

Call Participants

EXECUTIVES

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Executive VP & CFO

William Robert Berkley
Executive Chairman of the Board

William Robert Berkley
President, CEO & Director

ANALYSTS

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Andrew Scott Kligerman
TD Cowen, Research Division

Brian Robert Meredith
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David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

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Robert Cox
Goldman Sachs Group, Inc., Research Division

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Unknown Analyst

Wesley Collin Carmichael
Autonomous Research US LP

Presentation

Operator

Ladies and gentlemen, good day, and welcome to W. R. Berkley Corporation's Second Quarter 2025 Earnings Conference Call. Today's conference 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, 2024, 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.

William Robert Berkley
President, CEO & Director

Abby, thank you very much, and thank you to all participants for your time today and your interest in the company.

In addition to myself, you also have our Executive Chairman, Bill Berkley, on the call; as well as Rich Baio, our Chief Financial Officer. We're going to follow our typical agenda where momentarily, I'll be handing it over to Rich. He'll run us through some highlights from the quarter. He'll then pass it back to me. I'll offer a few more sound bites and then we look forward to taking people's questions and for that matter, taking the conversation and any direction participants wish to take it.

Before I do hand it over to Rich, perhaps just stating the obvious, it is very much an interesting moment in the property and casualty space. We are reminded of the complications of this industry, an industry where you make a sale before you ultimately truly know your cost of goods sold. We have been grappling with this reality as an industry forever. But there are moments in time when it comes into sharper focus than others. We certainly, over the past several years, have had to grapple with financial or economic inflation and that was combined with social inflation, which we have talked about, and I suspect we'll continue to talk about.

But while on the heels of COVID, financial or economic inflation seems to be brought far more under control, there are some real threats to that. Certainly, tariffs are top of mind for all of us. In addition to that, one should not lose sight of what's going on in the labor market and what that may mean for wage inflation over time, particularly around some of the administration policies that they are in the process of putting into place. And finally, there is the big question around deficits and what that will ultimately mean for the economy. And lastly, to what extent can we expect the U.S. consumers continue to be the driver and allow the economy to remain as resilient as it's been. These are amongst some of the macro questions that we are grappling with. Obviously, there's applicability to both our underwriting activities and how we think about selecting and pricing risk. And furthermore, I think it goes without saying there's meaningful applicability to the investment portfolio and how we think about positioning that.

So as always, lots of moving pieces trying to not just interpret what they all mean for today, but also how we think about positioning the business going forward. So let me pause there and hand it over to Rich, and I will follow him with a few more sound bites. Rich, over to you, please.

Richard Mark Baio
Executive VP & CFO

Great. Thanks, Rob.

The second quarter marked a continuation of strong performance in both underwriting income and net investment income. Net income per diluted share increased 8.7% over the prior year to \$1 per share or \$401 million with an annualized return on beginning of year equity of 19.1%. The definition of operating earnings commencing with this quarter has been changed to exclude after-tax foreign currency gains and losses. And accordingly, operating earnings were \$420 million or \$1.05 per share yielding an annualized return on beginning of year equity of 20%.

Starting with underwriting performance. Our current accident year combined ratio before cat losses of 3.2 loss ratio points was 88.4%, comprised of an accident year loss ratio excluding cats of 59.9% and an expense ratio of 28.5%. The calendar year combined ratio was 91.6%, resulting in \$261 million of underwriting income. Cat losses were \$99 million in the second quarter of 2025 compared with \$90 million or 3.2 loss ratio points in the prior year's quarter. While the industry saw an above-average frequency of severe storms, the point impact of cat losses on our combined ratio remained flat even as the dollar amount of losses marginally increased with the growth in our property book of business over the prior year.

Drilling down further, the Insurance segment's quarterly accident year loss ratio ex cat was relatively flat year-over-year and sequentially at 60.7%, bringing the accident year combined ratio before cats to 89%. The Reinsurance & Monoline Excess segment's accident year loss ratio ex cat increased to 54.1% with a strong accident year combined ratio before cats of 83.8%. The expense ratio overall was flat at 28.5% and continue to benefit from the growth in net premiums earned, which was a quarterly record of \$3.1 billion.

In addition, net premiums written increased to a record \$3.4 billion in the quarter with growth in all lines of business in both segments. Record net investment income of \$379 million benefited from the ongoing growth in the invested assets from strong operating cash flow and new money rates on fixed maturity securities that remain comfortably above our average book yield. Investment income from fixed maturity securities, excluding Argentine inflation linked securities improved 16.5% year-over-year with an increase in book yield of 20 basis points to 4.7%.

Our investment funds performed above our expected quarterly range of \$10 million to \$20 million with strong results of \$27 million, driven by transportation, infrastructure and financial services sectors. The quality of our portfolio remains very strong at AA- with the duration on our fixed maturity portfolio, including cash and cash equivalents, increasing from the fourth quarter of 2.6 years to the current quarter of 2.8 years. Foreign currency losses in the quarter of \$55 million related to the weakening U.S. dollar relative to most other currencies.

Offsetting this income statement loss is an improvement in the currency translation loss and stockholders' equity of \$69 million. The effective tax rate was 23.2% in the quarter, which is in line with our expectations for the full year of 2025. The rate exceeds the U.S. statutory rate of 21% due to taxes on foreign earnings at higher rates and state income taxes. Stockholders' equity increased by more than \$380 million or 4.3% over the first quarter of 2025 to a record \$9.3 billion. After-tax unrealized investment losses improved by \$120 million to a balance of \$249 million as of June 30, 2025.

From a capital management perspective, we paid ordinary and special dividends of \$224 million in the quarter, bringing our growth in book value per share before dividends to 6.8% in the quarter and 14.3% on a year-to-date basis. Our balance sheet remains strong with cash and cash equivalents of more than \$2 billion and historically low financial leverage of 23.4%.

So in summary, another great quarter with exceptional risk-adjusted returns and excellent underwriting and investment performance. Rob, with that, I'll turn it back to you.

William Robert Berkley
President, CEO & Director

Great. Rich, thank you very much.

So maybe just to follow on Rich's comments, a couple of additional thoughts. First, I think as everyone on the call is acutely aware, this is still very much a cyclical industry. As we have discussed in the past, though, one of the changes that has happened over the past, I don't know, sort of 5 to 10 years is a decoupling of product lines as to where they are in the cycle. So the cyclical nature still exists, but where different major product lines are in the cycle, they are certainly no longer in lockstep.

To that end, a couple of thoughts on the insurance marketplace. One, the property market. Clearly, that marketplace is becoming more competitive as we have discussed for a couple of quarters now. Probably 2 drivers there: one would be a reinsurance marketplace that is becoming more competitive and is willing to provide capacity at a lower rate; and the second piece is as discussed by some of the MGA market, which is becoming clearly more active. And I'll offer a few thoughts on the MGA market a little bit later in my comments. I would tell you that the property market there is a notable bifurcation while the general direction is more competitive. The larger accounts, particularly shared and layered, as we've discussed in the past couple of quarters is where greater competition is the smaller accounts, it's not that there isn't competition, but it pales in comparison to the larger end of town.

As far as commercial transportation, again, another product line where there is a fair amount of activity coming from MGAs. That marketplace, we continue to and others seem to be pushing for rate, but without a doubt, the MGA participants are creating at least a short-term headwind for that market truly going hard. My expectation is that, that's a bit of a kink in the hose, if you will, and

consequently, it is going to build up pressure and ultimately, we'll inure to the benefit of responsible long-term participants when that snaps and the market shifts.

Professional liability, again, a bit of mix -- of a mixed bag as we all have a shared appreciation, a very broad space. Just a couple of highlights on D&O. It would seem as though the public D&O market is beginning to find some sense of bottom private and non-for-profit D&O remains particularly competitive as some of, what I would, define as miscellaneous there is, again, an MGA component to it since people seem to be very fixated on the topic. I thought I'd flag that as well.

As far as the casualty lines, clearly, there is opportunity to get the rate that the product line needs. It is pronounced both in the primary casualty as well as the umbrella and Excess.

And finally, as far as workers' compensation goes, presumably all had an opportunity to take note of the action coming out of California. I think some time ago, we had flagged for those that were willing to listen that it seemed as though California as opposed to in the more distant past, this time around is out in front of the rest of the market as far as firming. I think the action taken by the commissioner approving 8.7% effective 09/01 is certainly a strong message that was well received by us, and we look forward to more coming behind that.

I think one other comment I would make would be around the consumer space, particularly P&C personal lines. As you all know, we have a meaningful participation in the private client space, which is a very different business from what I would define as mass market. It is a part of the market that is built or driven by knowledge and expertise. And we have a business that is really coming into its own in that space and has been a great contributor, not just to the top line but to the bottom line as well. And those market conditions remain ripe and we are pleased to have that opportunity. I mentioned reinsurance earlier as far as the reinsurance marketplace, providing capacity within the property lines, perhaps the discipline, I think, eroding. I think we've talked about that in the past. It continues to erode. We'll have to see how quickly it remains, and what -- how steep the trajectory is, I should say.

And finally, we've expressed our disappointment with the discipline, particularly on the casualty lines within the reinsurance space. I offered a couple of sound bites about MGAs just as a broad category earlier. And within the industry, people tend to oftentimes use some terminology, perhaps somewhat casually and almost interchangeably, around MGA, MGU and ultimately really falls under the category, if you like, of delegated authority. There is no doubt that inherently in many of the delegated authority models, there is a mismatch or a lack of alignment of interest between those with the pen and those with the capital. It is not that all of these relationships are bad, some of them are quite good, one just needs to have their eyes wide open and understand that it is not a perfect alignment of interest and make sure that it is controlled appropriately.

That having been said, there has been extraordinary growth in the MGA space. A lot of it has been generated by new entrants that lack expertise. A lot of it has been supported by reinsurance capacity that seems to have an unquenchable thirst for growth without necessarily their finger fully on the pulse. We'll have to see how this plays out. I think for many of us that have been around for at least a little while, and those that have been -- particularly those that have been around for a long while, have seen some version of this movie.

In some ways, it's the same and other ways, it's different. Perhaps the only difference is that it's a different test of characters. One final anecdote on the MGA front, I would tell you that over the last 60 to 90 days, it's been a startling number of inbound calls that we have gotten from investment bankers suggesting that MGAs that they have to sell, would we be interested in buying them. And typically, they are capitalized or owned by private equity.

So oftentimes, perhaps a leading indicator that the music is slowing and we'll see who has a seat at the end, though oftentimes, that does take some time. Rich, as always, did a really thorough job as it relates to the quarter and the numbers, I would just call out the rate at the 7.6% ex comp continues to be meaningful and puts us in a comfortable place. Rich talked about the loss ratio. Again, I'm not going to go into a chapter and [indiscernible]. The 3.2 points of cat was really frequency by industry standards, modest severity.

And then lastly, you would have -- it's worth noting the duration of the investment portfolio edging out to 2.8 years. Again, I think this is exactly what we suggested we would be doing if the story unfolded the way it has. We continue to believe that our strategy is the right one, making sure that we are getting an appropriate risk-adjusted return.

I think as Rich alluded to, the cash flow of the organization remains very healthy. The growth in the investment portfolio remains quite significant. And if you think about a new money rate for us today is running about, give or take, 5.25 and the book yield on the portfolio ex Argentina is 4.7%. That certainly bodes well for where investment income is going for the foreseeable.

So long story short, we can't control the environment, but we can control our actions. We remain very focused on making good risk-adjusted returns, the decoupling of product lines and how they make their way through the cycle, combined with the breadth of our

offering allows us to continue to grow when others perhaps are experiencing more of a headwind. In our opinion, you certainly are seeing different product lines at different points of transition. We have historically and continue to be more of a liability market, and we think that much of the liability market is where the opportunity will likely be over the next 12 to 36 months.

So again, we think we're well positioned on the underwriting side. We think we're well positioned on the investment side, and it is our expectation that we will be able to continue to grow earnings in a very thoughtful and controlled manner.

So with that, Abby, I will take a pause, and we're very pleased to open it up for questions. Thank you.

Question and Answer

Operator

[Operator Instructions]

And our first question comes from the line of Rob Cox with Goldman Sachs.

Robert Cox

Goldman Sachs Group, Inc., Research Division

Just first question on growth, just thinking about the growth potential here. I know it was a tougher quarter with the property pricing deceleration, but just curious if you all still view this as sort of a 10% to 15% growth environment? Or has the last few quarters changed that?

William Robert Berkley

President, CEO & Director

Look, I think we had come out with that band, if you will, probably, I don't know, call it, 18 months ago, maybe 24 months ago, if you're asking my best guesstimate at this stage in spite of the number that we saw in this quarter, my view is that it's probably somewhere between 8% and 12% would be my guess as opposed to 10% to 15%.

Robert Cox

Goldman Sachs Group, Inc., Research Division

Okay. Got it. That's helpful. And then just curious on the underlying loss ratio. I think last quarter, you all mentioned that the impact of the outward reinsurance program was a business mix related headwind. This quarter, the underlying loss ratio, at least in insurance seems pretty flat. Anything else unusual to call out there? Or is that just normal dynamics?

William Robert Berkley

President, CEO & Director

I think it continues to primarily be mixed as far as the loss ratio.

Operator

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

Taylor Alexander Scott

Barclays Bank PLC, Research Division

You mentioned tariffs and labor costs in your opening remarks. And I just wanted to understand if you're actually seeing anything coming through if that's more of like a forward-looking statement. And obviously, it's the wider range out?

William Robert Berkley

President, CEO & Director

It is a forward-looking statement. We are not seeing it in any noteworthy way in our loss activity right now. At the same time, we are conscious of the fact that, that concept of timing that I referenced in conjunction with the point that you're flagging. And we want to make sure that we're not caught flat-footed. I think at this stage, given the -- what we're seeing coming out of the administration, it's hard to imagine that tariffs are going to prove this to be something that goes away, but we'll see.

And as far as the labor piece goes from our perspective, ultimately when the day is all done, just given the position around immigration and related activities and the actions that the administration are putting into place, there is no doubt that there are certain jobs that are going to need to be filled at a different payroll point than they have been. And ultimately, that presumably will drive labor costs.

Taylor Alexander Scott

Barclays Bank PLC, Research Division

That makes sense. Second one I have is on the trajectory of margins from here. I mean pricing still remaining pretty firm. It seems like you guys have been disciplined and still getting pretty good rate in there. But just wanted to understand, is it still about loss cost trend, can margins still improve from here or remain flat? And would you expect sort of mix shift with casualty being the bigger opportunity maybe to affect it one way or the other?

William Robert Berkley
President, CEO & Director

I think when the day is all done, we feel comfortable that the rate that we are achieving is positioning us well, not just for today but for tomorrow as well. So can things improve here? Yes, I think things can improve from here. But at the same time, we are all regularly reminded that there is no reward for declaring victory prematurely. And in addition to that, we are also regularly reminded of all of the significantly leveraged variables that one should not reach a conclusion about prematurely.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is actually on capital. You guys didn't buy back any shares in the quarter. Just wondering what drove that decision?

William Robert Berkley
President, CEO & Director

Look, ultimately, Elyse, when the day is all done, as we've shared with you and others in the past, we have a view as to how much capital we have and what type of surplus we have at any moment in time. We have a view as to what we see is opportunities potentially before us and want to make sure that we have a surplus of gas in the tank. And in addition to that, ultimately, there's a judgment made around to the extent there's above and beyond what is the most efficient way to return that to shareholders.

As Rich flagged in his notes, it's not that we weren't returning capital to shareholders, we returned a few hundred million dollars to shareholders. It just seemed at that moment in time, the most efficient and effective way to return the money to the people that belong was through a special dividend. I would strongly encourage you and others not to lead to the assumption that we are out of the repurchase market because that is not the case. We evaluate that tool, along with other tools every day.

And again, what we think is the most practical answer to the surplus of capital question. Obviously, we can do our own math as others can do their math as to what we believe real book value is as opposed to this cockamamie accountant version of math. And we also have a view on the earnings power of the business going forward, which I would add, we are quite optimistic about. So again, I would encourage you not to count the [indiscernible] of the repurchase activity.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, you guys gave the underlying loss ratios right by segment. So back into around, I guess, \$6 million adverse insurance and I think just around \$8 million favorable in reinsurance. Within that \$6 million in insurance, is there anything -- obviously, a large amount of reserves, but anything to call out that particularly moved relative to your reserves in the quarter?

William Robert Berkley
President, CEO & Director

Nothing particularly noteworthy. Just us -- as we've shared with you and others in the past, we look at it every 90 days -- we'll we're looking at it every day, but every 90 days, we're looking at it at a pretty granular level and a couple of bits and pieces moving around. That's all.

Operator

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

Michael David Zaremski
BMO Capital Markets Equity Research

Rob, on the 15% Mitsui stake, any update on the timeframe and timeline there?

William Robert Berkley
President, CEO & Director

I know no more than anybody else or at least anybody else who bothered to read the SEC filings. Again, I think as we -- I don't know if we share it or not, if we didn't, I said that we, by design, have not been privy to sort of where they stand in their process because in no way, shape or form, perhaps back to one of Elyse's points, we don't want to be encumbered or restricted in any way and our ability to repurchase stock. So the short answer is I have no idea.

Michael David Zaremski
BMO Capital Markets Equity Research

Understood. But we'll -- we should see disclosure once it gets -- it's over [indiscernible], is that correct?

William Robert Berkley
President, CEO & Director

I have a high degree of confidence that they will fully comply with any regulation from the SEC from a filing perspective. My understanding is that I think to comply with the SEC, they're going to need to do a filing once they reach 4.99% or call it 5%. And as far as I'm aware, they have not done that yet.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. Understood. Maybe pivoting, Rob, to the medical inflation environment as it pertains to your work comp and I believe, also stop loss portfolio. We are obviously seeing all the headlines that you've been seeing. Any updates that -- I know you mentioned California as well, obviously, earlier. But any kind of updates on the macro level to Berkley's views on medical inflation potentially making their way into the comp and/or A&H arena?

William Robert Berkley
President, CEO & Director

Well, I think it has been and continues to be something that our colleagues and by extension, Rich, the Chairman and I are focused on. And as we've discussed, it's a very leveraged assumption. Maybe the only other wildcard that I would layer on top, Mike, is the commentary that has come out of the administration regarding its desire to onshore pharmaceutical in particular, manufacturing. And I think it was just a couple of weeks ago that there was a comment that came from the President that suggested he was entertaining the possibility of a 200% tariff on all pharmaceuticals that are imported.

That having been said, I just read earlier today that the discussions with the EU would suggest there would be no tariffs on pharmaceuticals or medical devices. So I think for all of us, the message perhaps is just stay tuned. But without a doubt, if we saw a levy to the tune of 200% on pharmaceuticals that's something that would have an impact and perhaps to jump ahead and anticipate your question.

Yes, we have done quite a bit of sensitivity analysis as to what that would mean for us. And at the moment, we feel comfortable that we can manage through that.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And lastly, Rich, I believe I heard you talk about the new operating earnings, non-GAAP definition. Any -- just we'll go back and check, but does that change historicals by like very low single digits? And any reason we should be aware of and why the change?

Richard Mark Baio
Executive VP & CFO

I think it's really a couple of things. One, what we've noticed and we've had some conversations with some of the equity analysts over the last few quarters in terms of some of the volatility that's been coming about as a result of some of the changes that Rob has alluded to since the new administration. And with the equity analysts not really including it because it's not modeled in, you felt it was a more straightforward approach with regards to having foreign currency gains and losses excluded. And you would see if you were to go back over time, there has been some volatility from period to period, but in particular, over the last couple of quarters, we've seen quite a bit.

Operator

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

Andrew Scott Kligerman
TD Cowen, Research Division

Rob, you mentioned in the write-up rate increases were 7.6% ex workers' comp. And I know that you're kind of writing a more specialized, higher risk line. So I was just kind of curious, how is the workers' comp pricing doing in that arena? And any other color on the workers' comp in addition to your prepared remarks you might call out?

William Robert Berkley
President, CEO & Director

Well, thanks for the question, Andrew. The answer is that I think what you perhaps are referring to is some of the higher hazard stuff where we see growth opportunities from time to time, we saw, particularly in the first quarter. It was still there in the second quarter, but perhaps not to the same [rate]. That having been said, we do like the pricing there, and that's why we're leaning into it. And while we maintain a little bit more of a defensive posture with the Main Street stuff. What I would define as the higher hazard, more specialty in nature. We're very pleased with the opportunities that we see there.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. And Rob, you mentioned in your remarks some disappointment with commercial auto. As I look at the numbers in your release, net written premium looked up. It looked like it was up roughly 10%. So is that all just raised? And you're just -- are you feeling confident in the book that you have?

William Robert Berkley
President, CEO & Director

Yes, we're confident in the book. And is it raised? The answer is yes, and then some.

Andrew Scott Kligerman
TD Cowen, Research Division

I see.

Operator

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

On the other liability line, the growth was just a little bit slower this quarter, you expressed some of kind of continuing optimism about Primary and Excess. At the same time, you kind of bound back your growth outlook just a little bit. Are you seeing any kind of inflection in that core GL or Excess market? Or is that still consistent with prior couple of quarters?

William Robert Berkley
President, CEO & Director

Yes, we're still encouraged by the opportunity that we see there. So my recalibrating, if you will, as far as the growth opportunity is really a couple of fold. One, on the commercial property opportunity, I think that there's going to be a bit more of a headwind. I think the -- I think the casualty piece that you just referred to, I think that opportunity very much remains there. I also think just going back to the commercial auto piece, I think that, that will prove to be a terrific opportunity, but it's going to take a little bit longer to get there.

On the other hand, I think that on the reinsurance front property, in particular, has probably seen its best day for some time. And for the life of me, I don't understand why the casualty marketplace [isn't] getting a little more backbone.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. On the MGAs that are knocking on your door, is that always a hard no? Or is that something you might consider if the valuation was right? Or are they just -- their expectations are above and beyond what you'd ever consider paying?

William Robert Berkley
President, CEO & Director

Ultimately when the day is all done, we evaluate every opportunity as you'd expect on its own merit. That having been said, we take the expertise and the responsibility to capital vary both of those things very seriously. So while we're always open to conversations, it's a pretty high hurdle to truly get us to want to engage.

Operator

And our next question comes from the line of David Motemaden Madden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Rob, just follow-up question maybe there to Mark's question. You had mentioned the bifurcated property market between large and small or large and middle, maybe we'll call it SMID, do you see that dynamic going in the opposite direction in some of the other markets, like casualty or maybe large accounts are seeing some rate increase acceleration and that's yet to really seep down and play out in the small to middle market or just hoping to get some color there in terms of how you're thinking about the opportunity.

William Robert Berkley
President, CEO & Director

Look, I think taking half a step back, focusing on the casualty stuff, both Primary and Excess. I think the reality is that social inflation impacts the full spectrum. That having been said, without a doubt, plaintiff attorneys, tend to view limits as candy. And so the bigger the limits that are available, the more focus they get. That has been the case for some number of years at this stage. Do I think that we have seen an effort amongst the plaintiff attorney to go a little bit down market, yes, I do, but not dramatically. So when the day is all done, I think my expectation is that you're going to continue to see opportunities of the larger end of town, and that will continue to really waterfall through the whole casualty marketplace.

The good news is for the smaller accounts, they tend to be a little bit more insulated and the rate environment tends to be a little bit more sticky. So similar to perhaps one of the points you were making, the property market, the larger accounts are the ones that get targeted and you get the greatest feeding frenzy around early on. Well, that applies to casualty, too. So the rates are going up on the larger accounts and casualty. But the smaller and middle market is following and it tends to be stickier.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then maybe just a follow-up here just on the tariffs. At least on the insurance side, didn't really look like there was anything going on in terms of the loss pick reinsurance, the underlying loss ratio did tick up. It doesn't look like you guys have embedded that into your view of loss trend, maybe just how are you thinking about that? And is that something you guys are considering doing?

William Robert Berkley
President, CEO & Director

It's certainly something that we're grappling with. We are paying close attention to it. We are already factoring it into how we think about required rate or rate need, and we're going to see how it unfolds from here. Obviously, the impact of tariffs while it may have applied to a broader cross-section of product, it is heavily weighted towards the shorter tail lines, so APD or property. At least that's how it would appear today barring pharma, et cetera, that we referred to earlier. So that's where we're focused, and we'll see how it unfolds. But yes, it is top of mind and action is being taken from a pricing perspective.

Operator

And our next question comes from the line of Wes Carmichael with Autonomous Research.

Wesley Collin Carmichael
Autonomous Research US LP

On the investment portfolio, I think, Rob, in your prepared remarks, you mentioned some moving pieces in terms of what you may do going forward. And [indiscernible] I heard you had extended duration a little bit, but is there anything else that you might be thinking about in terms of potential repositioning or other actions on the portfolio?

William Robert Berkley
President, CEO & Director

I think we generally are of the view that the fixed income portfolio is particularly well positioned. I think that our expectation is certainly, given what you hear coming out of Washington, the yield curve may steepen a little bit from here, and that may be a catalyst or an opportunity where we'll choose to take the duration out a little bit further.

Perhaps answering the question with a slightly different bent consistent with messaging in the past, while we have not completely turned our back to the alternative space going forward from a new money perspective, given the opportunities in the fixed income market, it's a pretty high hurdle. So we're pretty pleased with how things are positioned today, and we think we have a lot of flexibility regardless of what tomorrow will bring.

Wesley Collin Carmichael
Autonomous Research US LP

Got it. Understood. And maybe my follow-up, just to come back to property and Rob, you talked about larger share and layered property being more competitive, but when you kind of look at the market today, obviously, there's a little bit more rate pressure there in property, but any color you can share on your view of rate adequacy of the market at this point?

William Robert Berkley
President, CEO & Director

I think, generally speaking, it really took off to the moon. And I think it's still in a good place, and we're happy to write it, but we are being forced to be very, very selective and careful. And I think it's not just about where it is today, it's also where you see it going tomorrow. And our colleagues are yes writing business today, but they're also trying to position the portfolio in anticipation of what tomorrow's conditions will be. So yes, I think the larger accounts, the shared and layered accounts, you're seeing more competition there. You're seeing a bit more of a feeding frenzy. By and large, we're still happy with the pricing, but that will not be indefinite. And we have no problem when we don't think that the rate is adequate to walk away. And we will be there when the opportunity presents itself again as we have been in the past. I should add those comments around market conditions, again, are very much focused on the commercial lines marketplace and the private client stuff. We continue to be pleased with, by and large, the opportunities before us.

Operator

And our next question comes from the line of Ryan Tunis with [Cantor Fitzgerald].

Unknown Analyst

I guess just keeping it on the property discussion, Rob, is kind of a broad question, but why are we still seeing better growth in the property lines and the other liability given your assessment of things?

William Robert Berkley
President, CEO & Director

I think a lot of the property growth is really coming from -- well, a, as I said a moment ago, we still think that there's opportunity there. So just because rates are down doesn't mean you don't want to write the business. I think the other piece that is worth noting is our private client business that I referred to before or said differently, our net worth personal lines business, and that is a contributor there as well.

Unknown Analyst

Got it. And then just, I guess, a little -- maybe more detailed one, maybe for Rich, but the corporate costs or the -- I don't know what you guys call them other costs and expenses, that ticked up this quarter. Are we in a new type of run rate there? Or were there some new launches? Or just curious what's going on with that.

Richard Mark Baio
Executive VP & CFO

Yes. It's up really, Ryan, for a couple of reasons. One is with regards to the special dividend that we paid in the second quarter. As it relates to the dividend, it comes through on vested mandatorily deferred RSUs. So effectively, it characterizes compensation. And so that is a meaningful contributor in the current quarter. So that would obviously move around depending on future timing of special dividends or not.

And then the second is you might have seen that we had announced a few quarters ago, 2 new operations, our embedded solutions and our India branch, similar to what we've done in the past, those expenses when they're in the incubation stage are reflected in our corporate expenses. And then when they get to some relative size in terms of generation of premium, we'll move that out of corporate expense on a prospective basis, and that would be reflected in our underwriting results.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

So Rob, in your prepared remarks, it was almost like a throwaway. The last thing you mentioned was being really just pleased with the direction of trend in casualty reinsurance markets. And from my perspective, a lot of cash reinsurance is just quota share that the underlying risk sets the pricing and then you have some question about what's going to be the [seeding] commission. But obviously, there's so well in some facultative and other types of business that obviously have a set price. Can you go a little into what you meant about being disappointed in the trends on the cash reinsurance direction?

William Robert Berkley
President, CEO & Director

Yes, absolutely, Josh. Thanks for flagging that. So long story short, and I should have been more specific about it, the thorn in the side is primarily the seeding commissions where we just think that the reinsurance marketplace when we're planning the assumed game, should be looking for better terms. Obviously, we have a different view when we're seeding the business, but that is what I was referring to.

In addition to that, just less consequential as far as percent of the marketplace or for that matter, percent of our portfolio, we found that the [indiscernible] market is one where we would have hoped to have seen a bit more discipline at this stage. By the way, mapping back to some of the other comments, particularly around the commercial auto space.

Joshua David Shanker
BofA Securities, Research Division

And on the seeding commissions that you're talking about to the seeding commissions are too low in your primary book when you're trying to seed or they're too high in the reinsurance [indiscernible].

William Robert Berkley
President, CEO & Director

The seeding commissions are too low when we're assuming the business, and I'm saying from a self-serving perspective, we'd like them to be lower when we're seeding the business or an insurer.

Joshua David Shanker
BofA Securities, Research Division

Yes. Okay. Does that make sense.

William Robert Berkley
President, CEO & Director

And then we would like our cake and to get it too, Josh.

Joshua David Shanker
BofA Securities, Research Division

Yes, I get it. And then trying to -- if I go back 3 years ago when the 10-year was sub-2%. And now we're at like one where it's trying to get about 5%. And there may be some [indiscernible] about where prices are in various markets. But I assume in an efficient

market, the price of yield on investments should have some impact on the underwriters' ability to make money on the underwriting. When we say we don't like the direction of pricing, is pricing much worse because it's definitely for the market and certainly you as well. You're making a whole lot more money on the investment income. Is it reflective of just a different investment paradigm?

William Robert Berkley
President, CEO & Director

So Josh, I very much appreciate the point that have -- and clearly, there is an economic model here and there is a relationship between investment income and underwriting profit and how it all comes together to deliver an outcome. That having been said, let's understand that perhaps the most competitive part of the market is in some of the shorter tail lines, i.e., property, where investment income is making the most modest contribution. So do I think that there is an impact? Yes. Do I think that, that is going to take us fast to the world of cash flow underwriting? No, sir, I do not.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

So Rob, I wondered if you could talk a little bit about what the competitive dynamics are like right now in the private client business. Are there more opportunities there because maybe some players are pulling back? Or are we seeing any more competition in that marketplace?

William Robert Berkley
President, CEO & Director

I think that certainly, there are some -- the obvious names participating in the space. I think each organization or a competitor as their own approach to the business. I think there are some that are primarily riding the coattails of a brand that they have. And I think there are others like ourselves that are really through the expertise of people and our team bringing value that's very visible to both distribution and insured. So when the day is all done, why are we getting the traction we are because we certainly are not the cheapest, but I would argue we're the best value.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then second question, just curious, the underlying combined ratio mentioned in the reinsurance, it looked like it's kind of elevated relative to where it's been the last couple of years. Is there anything unusual going on in the quarter catch up or something that happened?

William Robert Berkley
President, CEO & Director

Not particular. I think it's really 2 things, just tying in to the comments earlier, partly, it ties in with my [indiscernible] about seeding commissions and also ties in with the comments around property rates and where they are. And the fact is the reinsurance market is not charging as much for property or for that matter, property cat, in particular, today as it did yesterday. So on both of those fronts, when we think about the changes, our colleagues are reacting to that and what we believe is a very thoughtful manner.

Operator

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

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

Two, I think, quick questions. First of all, on your clients, are you seeing increasing demand for higher limits on the various casualty line policies?

William Robert Berkley
President, CEO & Director

Are we seeing increasing demand from our clients? I think that ultimate -- are we talking about larger or smaller accounts, just to make sure I'm following there, sorry.

Meyer Shields

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

I was thinking of the smaller ones.

William Robert Berkley

President, CEO & Director

You were thinking of the smaller ones. Not consequentially. They are still looking to buy the typical primary and oftentimes, if they're looking to buy the same umbrella. So said differently, I'm not sure that the insureds or for that matter, their distribution, is directing them to think about their exposure in a materially different manner than they did yesterday in spite of social inflation.

It's just not something that the smaller accounts are thinking about as much as the larger accounts are. I think for -- given the rate increases that have come about in response to social inflation amongst other things, I think you have a lot of insurers out there trying to think about not just what do they need, but also what can they afford? And I know you're talking about this sort of main street casualty, but I would suggest to you that, that is perhaps particularly visible in the commercial auto space where a product line where you're seeing perhaps or arguably the greatest level of social inflation, consequently, significant rate need being pushed and more probably to come, and you have insurers sitting there saying, I don't know if I can afford this. I don't know how I make my economic model work.

And sometimes, you have insurers that are sitting there saying, I'll buy the Primary, but the Excess that I used to buy, maybe I'll buy less or maybe I'll have to fix self-insure, which sadly is a big rolling of the dice.

Meyer Shields

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

Okay. Yes, that's very helpful. I just wanted to get a sense of that. Second question, you talked about the the loss cost increase that was approved in California. When you look at California workers' compensation market, is that a good proxy or a leading indicator for this of the country?

William Robert Berkley

President, CEO & Director

Historically, if you look back over cycles, California has been a laggard as opposed to a leader. As we've suggested, I think we're probably a while now. Our view was that California was out in front as far as a firming market. Do I think it is a perfect proxy for the rest of the country? No, sir, I don't.

I think California is definitely a unique animal. That having been said, I would offer the observation that if you've got a product lines rate enough eventually, it ends badly.

In addition to that, as some colleagues were flagging earlier, and I think we all have an appreciation for, is that medical trend is not working in the workers' comp markets favor. And I think also, as we've discussed in our opinion, there's a pinch point or it's been artificially held back or suppressed because of how it prices off of Medicare, I believe it is, in many states. So what do I think? I think that the California response is warranted and then some. And I don't think it's a perfect indicator for the rest of the country, but it is an indicator that ultimately, if you take enough rate out of it, eventually, it ends badly and response is required.

Operator

And our next question comes from the line of Andrew Andersen with Jefferies.

Andrew E. Andersen

Jefferies LLC, Research Division

Maybe just on the D&O market, can you remind us, do you guys focus more on the public or the private and I guess where I'm going with this is, does kind of a rebounding M&A and IPO market provide some upside for premium growth here?

William Robert Berkley

President, CEO & Director

So the answer is all of the above. And certainly, IPO activity would be well-received. And I guess all we need to do is get the SPAC market going again and then we can have a party.

Andrew E. Andersen
Jefferies LLC, Research Division

Fair enough. Okay. And then short tail lines within insurance, I heard your comments on the high net worth homeowners, but would be interested because there's a few other lines in there kind of what you're seeing within A&H or Inland Marine.

William Robert Berkley
President, CEO & Director

From our perspective, A&H continues to be an attractive part of our business. We participate in that marketplace in a couple of different ways, and I don't want to bore everyone on the call with it. But if you have interest, we're happy to follow up offline. As far as the inland marine piece, buy and large, that tends to run semi, I wouldn't say in perfect lockstep, but is on a similar course to the broader property market.

Operator

And our next question comes from the line of Jamie Inglis with Philo Smith.

James E. Inglis
Philo Smith & Co.

Bob, I was curious about your thoughts about risk-adjusted return. You mentioned it a couple of times, you always do. But the question is, how often and when and how do you change your view about risk as -- by line. And therefore, how does that affect the return? You know what I mean is it a monthly, daily annual thing because the world is changing fairly rapidly today. And therefore, I would assume that the underlying risks are changing as well.

William Robert Berkley
President, CEO & Director

The way I would articulate it, and then others on my end of the phone might have a view because this is -- well, Rich may have a thought, but -- my boss might have a thought as well because this is very much a philosophical thing that goes back to day 1 when we got two sticks together to make fire. But long story short is that we are very preoccupied with this and colleagues throughout the organization are talking about it daily. We have a fair amount of visibility every 30 days, and we have a painfully granular discussion about it by business, by product line every 90 days. Now just because we have the formality of monthly and quarterly that in no way, shape or form inhibits the discussion. And if appropriate, the taking action between those mile markers. Did you want to add to that?

William Robert Berkley
Executive Chairman of the Board

I would only have one case that goes in a way you never imagined could make you change your mind about a line of business. It's a continuous process for watching how things are going and seeing, is there something you didn't expect. Is there something that causes you to reevaluate? Otherwise, it's a continuous process of examining the risks you see in the courtroom in the underwriting, whatever, but there was a bad malpractice case in Philadelphia that was decided last week in obstetrician had a terribly bad decision.

Well, that makes you think about what happens about malpractice and obstetrics and all those things. Just it brings it to your attention. So I think it's a continuous process of staying on top of what's happening and how our decision is going. And you're looking at those things on a continuous basis.

William Robert Berkley
President, CEO & Director

Rich, anything you want to add?

Richard Mark Baio
Executive VP & CFO

No, I'm okay.

William Robert Berkley

President, CEO & Director

Abby, anybody else out there?

Operator

No. That will conclude our question-and-answer session. So I would like to turn the conference back over to Mr. Rob Berkley for closing remarks.

William Robert Berkley
President, CEO & Director

Ami, thanks for the help and hosting us. And again, thank you to all the participants. I think that it was a very solid quarter, and again, sort of the story continuing to unfold as promised. I think it's a reminder of the stability of the earnings of the business, whether it's a quarter like 1 or quarter like 2, we're able to continually and consistently create value for shareholders.

Beyond that, I think there's a fair amount of visibility at this stage, not just for the balance of this year, but beyond as to it is likely that this organization will continue for the foreseeable to be able to generate high teens, low 20s returns and we are very optimistic and confident in our ability to achieve that.

So again, our thanks to all for tuning in, and we will look forward to catching up with you in about 90 days. Thank you very much. Good night.

Operator

And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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