned on earlier calls, and I believe we've touched on this evening is that the severity trend is one that we have and continue to have our eye very focused on. And clearly, the frequency trend continues to be a friend for the industry, but that severity trend is not one that should be, in our opinion, ignored.

Operator

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

Ryan James Tunis - Autonomous Research LLP - Partner of Property & Casualty Insurance

Sorry, I just want to follow up -- I wanted to follow up on Brian Meredith's question. And you said that your '22 loss picks are in place. How do those compare to the 58.2%. Did you use those this quarter when you reported a 58.2%? Or is that go into next year?

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

The numbers that Rich walked you through in the numbers that you saw in the release were how we thought about the losses for the business during the fourth quarter, if you will, of '21.

Ryan James Tunis - Autonomous Research LLP - Partner of Property & Casualty Insurance

So we shouldn't use the 58.2% to think about what your loss picks might be for next year?

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

I'm not telling you what loss pick to use. I'm pretty sure I'm not allowed to do that. What I am suggesting to you is that you should go to a -- you should look at the data, and you should look at our loss ratios, and you should extrapolate based on your view around trend and rate. And that should lead you presumably to an answer.

Operator

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

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

Okay. Well, thank you all very much for your participation. And again, I would just like to thank and congratulate all of my colleagues for the tremendous effort that led to these results and certainly very optimistic for all the reasons that we discussed earlier on what next year looks like. But before we say good night, let me hand it over to our Chairman.

William R. Berkley;Executive Chairman of the Board

Good evening, everyone. It was a really terrific quarter and a great year. The results, as Rob pointed out, come about because of everyone's effort. But everyone's effort is a reflection of our starting point, which is risk-adjusted return. And in this business, that means looking at lots of things that you don't really know the answer to for a while. So you make judgments, you anticipate where things are going and what things are happening. Some of the most important judgments are inflation, both social and financial.

It has to do with what you think is going to happen with the interest rates, and all of the myriad of things that impact the business. We have a much more tightly controlled company today than we did 10 years ago, but we have to because it's a more complex company. But we run our business in the same manner. We're nimble. We constantly are adjusting for changes we see in the future. And while we're optimistic, we're not naive. Everything we see leads us to believe that certainly, 2022 will be an excellent year.

Looking beyond that, difficult, but the signs are positive. And the team is prepared. So we thank all of you for your support. And we continue to be optimistic as to what we see in the future and how our experienced but nimble team will be able to deliver outstanding results.

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

Okay. Thank you all very much. And we will speak with you in about 90 days. Have a good night.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022, Refinitiv. All Rights Reserved.